

Transferring Fuel Taxes to the European Union

With an extra-section on partial versus full tax transfer

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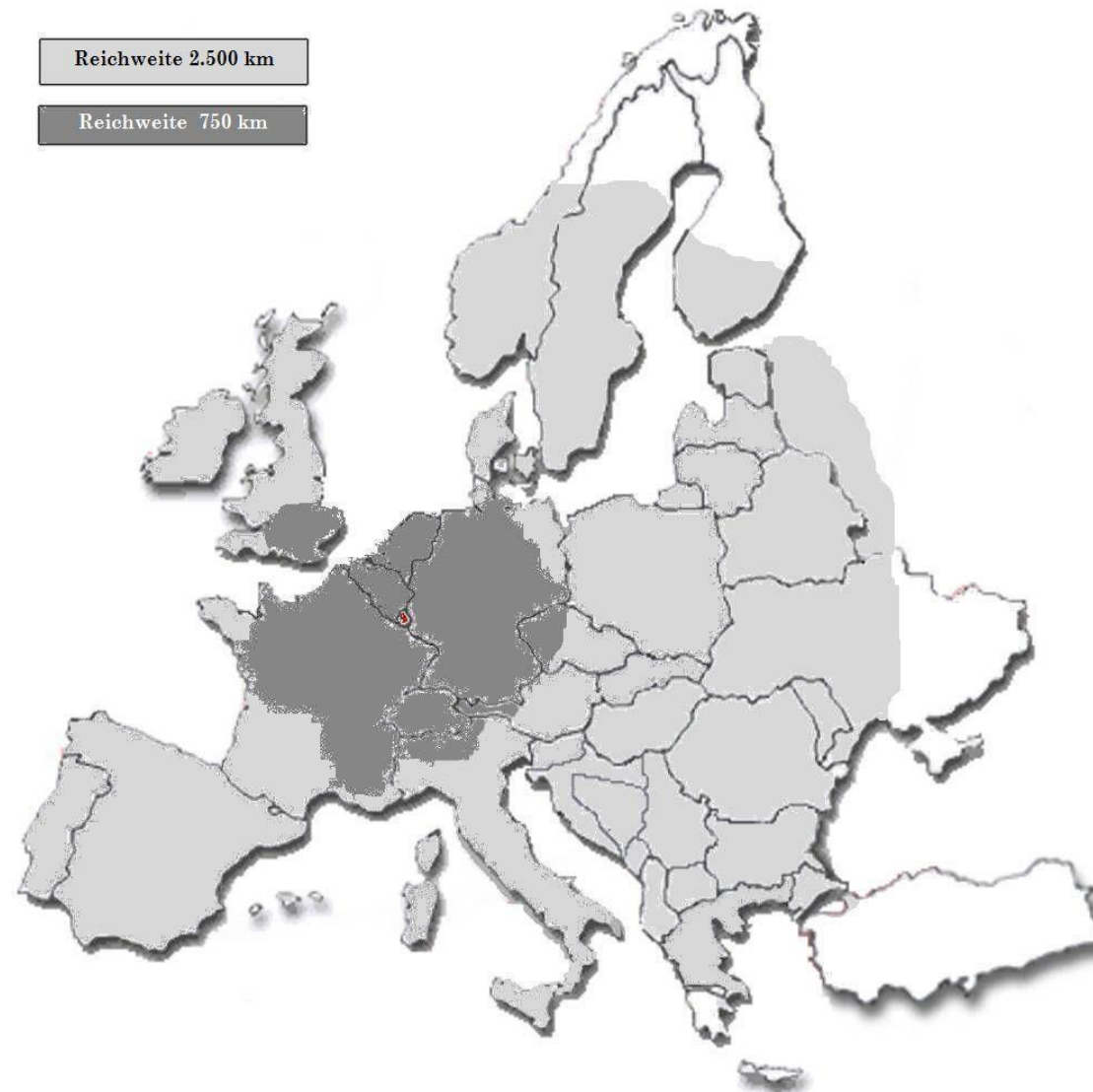
Transfer tax rights to the European Union?

