



20th Global Conference on Environmental Taxation
25-28 September 2019, Limassol, Cyprus

**RECENT TRENDS IN ENVIRONMENTALLY
RELATED TAXES AND SUBSIDIES:
THE ITALIAN OUTLOOK**

Andrea Zatti
University of Pavia, Italy



Deepening and widening

Green tax-based reform

Green fiscal reallocation

Environmental fiscal reform

Green budget shift

Green new deal

Revenue sources	Revenue use
Introduction of new green tax-based instruments	Reduction of more distortionary taxes and contributions derived from other sources, such as income, profits and employment
Revision of existing levies in order to better internalize negative externalities	Capital investments in infrastructures directed to environmental protection and promotion
Market creation through the auction of tradable permits	Eco-friendly innovation subsidies at the production or consumption level
Phase-out of special measures and subsidies that harm the environment	Explicit mitigation/compensation for categories affected more on the revenue side
Periodical evaluation and rationalization of environmentally-friendly subsidies in order to ensure their economic efficiency	Deficit and debt reduction

- Open and flexible mix of several elements, on both the revenue and the expenditure side
- Revenue neutral, budget neutral but also increasing or decreasing fiscal imbalances



Italy as an interesting case study (1)

- High debt country (132,2% out of GDP in 2018, 2nd highest in the EU-28) with strong fiscal consolidation needs
- High taxation country (total tax receipts 42.4% out of GDP in 2017, 6th highest in the EU-28)
- High weight of labor income taxes (2nd highest implicit tax rate in the EU-28)
- Low weight of consumption taxes (22° highest implicit tax rate in the EU-28)

Strong need to find growth-friendly and less distortive way to correct budget imbalances, reforming and optimizing both the revenue (*tax erosion working group*) and the expenditure side (*spending review*) of the public intervention



Italy as an interesting case study (2)

- Large use in the past of environmentally related taxes and subsidies for the attainment of wider economic and social objectives (see below)
- Energy taxation historically among the highest in the world (2nd implicit tax rate per tonne of oil equivalent in 2017 in the EU)
- Various exemptions and special treatment introduced in order to address for differentiated policy objectives

Strong need to assess existing instruments in the changing environment, evaluating their consistency and improving their environmental merit and, more generally, net welfare effect



Italy as an interesting case study (3)

Mixed environmental performance

(+)	(-)
Low energy/carbon intensity of the economy	High level of premature deaths due to poor air quality (particulate matter, ozone, nitrogen dioxide)
Fourth highest resource productivity in the EU in 2017	High degree of artificial land coverage and urban proliferation
Large and increasing share of renewable energy	Poor implementation quality of Nature directives
Good position in the EU 2017 Eco-innovation Scoreboard	Low level of implementation of the Urban waste water treatment directive
Good environmental performance of the new conventional fuel vehicles purchased	2° highest ownership rate of passenger cars in the EU
Front-runner in the implementation of the national plan for GPP	High concentrations of pesticides in surface-water examples

Source: Own elaborations on European Commission (2019), *The Environmental Implementation Review 2019. Country Report – Italy*.



Italy as an interesting case study (4)

- Many recommendations by international organizations (OECD, EU, EEA) to enhance an environmental fiscal reform
- Explicit commitment in important internal strategic documents/acts

The Fiscal Delegation of February 2014 included an explicit article (art. 15) on a green-oriented fiscal shift (new forms of environmental taxes and the review of energy excise duties according to the principles of the proposed reform of the ETD, reduction of elimination of tax expenditures harmful for the environment / reduction of income taxation, diffusion and innovation for low-carbon content product and technologies, financing of sustainable modes of consumption and production, revision of the financing of the production of renewable energy sources).

No comprehensive and fully aware implementation steps have been carried out

The National Strategy for Sustainable Development-NSSD (December 2017) explicitly provides for the promotion of an environmental fiscal reform

