

Tax features that promote fossil-fuel production and consumption:

Understanding Tax Expenditures in a Cross-National Perspective

Dr. Michael Thöne
Managing Director, FiFo Institute Cologne (Germany)

Expert Workshop on Estimating Support to Fossil Fuels
OECD Headquarters

19 November 2010

We are at the heart of it...

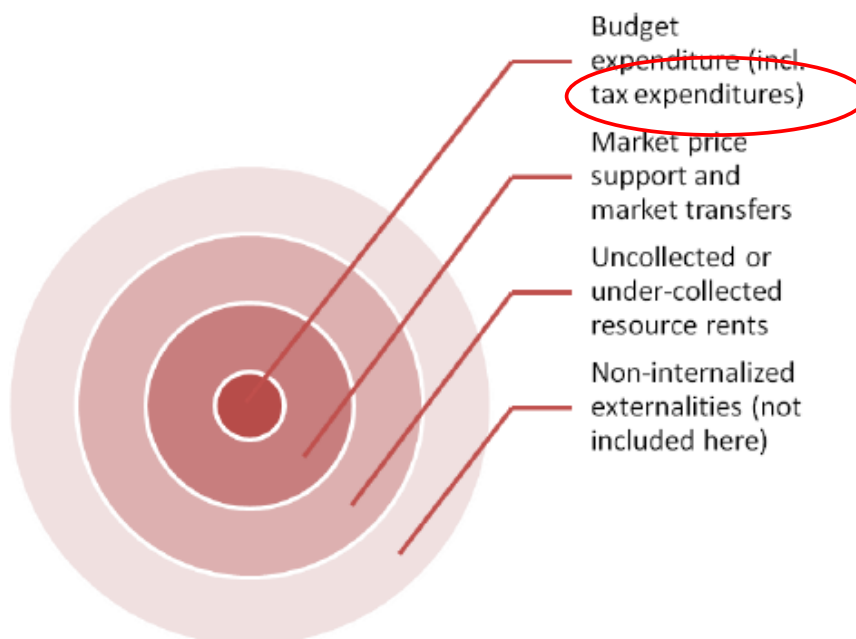


Figure: OECD.

... which rather increases our challenges.

		Benchmark tax (rate, base, applicability...)	
		clear	dubious
Causal Link	clear	no problem	normative problem
	dubious	empirical problem	hell of a problem

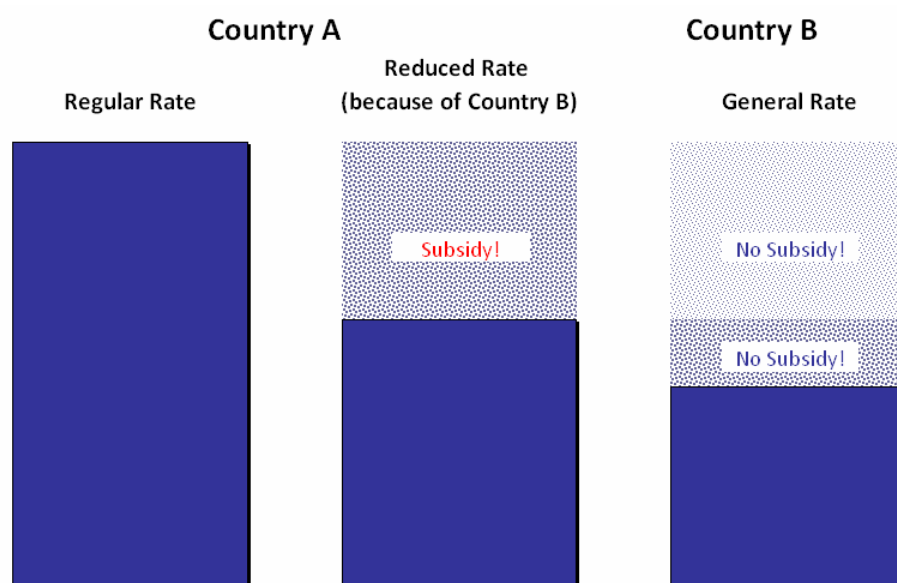
© FiFo Köln

TE: What are we talking about?

- Tax expenditures = “Government expenditures made through the tax system” (Surrey, 1967)
- “A transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure.” (OECD, 2003)
 - Allowances: amounts deducted from the benchmark to arrive at the tax base.
 - Exemptions: amounts excluded from the tax base.
 - Rate relief: reduced tax rate for certain taxpayers or transactions.
 - Tax deferral: a delay in paying tax.
 - Tax credits: amounts deducted from tax liability, also refundable.
- In short: Any direct transfer can also be made through taxes.
- Our main challenge here: To identify the rule a tax expenditure is the exemption to.