Overview

1. Why road transport fuel taxes?
2. Transfer of the tax – Partial or full?
3. The price to be paid – On compensation

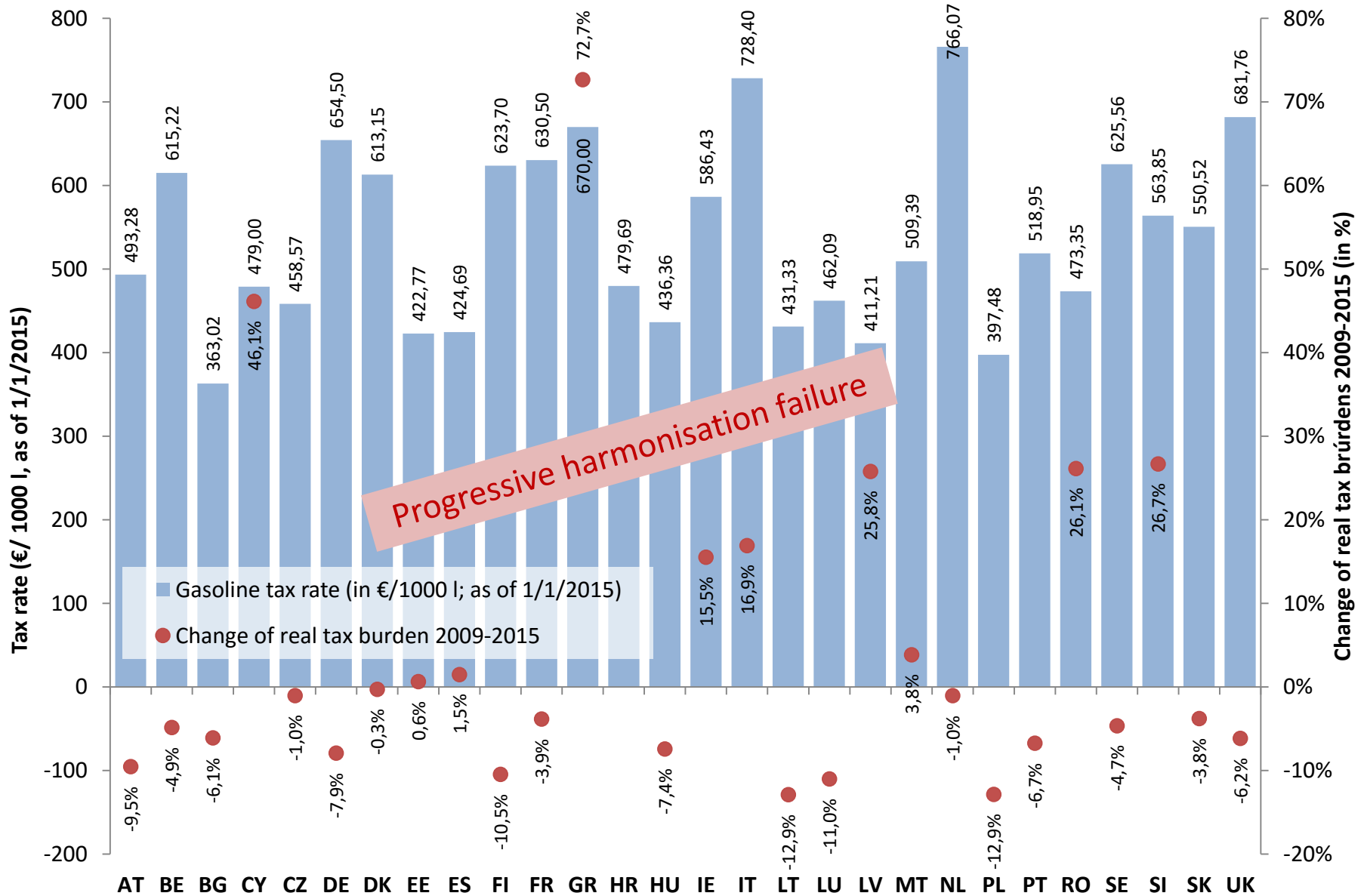
1. Why road transport fuel taxes?

Example of horizontal tax competition: The Spatial Range of „Luxembourg fuels”