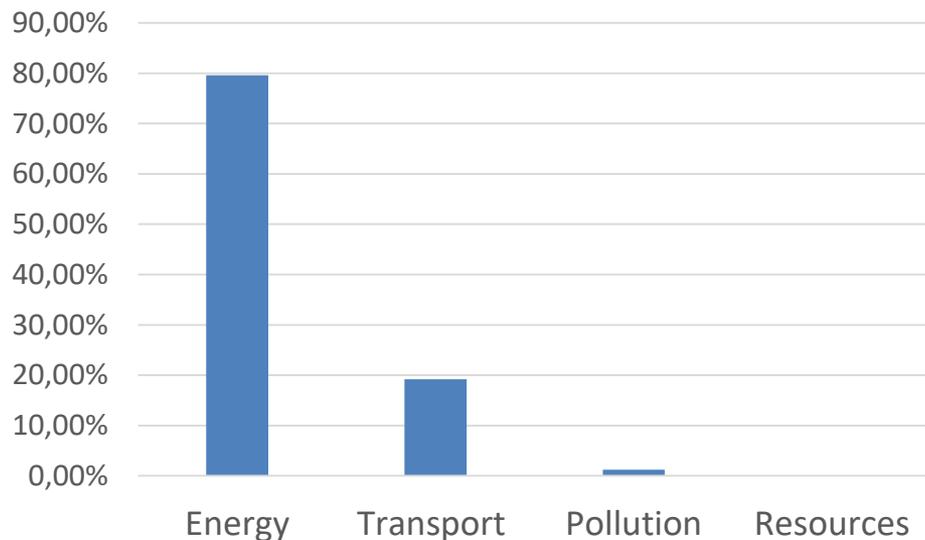
Green new deal Decree announced by the new Ministry of the Economy Roberto Gualtieri (19 September 2019)



Environmental taxes in Italy: the present situation

	% of total taxes and social contributions (2017)	% of GDP (2017)
Italy	7.85% (11th)	3.33% (6th)
EU-28	5.97%	2.4%
Euro area	5.72%	2.37%

Revenue breakdown of environmental taxes (2017)

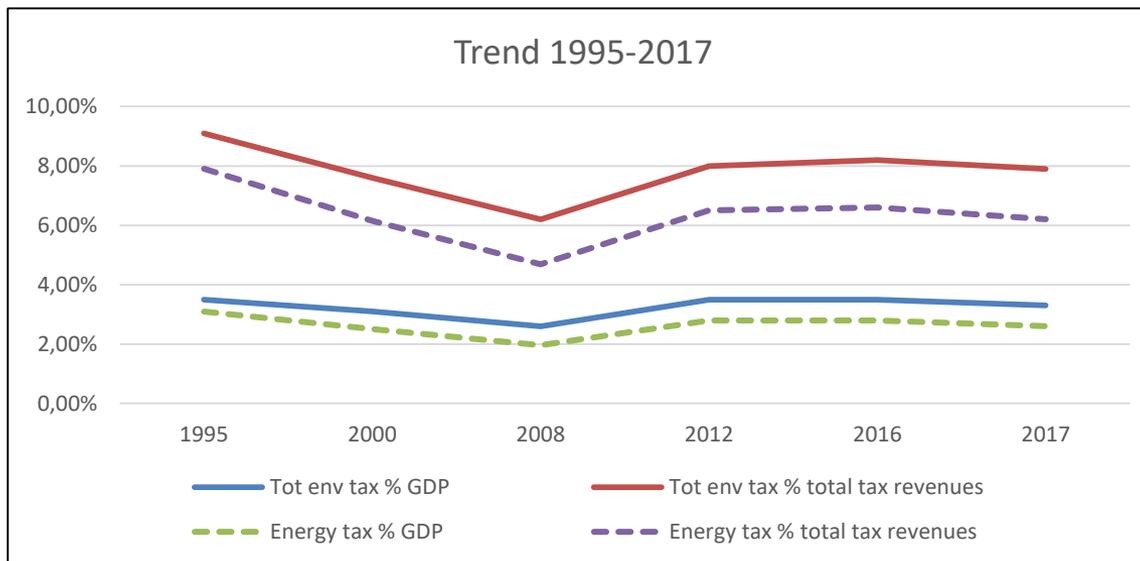


46% of total Env. taxes are transport fuel taxes

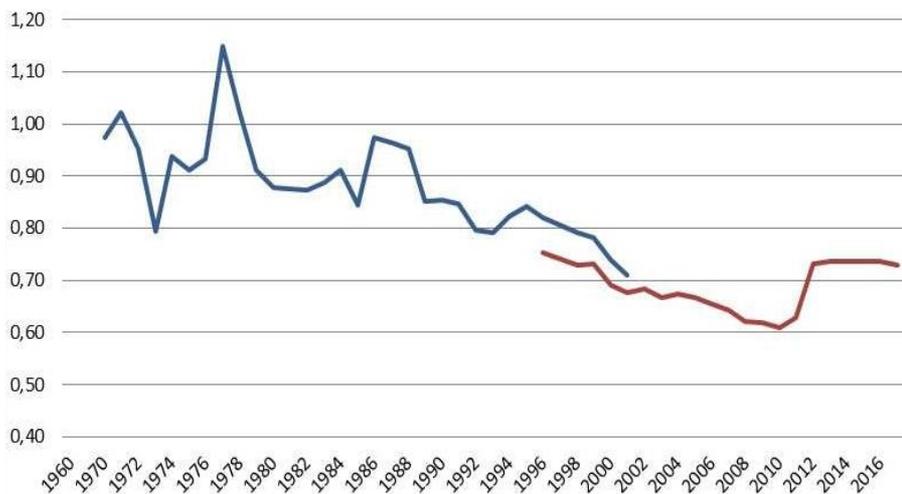
64% of total Env. taxes are transport related taxes (fuel + vehicle taxes)



