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72

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ENVIRONMENTAL TAX AS THE POSSIBLE PART OF EU OWN RESOURCES

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ABSTRACT

Environmental Tax as the Possible Pillar of EU Own Resources

Own resources of the European Union are the base of the European budget revenues. The classical resources are decreasing. Resource based on the proportion of gross national income is increasing. Current status of own resources is inconvenient and confusing. A new concept of environmental taxes can serve as a new EU own resource. It would lead to a better environmental protection and more transparent financing of the EU budget. In combination with the application of the principle of fiscal neutrality, which consists of a collateral reduction of certain direct taxes, the tax could accelerate economic growth.

KEYWORDS
own resources of EU, environmental tax, input output analysis

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Contents

INTRODUCTION

Own resources as the source of revenue for EU budget and the mechanism to govern them are important both structurally and politically and the EU cannot function properly if it does not have enough of these resources. Having an own resources system that is transparent is an important factor in how the public in each Member State views the EU and other countries. By defining the parameters of this system properly, it is possible to improve the functioning of the EU and the European Parliament's position as EU fiscal authority. The revenue side of budgetary policy is also one indicator of the degree of effective integration and hence a means by which the EU can move a stage further towards improving that integration.

Current attempts to reform own resources comply with the Treaty of Rome, Article 201 of which states: "Without prejudice to other revenue, the budget shall be financed wholly from own resources." A continuing state of transition, in which the budget is largely made up of contributions from the Member States, is not in keeping with the with the above mentioned Treaty.

At present, own resources comprise revenues from customs duties, agricultural duties and sugar levies, which are in line with the Treaties of Rome. In addition, however, a component of the harmonized value added tax (VAT) base and a component of gross national income (GNI) are also considered "own resources". This share is currently growing and covers most of the Union's resources. Member States transfer these resources directly from their revenues and they are only considered own resources in the sense that their function is to cover the European budget. Also part of the own resources system is the specific correction mechanism addressing the negative net budget position of the United Kingdom (the UK rebate). In addition, a number of Member States also receive corrections that reduce their payments into the EU budget.

1. HIGH LEVEL GROUP ON EU OWN RESOURCES

The high level group[1] chaired by Mario Monti was created in year 2014 to look into the reform of EU own resources, since it is essential to fashion a new concept of the own resources system and to do so as quickly as possible. This publication is meant to support this activity and to bring an added value to the work of high level group.

The High Level Group on Own Resources' First Assessment Report[2] shows that the current scheme is unclear and complicated, with the desired results not being achieved in a number of assessment criteria. Moreover, the list of countries receiving rebates and corrections under the current system is expanding, meaning they contribute less to funding the budget. With the system set up as it is, we shall end up with discussions on the budget being more about Member States seeking to minimize their contributions.

Difficulties in negotiations on the Multiannual Financial Framework 2014 – 2020 were also behind the establishment of the high level group, which is tasked with preparing a change in the system for constituting the EU's own resources that will help boost the budget's true economic potential. The idea is for the group to continue the Commission's work in putting together the EU budget.[3]

There are the conclusions reached by the Commission and discussed by the Council during work on the Multi-annual Financial Framework 2014 – 2020 among the main tasks the group has addressed. These conclusions contain the following three elements desirable for a new own resources system: simplification of Member States' contributions, presentation of a new own resources system and reform of the corrections system.

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[1] The High Level Group on Own Resources was set up in February 2014. ADD 1,15997/13, its mandate ends in 2016. http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2015997%202013%20ADD%201

[2] http://ec.europa.eu/budget/library/biblio/documents/multiannual_framework/HLGOR_1stassessment2014final_en.pdf.

[3] For example: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments: The EU Budget Review COM(2010) 700 final.