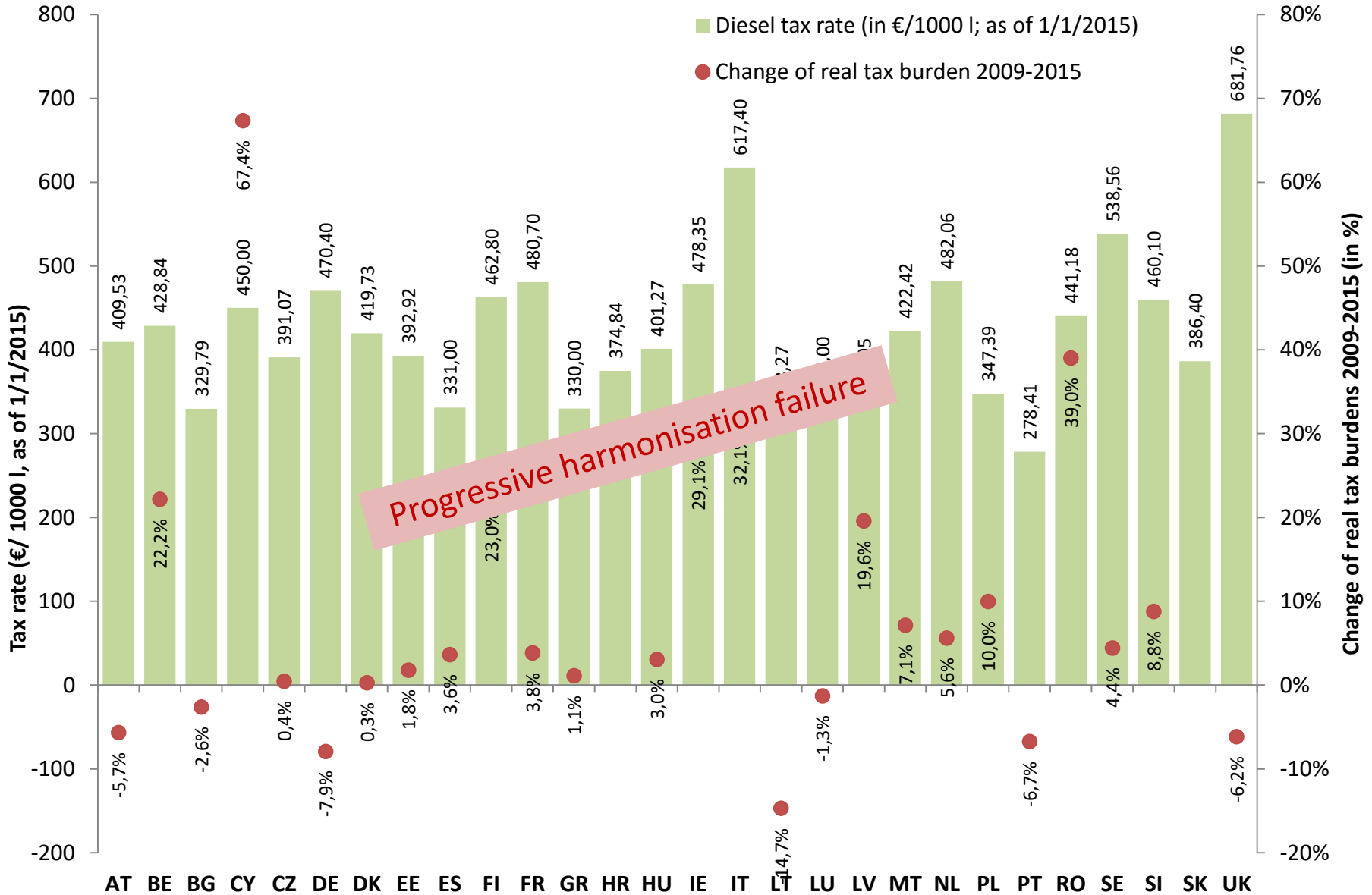
Source: Thöne (2008), Laffer in Luxemburg: Tankverkehr und Steueraufkommen im Großherzogtum. FiFo Discussion Paper 08-1.