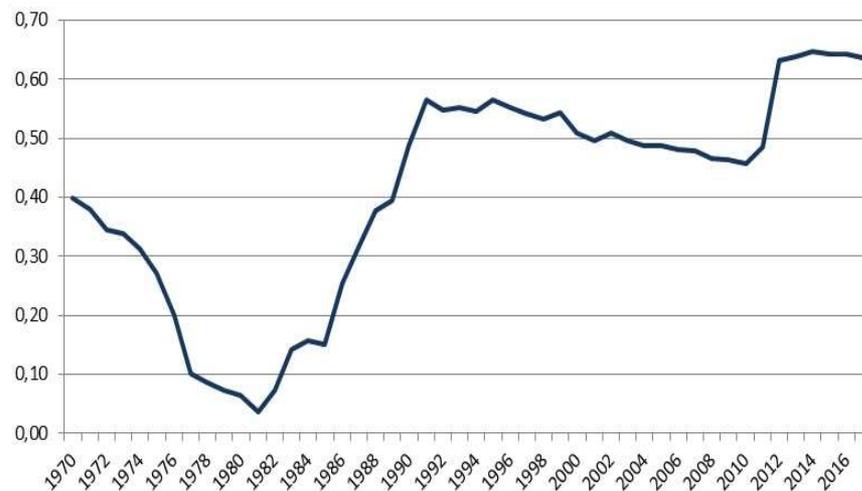
Environmental taxes in Italy: U-shaped evolution



Excise duties on gasoline (€ per litre. Real prices 2017)



Excise duties on diesel (€ per litre. Real prices 2017)





Environmental taxes in Italy: Main phases

The role of Env. taxes peaked in 1995 (9% of total tax revenues), triggered by the large use of energy and transport levies for mainly revenue raising purposes

Downward trend (1995-2008) mainly as a result of the absence of rate adjustments of energy/transport taxes in line with inflation

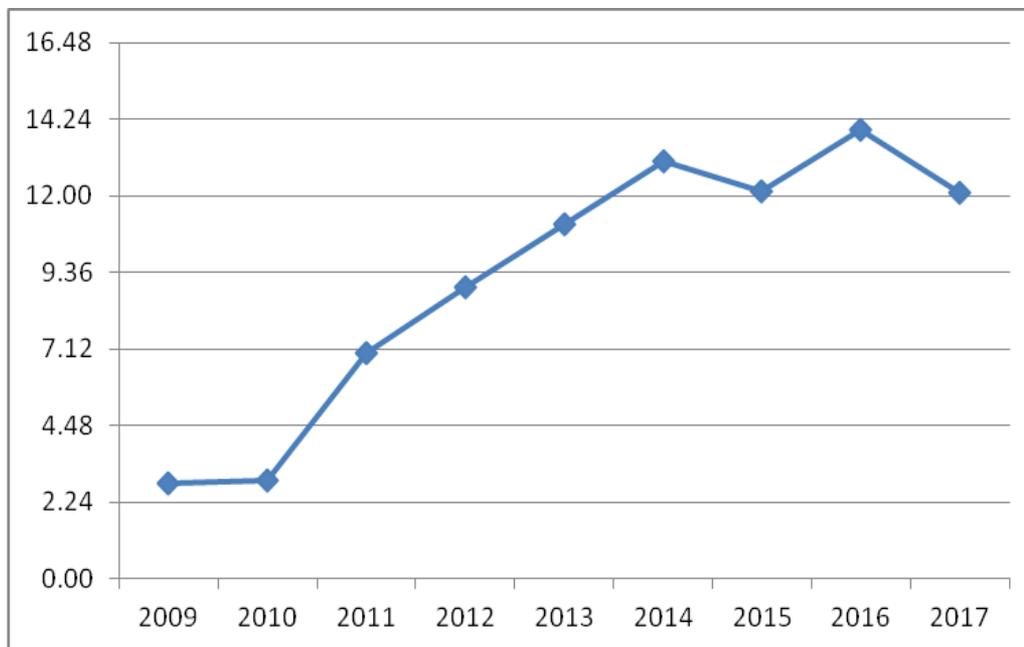
Successive climb (2009-2014) due to two key elements: *i*) fuel excises escalation (above all diesel) linked to strong fiscal consolidation efforts ('Manovra Monti') and *ii*) upward evolution of the financial surcharge included in the electricity tariff to support renewables (A3 component).