2. CRITICISM OF THE PRESENT OWN RESOURCES SYSTEM

Criticism of the current own resources system comes mostly from the European Parliament, the Commission, the Court of Auditors and the EESC.[4] The main problems can be broken down into four points:

1. The current own resources system is too complex and lacking in transparency, especially regarding contributions from gross national income and harmonised value added tax. In particular, the latter should be replaced by a version that is simpler, better targeted and easier to collect. The reason is that the harmonised value added tax is not in fact a tax, but an artificial calculation modelled on a situation in which such a tax did exist. Its actual introduction would entail high administrative costs for tax payers and tax offices that would not be offset by the benefits for economic growth – quite the contrary, in fact.
2. Own resources do not originate with the EU, but are in fact contributions from national budgets that account for as much as 83 % of the European budget (2013). This situation has been snowballing since 1988, when the contribution based on gross national income was introduced. Another adverse consequence of its introduction was that Member States started to be divided into either net contributors or net beneficiaries. If funds from the European budget are not used efficiently, suspicions grow as to the need for such a budget.
3. National fiscal deficits also lead to more contributors making late payments into the budget, as the Commission has noted. A system which permits payment delays is incompatible with the multiannual financial framework, in which expenditure is planned and guaranteed in advance. Delay in payments from Member States also puts pressure on the EU budget, which might not then be able to fulfil its obligations. Added to this, there are increasing calls for further corrections for Member States in arrears.
4. Reforming the own resources system requires the agreement of all Member States. This is also a reason why it has not happened earlier. Previous attempts to significantly rewrite the rules have been unsuccessful. When the matter is discussed in national parliaments, decision-makers at national level often only see how much is paid into the European budget, but do not see the benefits that EU policies bring to the people of Europe, find them inadequate – or, perhaps, rely on others paying. It is therefore important to clarify the system of own resources and systematically inform the public in the Member States about EU budget expenditure and its benefits for the European Union as a whole.

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[4] The relevant EESC opinions are commented out in the APPENDIX 1.

3. CRITERIA FOR THE NEW SYSTEM OF EU OWN RESOURCES

The authors of this study suggest that the new own resources system should meet as many as possible of the following criteria as set out in the high level group's report: equity and fairness, efficiency, stability, transparency and simplicity, accountability and budgetary discipline, focus on European added value, subsidiarity and fiscal sovereignty, and limits on political transaction costs.

Equity and fairness is the fundamental criterion that the new system has to meet. The resources coming from individual Member States must be comparable, bearing in mind their economic strength and position. The system must ensure the absence of discrimination, bias and injustice.

The principle of efficiency should be respected, especially when a new own resource is introduced – or an existing one changed – that is intended to replace the Member State contribution based on gross national income and the whole of harmonised VAT. The cost and administrative complexity of collection must be efficient in relation to what it brings in.

Stability is an important aspect of the entire own resources system. In the case of a shortfall of other income, the EU budget must be covered by national resources. A resource based on gross national income could certainly be retained, but only as a supplementary "spare" element helping to keep the entire system stable.

The principle of transparency and simplicity rests on identifying the origin of individual own resources and on their auditability. This principle should be maintained at both European and national level.

Accountability and budget discipline will only be effective if applied to the whole financial system. While the EU cannot run a budget deficit, most national budgets are in fact doing so. The EESC encourages Member States to be responsible in meeting their commitments, which can only be adjusted very marginally during the multiannual financial framework, since European budget expenditure is planned for the medium term.

In addition to these general criteria that EU own resources should meet, there are also certain other criteria or conditions that need to be fulfilled because of the specificities of the system. A new system of own resources or a reform of the existing system should support the economic environment in selected regions or industries. This means that the financing system would be geared to *generating European added value*.

The criteria of subsidiarity and fiscal sovereignty are a basic principle of European law. Economic policies must be optimally framed to accommodate the pan-European dimension and national sovereignty in equal measure. The European legislative framework must meet the requirements of subsidiarity.

While the *criterion of limiting political transaction costs* is very volatile and difficult to uphold, it is nevertheless an essential one because of the large number of exogenous factors affecting the drawing up of the EU budget. On the other hand, it needs to be stressed that changes in transaction costs are necessary in the event of immediate intervention into conditions, circumstances or political agreements.

The authors agree with the prevailing view that new EU own resources must satisfy as many as possible of the criteria referred to above. Proposals for new own resources should be assessed in terms of how the new system would either support or fail to address each criterion. The overall system should then be derived from an in-depth analysis of the new system.

In the view of the authors, the new EU tax should meet the following conditions:

– realise the original intentions behind the creation of own resources,
– make the situation in own resources more transparent,
– make European policy meaningful to voters and strengthen the position of the European Parliament as a budget authority,
– be budget neutral: introducing an EU tax paid directly into the EU budget will reduce payments from Member State budgets and Member States will therefore lower other fiscal revenue (such as the existing tax on mineral oils or personal income tax) by the same sum.