Gasoline tax rates – level and dynamics

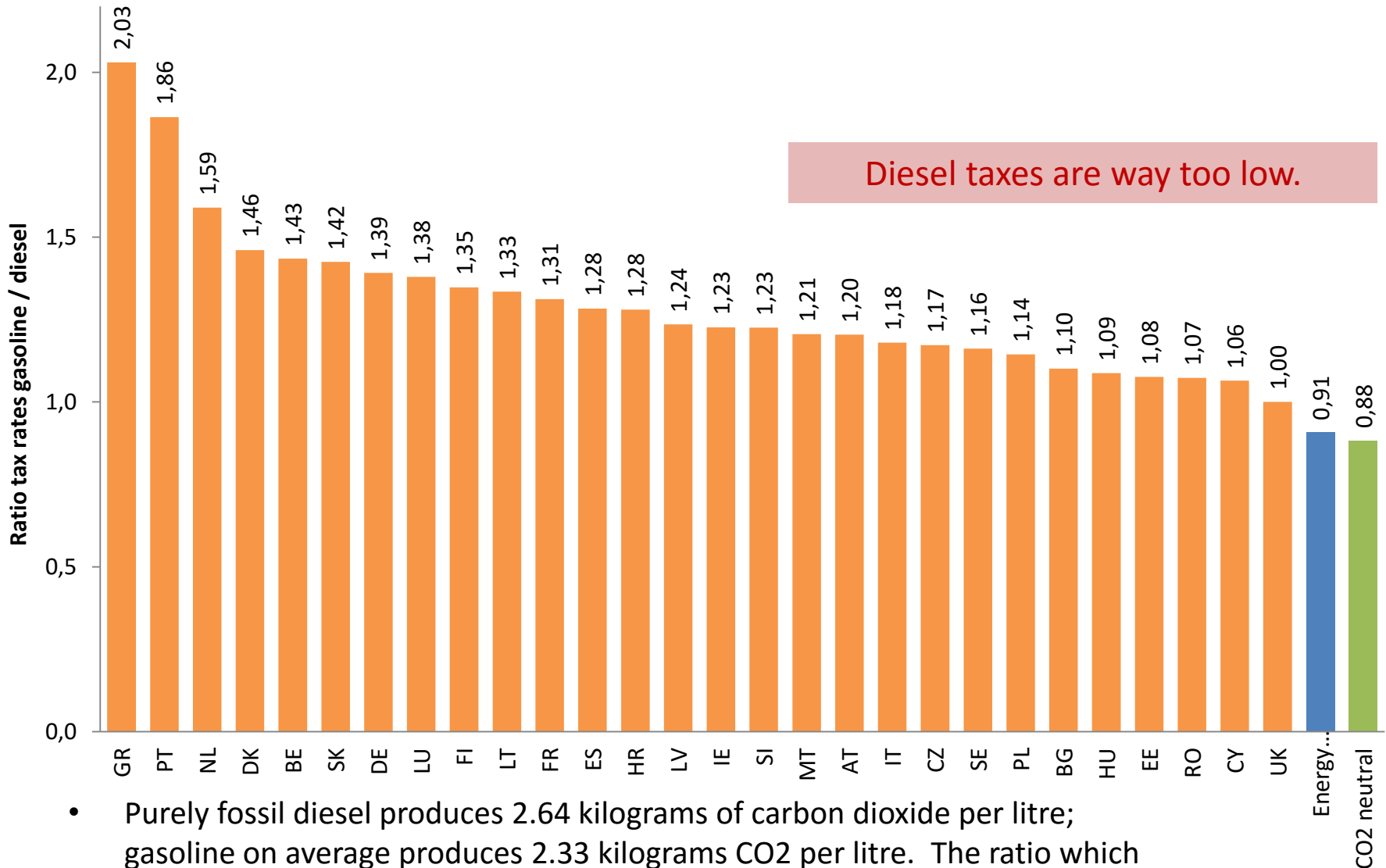


Progressive harmonisation failure

Diesel tax rates – level and dynamics



Tax rate ratios gasoline / diesel



- Purely fossil diesel produces 2.64 kilograms of carbon dioxide per litre; gasoline on average produces 2.33 kilograms CO2 per litre. The ratio which is neutral in respect to climate change is 0.88.

European value added of common fuel taxes

Status quo

- Jumbled tax structure in EU.
- Diesel taxes are way too low.
- Tax harmonisation progressively fails.
- Tax competition is bound to further increase (due to low oil prices).

Environmental taxation

- Taxes: Market-based instruments of the 'polluter pays-principle' (Art 191, 2 TFEU).
- Ambitious EU reduction targets for CO₂ in transport sector.
- OECD (2015): Governments under-utilise taxes as a tool to curb emissions.

European added value

- Climate change is a global 'common bad'
→ CO₂-oriented tax to be allocated to highest government level available, i.e. the EU.
- Curbing inefficient tax competition: European fuels tax reduces number of 'competitive borders' from 71 to 33.

2. Transfer of the tax - Partial or full?

Section 2 is *added value*, it is not covered in the underlying paper.

No additional taxes: EU and MS spending budgets are given.

- Reform discussion for revenues based on purely structural arguments

Transfer of an existing tax to the EU must be compensated.

- Parallel reductions of customary own resources. (Refunds, if necessary.)

Partial transfer of fuel taxes

- MS reduce their individual tax rates by the same percentage (e.g. 40 %)
- EU fills this gap with own tax rates. Revenue neutrality on the European level, not in every single MS.

Full transfer of fuel taxes

- MS forego the right to tax transport fuels.
- EU determines tax rates and receives full revenue.
- Equivalent in many respects: EU determines tax rates and shares revenue with MS.

Partial or full transfer?

<i>A quick assesement</i>	National tax	Partial transfer to EU	Full transfer to EU
Efficiency of climate policy	low	medium	high
Horizontal tax competition	high	dampened	EU-borders
Vertical tax competition	none	potential problem	none
Income distribution (EU-wide)	diversified	mixed	uniform
Transparency	high	mixed	high
Simplicity	uncomplicated	uncomplicated	uncomplicated
Accountability	national	mixed	EU
Compensation (→ political transaction costs)		not easy	challenging

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- Despite its obvious merits, the *full transfer*-model is not considered a realistic perspective for the short-term. The change from the current system would be too radical.
- Nevertheless, we do use a *full transfer*-model to analyse compensation, as it is more straightforward. Compensation issues of *partial transfer* are fairly proportional.

