Think Ahead ACCA

Public consultation on the revision of the Energy Taxation Directive

A public consultation issued by the European Commission

Comments from ACCA to the European Commission
13 October 2020

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SUMMARY

ACCA welcomes the opportunity to provide our views to the proposed revision of the Energy Taxation Directive (ETD). We fully support the stated aims of this revision: by sending price signals, taxes are, indeed, an important lever in changing business and consumer behaviour. We particularly welcome the Commission's intention to shift the tax burden from labour taxation to environmental taxation. ACCA believes that this holistic and system-wide policy response is key to addressing the scale of the environmental and social challenges currently facing not only EU member states, but countries around the world[1].

However, the impact on regulatory and administrative burden – not just in the immediate transition, but in future years – may need to be more carefully considered in redesigning tax rates and incentives. For tax policies to achieve their objectives effectively and efficiently, it is important for them to be simple, certain and stable. It is especially relevant to ensure that changes in energy taxation are:

- Simple for member state governments to implement and not costly for tax administrations to administer
- Easy for taxpayers to understand and comply with, and
- Able to operate consistently and progressively over the long term, so that both households and businesses know how they will be taxed in future years and can plan accordingly[2].

Accordingly, where lower tax rates or exemptions currently apply, we would recommend that the existing differences in tax rates are removed progressively, through incrementally increasing tax rates over several years. The annual increase in tax rates should be clearly defined from the start, in order to allow for businesses and individuals to plan ahead and adopt alternative courses of action.

A forward-looking and adaptable approach is needed in defining the bases on which tax rates should be based. In the short term, reductions in greenhouse gases may be the main priority. However, to achieve climate neutrality by 2050, it will be equally important to reduce the level of energy consumption overall, prevent deforestation and maintain sustainable food crops. Therefore, to avoid the need for significant changes to the ETD in the future, the mechanism for determining tax rates should take into account not only greenhouse gas emissions, but also energy content and the use of whole trees and food and feed crops for energy production. These latter considerations may, at the start, have a zero weighting to tax rates, but once built into the rate-determination mechanism, they can be introduced in future years. This also helps to keep energy tax revenues at sustainable levels, as business and consumer behaviour evolves.

At this time of economic crisis, it is crucial that the effective compensating measures are put in place, to mitigate the impact that increases in energy taxation will have on lower-income households. These should be as targeted as possible. Some of the most

[1] See ACCA (2018) *Tax as a Force for Good* (https://www.accaglobal.com/lk/en/professional-insights/global-profession/environmental-tax.html)
[2] See ACCA (2020) *Foundations for a Sound Tax System* (https://www.accaglobal.com/gb/en/professional-insights/global-profession/foundations_tax.html)

effective measures may be non-fiscal, such as direct lump sum compensation to lower-income households, improvements to the energy efficiency of existing homes, and creating affordable, sustainable housing stock.

Finally, meeting the EU's carbon reduction goals will require businesses to change not only their energy consumption, but also to make more fundamental changes to their business models. We would urge the Commission to consider broader policy incentives to encourage the scale-up of circular businesses, and the adoption of more local, less time-pressured supply chains. The reduction of labour taxation will, to some extent, help with this. However, this also needs to go hand-in-hand with public and private investment, and infrastructure improvements.