Stabilization/slight decline in the last period (2015-2017)



Environmental taxes in Italy: The role of the RESs support

Total cost of A3 component for supporting renewable sources (billion euros)

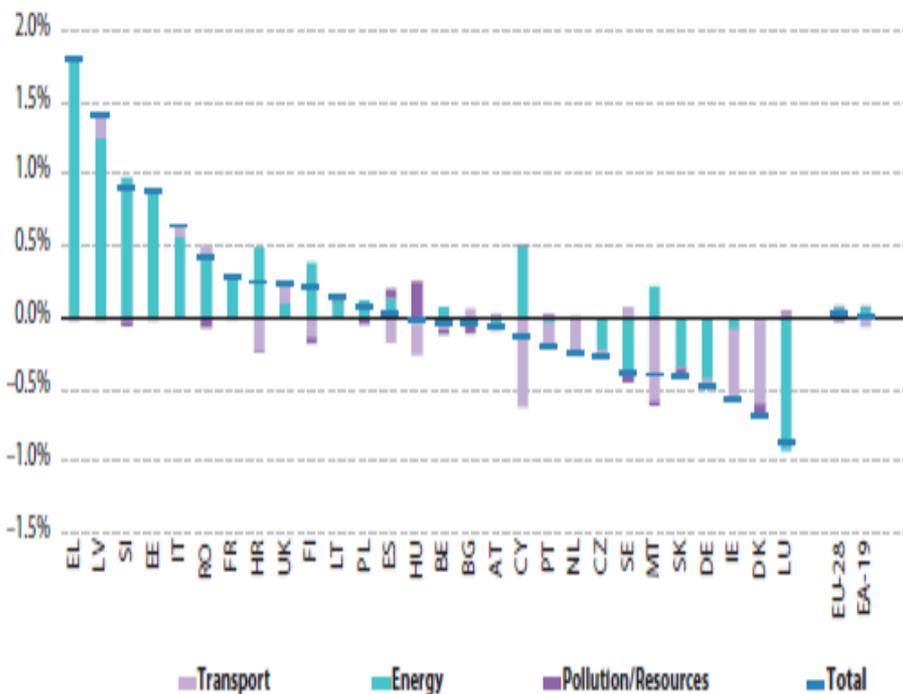


The so-called A3 component increased from €3.1 billion euro in 2009 to €14.3 billion in 2016: an evolution representing $\frac{3}{4}$ of the total increase of environmental taxes in current prices from 2009 to 2016

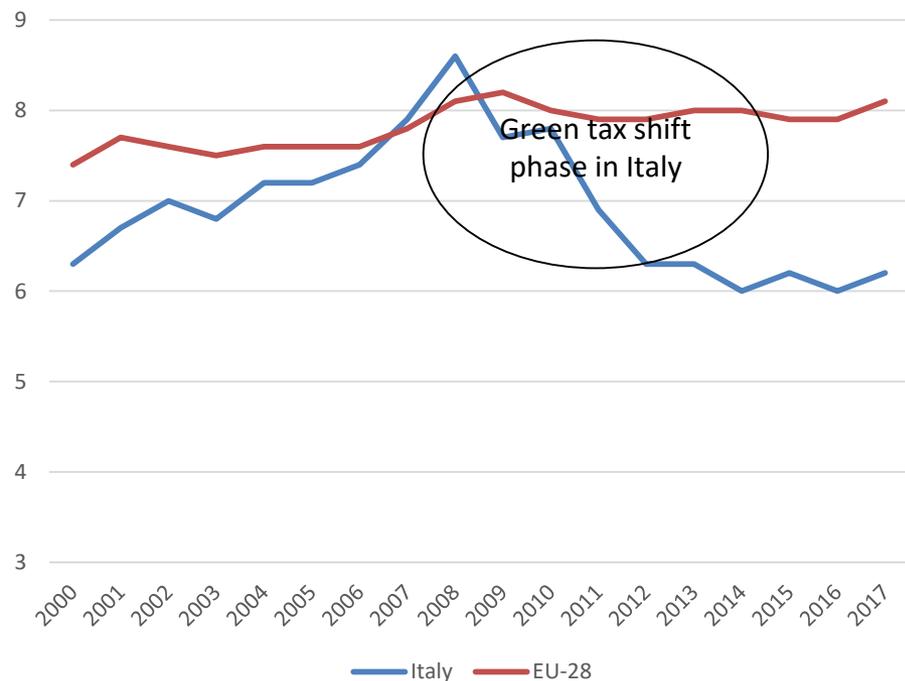


Environmental taxes in Italy: Green tax shift

Env. Taxes:
difference in % points of GDP 2006-2016



Labor taxation / environmental taxes (2000-2017)