3. The price to be paid – On Compensation

Transfer to the central level is only beneficial with **harmonisation of tax rates**.

If a new tax structure would lead to **losses** of national tax revenues, the **historic revenue** serves as the benchmark for the compensation claim.

Argument: “We are not accepting any losses compared to the status quo.”

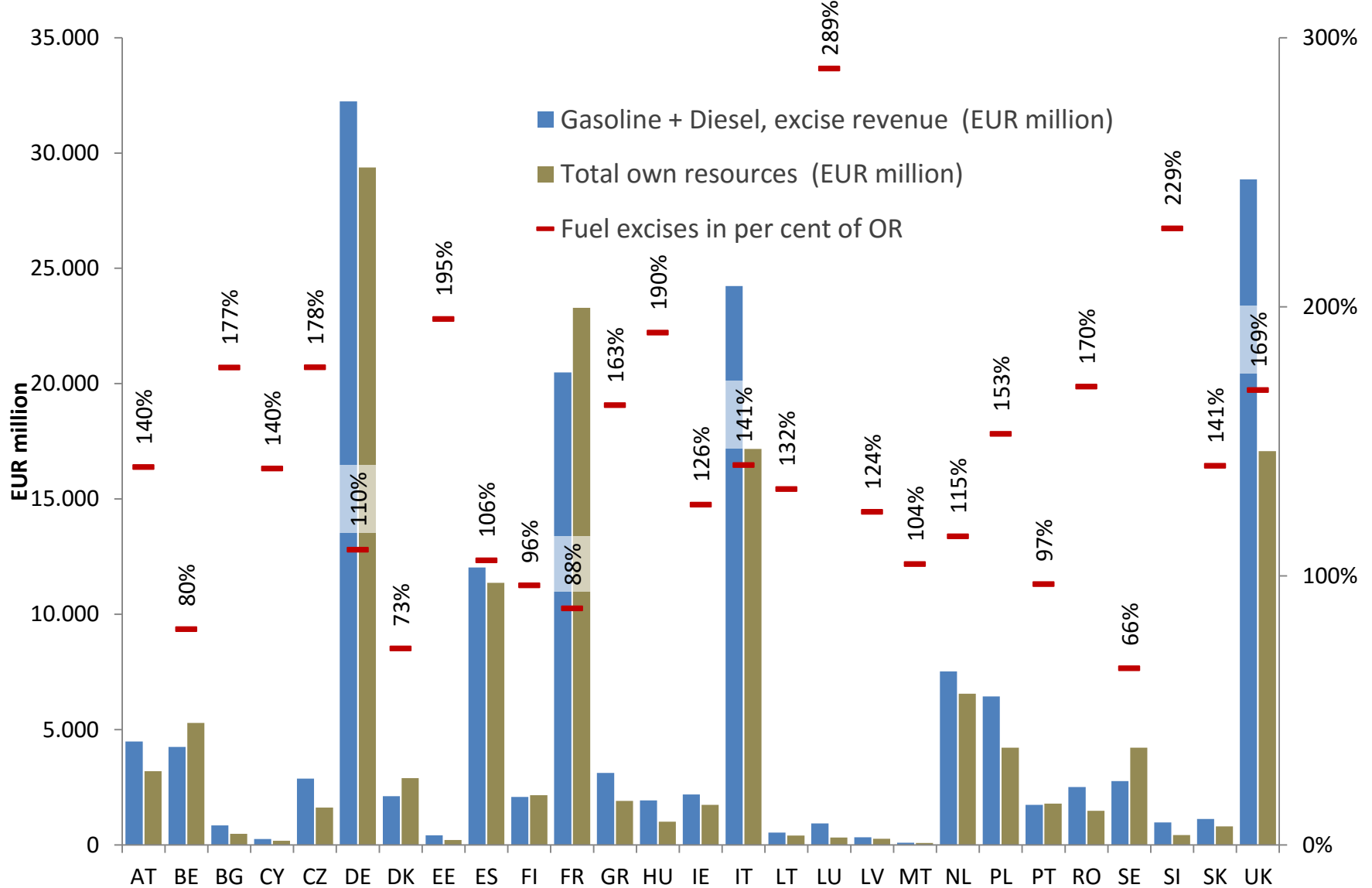
Member States will anticipate such changes in the **asymmetric compensations** demanded:

If a new tax structure would lead to **gains** of tax revenues raised within a Member State, this **new revenue** would serve as the benchmark for compensation.