One possibility is to tax energy consumption and CO_2 emissions: the new EU tax would tax products according to how much energy is consumed and CO_2 emitted in their production chain. At the same time, this would enable costly or very administratively difficult forms of environmental protection to be abolished accordingly and/or tax on labour to be lowered.

Mitigating discrimination of European producers on the home and world markets: the parameters of the new tax must be set so that its collection reduces the unfavourable treatment of Europe's producers compared with manufacturers in third countries with lower environmental standards and does not burden domestic producers when exporting to third countries.

4. PROPOSALS FOR NEW OWN RESOURCES

The authors propose to analyse in a greater detail the concept of a new type of environmental tax that would have the following characteristics.

Taxing energy consumption and CO_2 emissions: the aim of the new tax is to combine environmental protection with a recovery in economic growth. It will tax products according to how much energy is consumed and CO_2 emitted in the production process, irrespective of whether all or part of that process is inside or outside the EU. Different tax rates will be established for several dozen product types. These tax rates will be determined on the basis of an input-output analysis for the entire production process of a sample product. End use of goods and services on the European market will be taxed. Exported goods and services will not be taxed. In keeping with the principle of fiscal neutrality, costly or administratively demanding environmental protection requirements will be abolished and/or taxes on labour will be reduced. The effects will be:

- Cutting costs for companies will make them more competitive on domestic and foreign markets, enhancing opportunities for growth in domestic production and, consequently, employment and GDP.
- European companies will be able to compete fairly with non-European competitors, with the principle of a level playing field for all applying, so there will be no incompatibility with WTO rules.
- The introduction of environmental levies will make environmentally unfriendly products relatively more expensive and environmentally friendly ones relatively cheaper, which will change consumer behaviour for the better with regard to environmental protection.
- Budget neutrality means no increase in absolute prices of European products.
- Introduction of the tax will probably push up absolute prices of imported goods, meaning that importers will pay a significant part of the own resources.
- Improved growth and higher employment levels will more than offset the increase in the prices of imported products caused by the environmental tax.
- The extra economic growth will generate additional tax revenues, which will help make the tax acceptable to the Member States.

Simultaneous reduction in costs for business:

We also suggest to abolish or reduce taxes, charges and other costs of business in the EU, in order to support business. It is also advised that the Commission compiles a quantified list that sets out a volume of funding sufficient to compensate for the loss of revenue once the new tax has been introduced, so that fiscal neutrality is achieved – for example, excise duty on mineral oils, carbon credits and reduced social security and tax burdens on employment.

In reducing costs for producers, key sectors of the European market could be targeted that are heavily regulated, putting these producers at a disadvantage compared with their worldwide competitors. Studies (Egenhofer, C. et al, 2013) suggest, for example, that reducing the price of energy in the steel industry would have a strong impact on production.

5. DEFINITION OF THE CONCEPT OF NEW ENVIRONMENTAL TAXES

To apply in all EU Member States and thus throughout the EU, with the following parameters:

a) 60 to 100 groups of products subject to different rates of environmental tax;
b) number of product groups according to availability of data and differences in energy consumption and CO_2 emissions;
c) taxation of the end use of goods and services on the European market (household and government consumption and investment: C + G + I);
d) no taxation of goods and services exported from the EU (export EX);
e) taxation of the end use of goods and services on the European market to be the same, irrespective of origin (IM) (imported goods and services for end use taxed the same as domestic products; those imported for intermediate consumption taxed indirectly as part of domestic goods and services for end use);
f) tax bands for individual product groups to depend on energy consumption and levels of CO_2 throughout the entire production process;
g) uniform rates to be the same for all Member States;
h) rates for products will be calculated based on input-output analysis so that total revenue from this tax matches current Member State payments into EU own resources (i.e., to bring in between 0.3 % and 1.0 % of gross national income).

DISCUSSION

It is worth to mention that the Commission's proposals[5] bring several other financing possibilities that could, according to the Commission, become new own resources. These include taxation of the EU's financial sector, auctioning of revenue from the EU Emissions Trading System, an EU charge related to air transport, an EU VAT resource, an EU energy tax, an EU Corporate Income Tax, and so on.