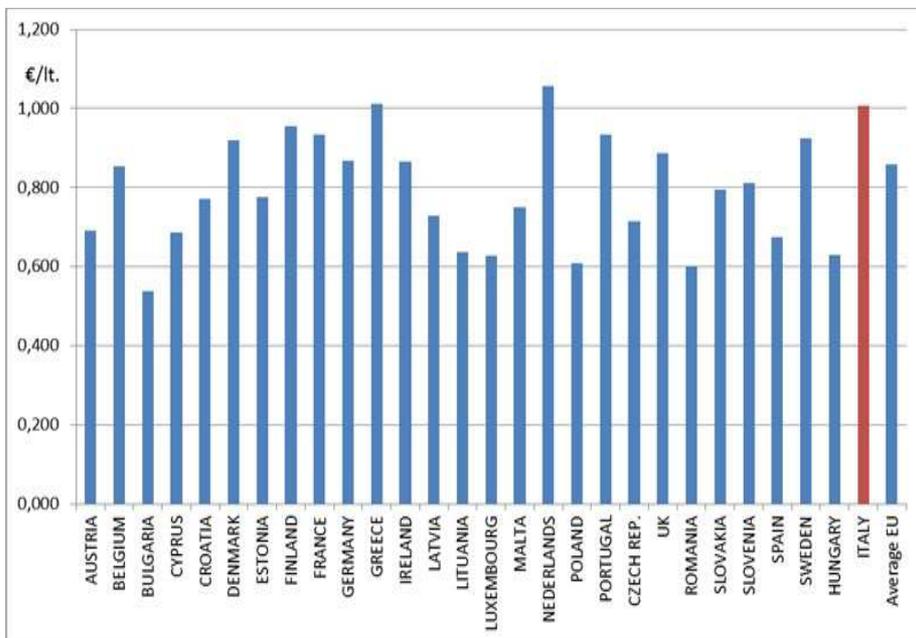


Source: Eurostat (2018)

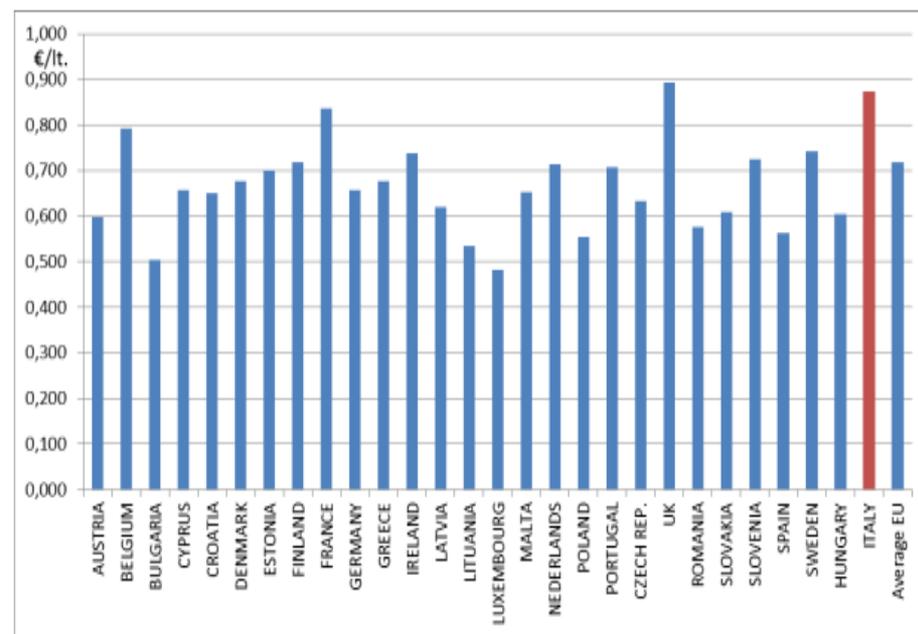


Excise duties on gasoline and diesel (2018)