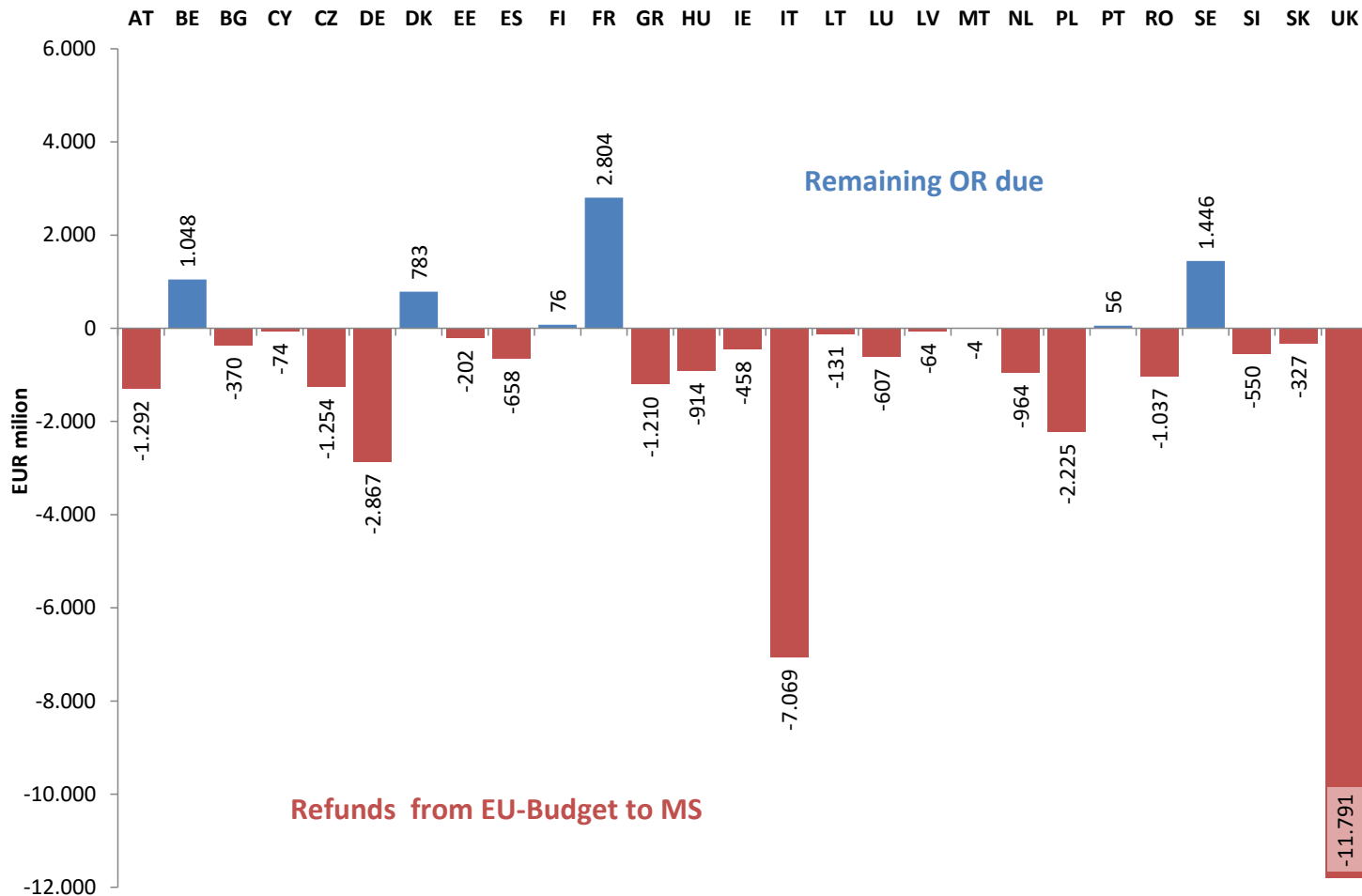
Argument: “The new revenue is the ‘true’ revenue we should have received all along if we had not been impeded by tax competition, harmonisation failure etc.”

Starting point:

Excise tax revenues vs. total own resources



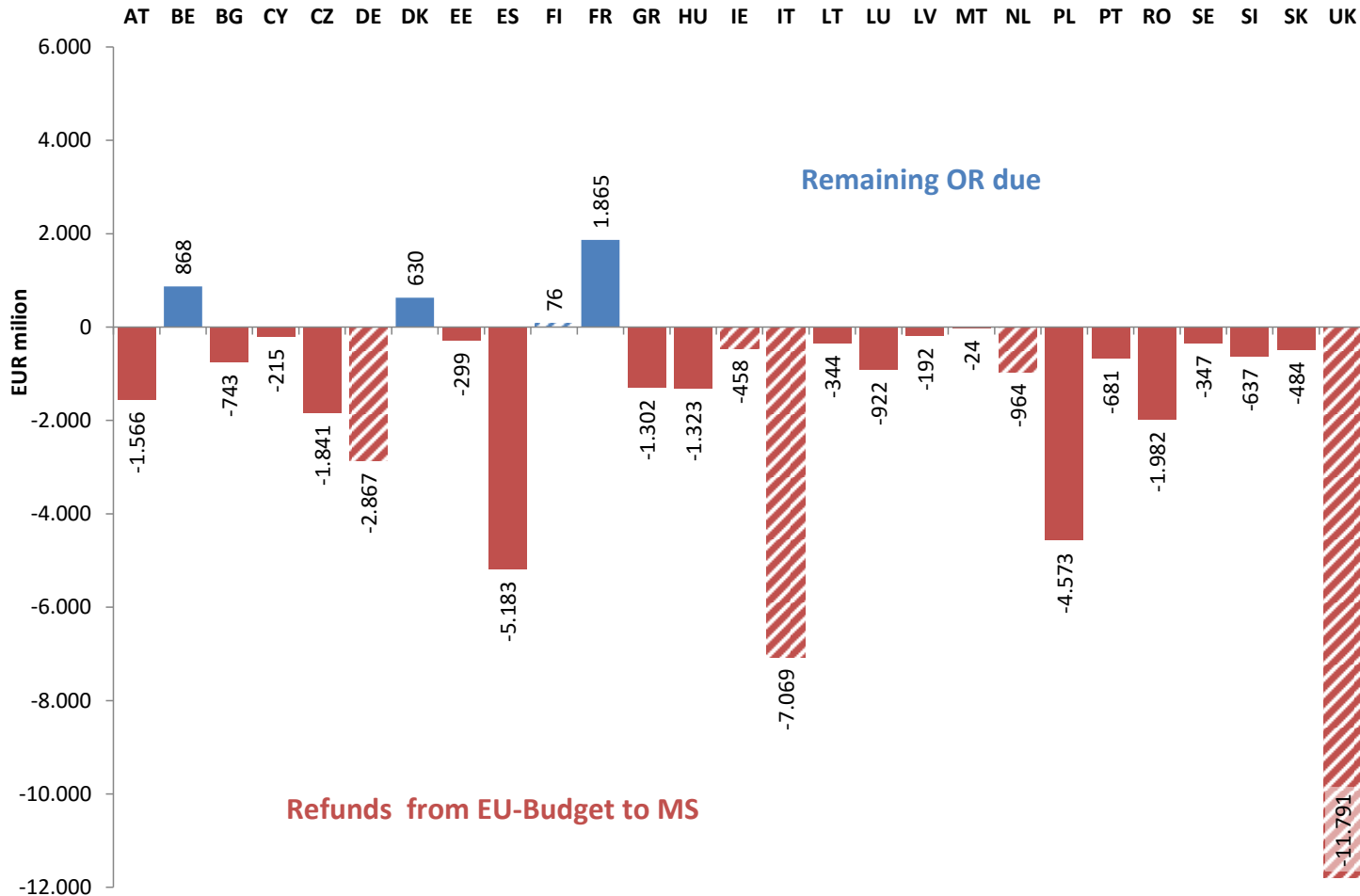
Calculation 1 – Compensation of status quo



- Fuel taxes (2013): 167.4 bn EUR; total OR (2013): 139.7 bn EUR → net refunds.
- Crooked, but revenue-neutral: Our Benchmark for further calculations.