When it designs a new type of own resource, the Commission could take account of the environmental impact of the new resource. One can mention in this regard the positive example of the Swedish carbon tax.[6]

It is also necessary that a change in own resources radically reduces or even eliminates the GNI contribution. It is clear from the proposals of both the Commission that the purpose of the new type of EU own resources is to replace the current, poor mechanism for financing the budget and at the same time help businesses in the EU to kick-start economic growth. It is therefore vital to create a kind of tax that will satisfy both these dimensions.

It is essential, in reforming financing of the EU budget, that all the changes made on the revenue side be budgetary neutral. Reforming own resources is not about gratuitously increasing the budget, but about reconfiguring revenue, simplifying collection and introducing a transparent correction mechanism.

Another alternative for creating a new EU own resource is to introduce a European value added tax. This tax could replace the Member State contribution based on GNI and harmonised VAT. However, it is needed to bring into attention the fact that some Member States have zero VAT on certain goods and services. This tax also comes with a heavy administrative burden and a higher risk of tax evasion.

The Commission, the Parliament and the Council should inform the public in the Member States as much as possible about the need for the reform of own resources. The success of any change depends on the general consent and position of all involved parties.

The European Union has a right to its own source of funding, since it creates added value in all Member States. Without the work of the EU, it would not be possible to solve global challenges or to bring the various regions and Member States closer together.

[5] COM(2011) 511 final.
[6] http://ec.europa.eu/taxation_customs/taxation/gen_info/info_docs/tax_inventory/index_en.htm.

CONCLUSIONS AND RECOMMENDATIONS

The authors of this study agree with the need to reform the EU's own resources, given that the situation as it stands is unsatisfactory. If done properly, a change to own resources would mean that Article 201 of the Treaty of Rome would actually be implemented for the first time. This is not, in fact, what has been happening so far, since the EU budget is still largely made up of Member State contributions.

The creation of the high level group tasked with preparing a change to EU own resources is widely appreciated. The authors intend an own-initiative opinion presented in this study to be the Committee's added value contributing to that work.

Own resources as they stand are unclear and complicated. Moreover, a growing number of Member States are receiving corrections and rebates – confirmation that wealthier countries are shouldering a disproportionate burden in financing the EU budget. In fact, the gross national income component, which makes up the bulk of the EU budget, is not actually an own resource as such, but a contribution from the budgets of the Member States. Moreover, this share is constantly increasing. This is why it is essential to work together on the following tasks: simplifying the system of contributions and payments for Member States, presenting a new own resources system and reforming the corrections system.

The authors back the Commission's endeavour to bring in new types of own resources that would change the current way of funding the EU budget. It also recommends continuing discussions aimed at changing perceptions of some of the new resources presented, which not all Member States accept.

The new own resources system should meet the following criteria: equity and fairness, efficiency, stability, transparency and simplicity, accountability and budgetary discipline, focus on European added value, subsidiarity and fiscal sovereignty, and limits on political transaction costs.

The authors propose a more thorough analysis of the concept of the new environmental tax, which would be based on taxing end consumption according to how much energy is consumed and CO_2 emitted in the production process, irrespective of whether all or part of that process takes place inside or outside the EU. In line with the principle of fiscal neutrality, all European producers would receive compensation in the form of abolition or reduction of certain charges and taxes.

One potential effect of introducing a new environmental tax is that European businesses would then compete on a level playing field with non-European competitors. It would also make environmentally unfriendly products relatively more expensive and environmentally friendly ones relatively cheaper.

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APPENDIX 1. RELATED EUROPEAN ECONOMIC AND SOCIAL COMMITTEE'S OPINION

European Economic and Social Committee[7] (further on only EESC or The Committee) encourages both experts and the general public to take an interest in reform of the EU budget on both revenue and expenditure sides.

In the context of the preparation of the multiannual financial framework of the EU budget for the period 2014 to 2020, the EESC adopted several opinions that directly addressed the consequences for the EU's own resources. These are the following three opinions:

- The EU Budget Review (Malosse and Dantin, 2011)
- System of own resources of the European Union (Dantin, 2012)
- Financial transaction tax (FTT) (Palmieri, 2013).