- Recognizable *normative* benchmark in national energy taxation?
 - Energy content? GHG-emissions? Fifty-fifty? None?
 - (Ask the economist: Optimal excise taxation need not be uniform.)
- Tax Rates:
 - Problem: Different rates per fuel: Diesel vs. Gasoline; Coal; Biofuels
 - Additional problem: Offsets in other taxes (Low diesel tax is partly offset by high car tax for diesel cars)
- Tax Base
 - EU: Energy Tax Directive with some obligatory exemptions (fuels used in the production of fuels), and with some areas not covered (non-energetic use of fossil fuels).
 - Outside EU: Any Benchmark?
- Interaction with an Emission Trade System:
 - Treat tax and ETS as different systems? (Possible, yet not advisable)
 - Combined perspective of energy taxes and ETS: How do we treat rate differences between the two?

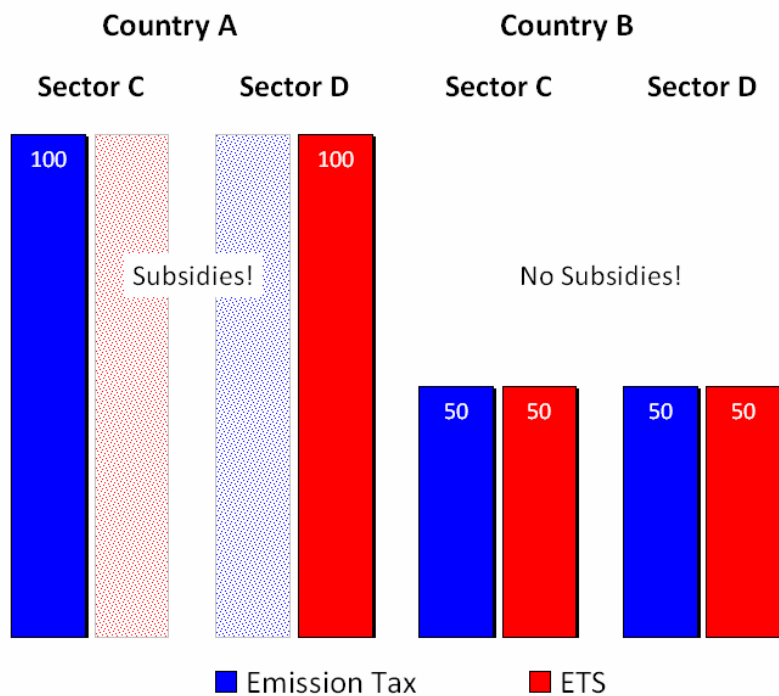
Cross-national benchmarking of energy taxes



Example: The Austrian Energy Excise (CoJ, of 8. 11. 2001 - C-143/ 99)

Traditional benchmarking of tax expenditures - i.e. relating only to the own tax rates when identifying exemptions - leads to paradox outcomes like the one depicted here: Only Country A has fossil fuel tax subsidies. But, all other things alike, Country B emits more greenhouse gases and should show stronger ambitions to increase its energy tax rates than.

→ Strong case for a common “virtual minimum tax rate” against which tax expenditures are measured.



Example for two different taxes and *different* ETSs.

The example can also be applied to national feed-in-laws which promote renewable energies. In cross-national comparison, these laws shift very different burdens on energy prices. When we think about the alternative, i.e. a combination of ear-marked taxes and (tax) subsidies, we find a quite different incidences of subsidies.

Causal Linkages

- Looking into causal links means checking and re-checking the causality between the activity taxed and fossil fuel consumption.
- Causality may not stable over time. An exemplary overview from minor to major challenges to clear causality:
 - Car Taxation
 - With increasing electro-mobility*, clear causality fades. We need to have a closer look into the rationale of this tax (emission reduction vs. other rationales)
 - Income taxation, with upcoming electro-mobility*:
 - Commuter’s tax allowance
 - Tax treatment of company cars
 - Tax Incentives for buying/building new homes (→ commuting)
 - VAT
 - Reduced rates for public transport. Meant to reduce the use of private cars. Yet they subsidize mobility and thereby fossil fuel consumption. → “Good” or “bad” fossil fuel subsidy?
 - Property tax designs do influence the attractiveness of commuting. → Does that already qualify as fossil fuel subsidy?

* Assuming the electricity used is produced with far less or no GHG-Emissions.