Gasoline



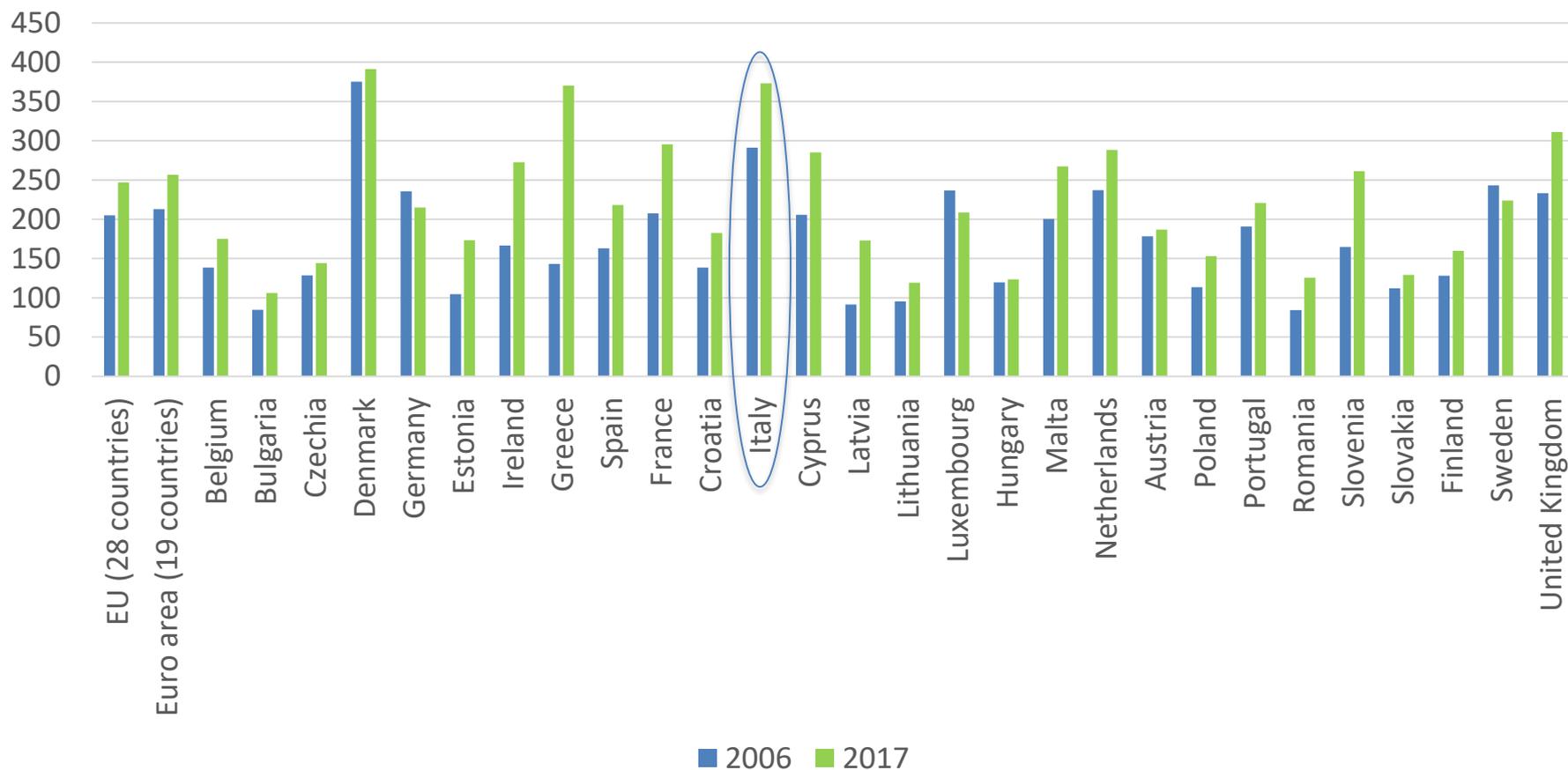
Diesel



Source: Italian Ministry of Environment, Land & Sea, 2018



Implicit tax rate on energy (deflated), 2006-2017



Source: Source: Elaborations on data from Eurostat (2019)



Environmentally related subsidies: Ongoing initiatives

Many international Think tanks and policy documents (G7, G20, EU, OECD, IMF, Agenda 2030) recommend national governments to phase out environmentally harmful subsidies (mainly fossil fuel subsidies) and, more generally, to reform inefficient subsidies.

Since 2011, in Italy, a working group on tax erosion started to analyze in detail tax expenditures within a specific Annex to the budget law (estimated provisional impact of 76.5 billion)

National Law 221/2015 established a «Catalogue of Environmentally Harmful Subsidies (EHS) and Environmentally Friendly Subsidies (EFS)» to be transmitted to the Parliament annually (Two editions delivered till now with 2016 and 2017 data).

Autumn 2018 : participation of Italy (coupled with Indonesia) to the G20 peer review on Fossil fuel subsidies



The Italian Catalogue: aims

- to contribute to a possible reform of the overall taxation system, according to the Polluter Pays Principle;
- to identify measures able to contribute to an environmental fiscal reform;
- to identify areas of possible reduction of fiscal expenditures in general;
- to begin a “gradual, although quick and well defined” path towards the elimination of environmental harmful subsidies;
- to improve the effectiveness and efficiency of environmentally friendly/uncertain subsidies.