This paper follows the draft opinion "European tax as an own resource of the EU (proposal for environmental tax)" (Páleník 2015) and the relevant EESC opinion on the EU budget review (Malosse and Dantin, 2011), which states that "We have to have the imagination to draw up a 'smart' European budget which will provide the EU with the means to achieve its objectives without increasing the overall tax burden on the public and on businesses. The 'juste retour' principle must be abandoned as it is contrary to the values of solidarity and mutual benefit which underpin European integration".[8]

The EESC most recently adopted an opinion on EU own resources in 2012 (Dantin, 2012). That opinion looked at the Proposal for a Council Decision on the system of own resources of the European Union[9] and the Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union.[10] The opinion states that "against this backdrop, the Committee welcomes the Commission's legislative proposals. It considers that they are a step in the right direction, as they halve the GNI contribution and compensate for that with two new own resources, one based on VAT and the other on a tax on financial transactions. This relative increase in real own resources will bring the running of the EU budget more closely into line with the spirit and letter of the Treaty of Rome while also helping to increase the financial autonomy of the EU and support the Member States in the mammoth efforts they are making with regard to their budgets". In the present opinion, the EESC also calls for an increase in the EU budget. In its communication on the EU budget review, the Commission listed six potential own resources. Of these, the Committee

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[7] The EESC is a consultative body of the three main institutions of the European Union. Was established by the Treaty of Rome in 1957, composed of representatives of the various components of organized civil society and its main activity is to produce opinions more see.: Http://www.eesc.europa.eu/

[8] The opinion is also that requirement to increase the EU budget. This question is related to the theme of the EU's own resources only indirectly.

[9] COM(2011) 510 final – 2011/0183 (CNS).

[10] COM(2011) 511 final.

recommended the following as the most suitable: an own resource based on VAT, a financial transaction tax and a reform of correction mechanisms.

The EESC feels that one way of improving the own resources situation is to introduce a tax on financial transactions for Member States (Palmieri, 2012). The Committee endorses the idea that a financial transaction tax (FTT) could have a decisive impact on the behaviour of the financial institutions by reducing the number of very short-term financial transactions, which are often also risky (Nyberg, 2010; Kropas, 2011). The EESC encourages the Commission to continue to step up cooperation – both among Member States and beyond the EU – on introducing a financial transaction tax (Palmieri, 2013). This tax could then become one of the components of own resources.[11]

The EESC draws attention to the conclusions of its opinion on the taxation of energy products and electricity (Pigal, 2011), in which it agreed with the creation of an energy tax to increase budget revenue and environmental protection. The Committee also points out that the population's energy demands will rise and we must be prepared, if nothing is done, for the possible consequences of a change in the structure of the European market (Zbořil and Kerkhoff, 2008). The Commission proposal included a number of exemptions, the effect of which was to weaken competition and tone down the environmental impact. The tax proposed in these terms would burden Europe's producers, making them less competitive internationally. That proposal was withdrawn from the legislative process.

The Committee has dealt with potential factors impacting on the new own resources system in a number of opinions concerning subjects which have a direct impact on the financing of the European budget, including the opinion on Market-based instruments for a low-carbon economy (Siecker and Ribbe, 2014, which was, inter alia, be inspired Barrios, Pycroft, Saveyn 2013[12]). It is harmonising these with opinions on reindustrialisation, such as those on the Action Plan for the European steel industry (Rolin and Kotowski, 2013), on Sustainable Energy Intensive Industries (Iozia and Jarré, 2011) and on the Contribution of the woodworking sector in the carbon balance (Jírovec and Pesci, 2014) in which the EESC notes: "One effective measure to ensure the competitiveness of European industry and to prevent the delocalisation of production could be a new energy/carbon tax which would stop the discrimination of European producers". One important factor in the introduction of the new environmental tax is to strike a balance between EU producers and others that have lower production costs. As far as agricultural production is concerned, agricultural products in Europe would gain competitive advantage compared to imported products (Espuny Moyano and Trias Pintó, 2010).

According to specialist studies, the effects of the environmental tax depend directly on the

[11] Since the adoption of opinions about FTT remains inconsistency of opinion between Member States on the adoption of this tax. Several Member States are against the introduction of this tax. After the introduction of taxes in some Member States, the expectations associated with this tax did not materialize.

[12] http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_35_en.pdf

particular form it takes. In addition, the Committee has pointed in several opinions to the need for better environmental protection (Zbořil, 2013). Apart from this cost, increased expenditure is also expected on social security because of population ageing. This is why tax reduction will have to be shared between tax on labour and environmental costs for producers (Trindade and Drbalová, 2015).