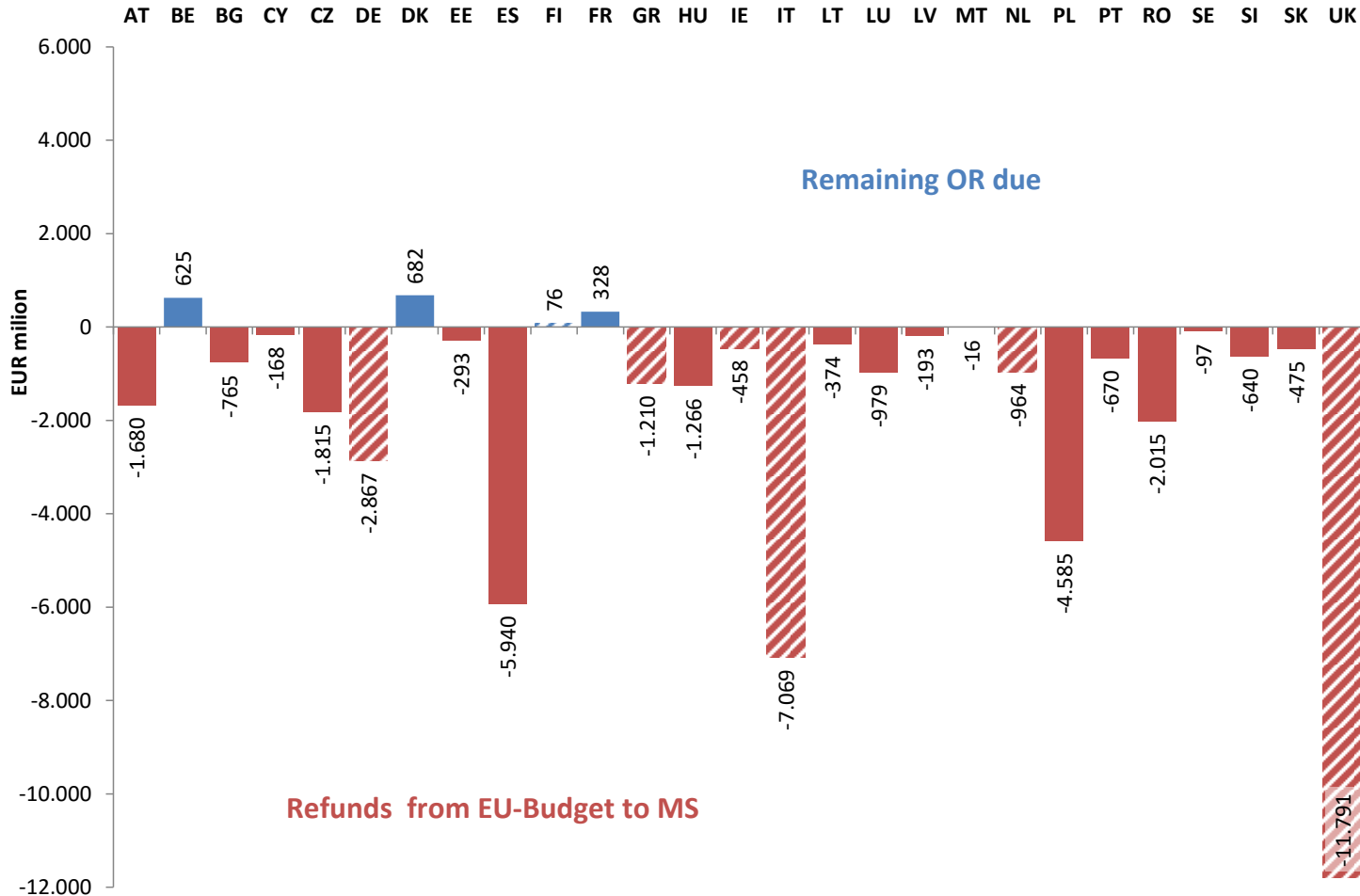
Calculation 2: Smoothing tax rates separately.

Asymmetric compensation



- The increase of compensation amounts to EUR 15.8 billion, i.e. more than 11% of the EU budget.

Calculation 3: Asymmetric compensation for a CO₂-neutral tax structure



- Here, the increase of compensation amounts to EUR 18.1 billion (more than 13% of the EU budget).

Revenue-neutral reallocation of tax rights to the EU in an environment of pre-existing and distorted taxes may not be possible.



Allocating tax rights to the EU level may not lead to revenue increases on the European level, but for the Member States.



Against the background of substantial additional revenues needed to establish a tax right for the European level, the desirability of such a reform decreases.



Identifying taxes which might be transferred to the central level for reasons of efficiency, transparency and accountability is a necessary, but not a sufficient condition for a revenue reform.

Thank you

Continuing the dialogue:
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Sources

Final version:

M. Thöne (2016), Transferring Taxes to the Union. The Case of European Road Transport Fuel Taxes. In: T. Büttner and M. Thöne (eds.), *The Future of EU-Finances*, MohrSiebeck ISBN 978---16-154645-3.

Publication: September 2016.

<https://www.mohr.de/buch/the-future-of-eu-finances-9783161546563>

Preliminary versions:

M. Thöne (2016), Transferring Taxes to the Union. The Case of European Road Transport Fuel Taxes. In: T. Büttner and M. Thöne (eds.), *The Future of EU-Finances*, Working Papers for the Brussels Symposium on 16 January 2016, Cologne.

http://www.bundesfinanzministerium.de/Content/EN/Downloads/2016-01-14-final-report-future-eu-finances.pdf?__blob=publicationFile&v=4

M. Thöne (2016), Übertragung von Steuern auf die Union: Das Beispiel europäischer Kraftstoffsteuern. In: T. Büttner und M. Thöne (Hrsg.), *The Zukunft der EU-Finzen*. Arbeitspapiere im Rahmen des BMF-Forschungsvorhabens fe 1/14, FiFo-Bericht Nr. 22, Köln.

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