The Italian Catalogue: main results (1)

	Financial effect (million euros, 2017 data)
EHS (FFS)	19,291.55 (16,807.03)
Uncertain	6,572.2
EFS	15,190.62
TOTAL	41,054.37

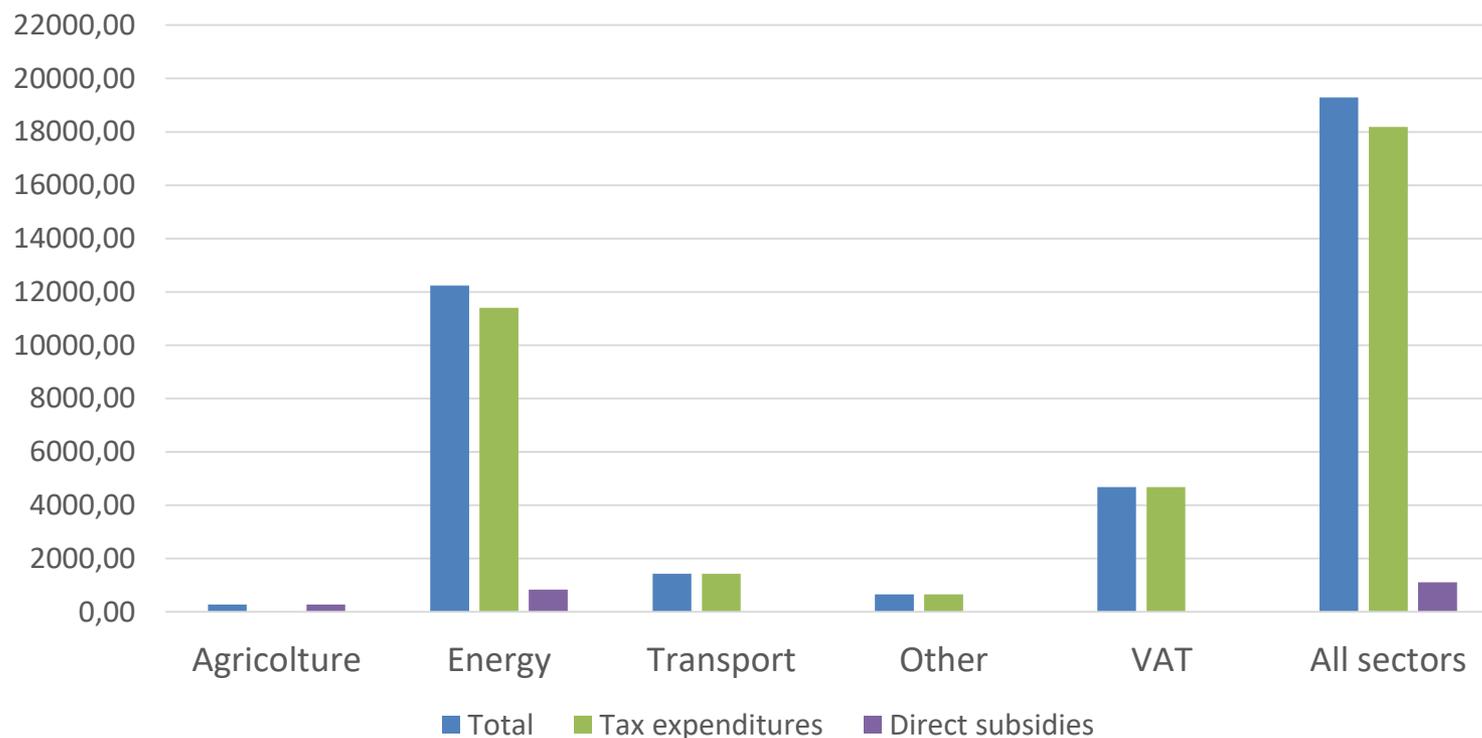
A work in progress

- 161 measures identified but many of them still to be quantified
- Direct subsidies and tax expenditures established by sub-national governments not quantified (but two case studies considered)
- Preliminary analysis of existing subsidies in the tariff system for the provision of public services (waste and water)
- Export credit guarantees to be deepened



The Italian Catalogue: main results (1)

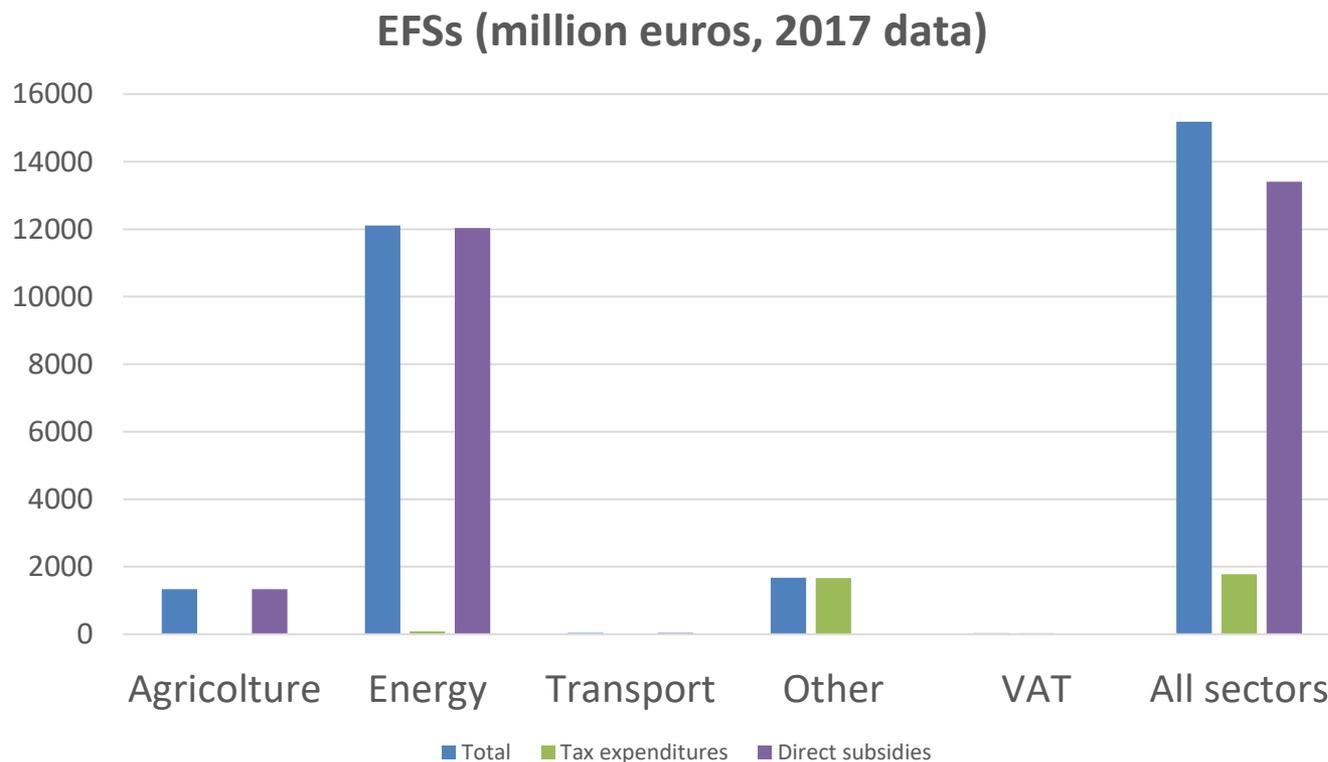
EHSs (million euros, 2017 data)



Nearly 94% of EHSs are tax expenditures, often introduced many years ago for social and competition-related purposes



The Italian Catalogue: main results (2)



EFSSs and uncertain subsidies are mostly (> 90%) direct on-budget subsidies



The Italian Catalogue: top values (2017)

EHSs

Gasoline /diesel Gap (4.9 billions €)

Excise and VAT reductions/exemptions on final users of electricity (3.8 billions €)

Excise duties exemptions for marine navigation and aviation (2.1 billion €)

Excise duties refund for freight transport (1.3 billion €)

Company car taxation (1.2 billion €)

EFSS

Support to renewable energy sources (12 billion €)

Tax relief for building energy refurbishment (1.4 billion €)

UNCERTAIN

Common agricultural policy (3.2 billion €)

VAT reduction for building refurbishment (1.4 billion)



The Italian Catalogue: some policy implications

- Wide margins for future green budget re-allocation initiatives
- The removal of EHSs is strictly linked to the reform of the taxation system and to the use of environmental taxes
- The improvement of the environmental and, more generally, welfare performance of EHSs (and also uncertain) should not be neglected (even because it is revenue neutral!)
- Selectivity and periodical ex-ante and ex post multicriteria assessment should be guiding tools for transparent and updated decisional processes



Selectivity at work

- Since 2015 the excise duty reduction on diesel used by freight has been applied only to the less polluting vehicles (Euro 3 or more)
- Since 6 July 2013, photovoltaic plants are not allowed to receive further support (2.7 billion € of savings by 2020 on the A3 component in energy tariff)
- Proposal for a differentiation of tax credits given to energy efficiency interventions for existing buildings according to their economic sustainability and environmental effectiveness



Future developments: the quantitative dimension

	Additional revenues from environmental tax reform
<i>Source</i>	<i>Billion euros</i>
Benchmark (9-10-11.2% of total tax revenues)	(8)-(15.5)-(24)
EEA (2011)	(8.5)-(32.8)
Eunomia et al. (2014)	29.7
Eunomia et al. (2016)	18.2
Zatti (2017)	(8.6)-(25.4)

High starting level of tax revenues and environmentally-related ones

Need to consider redistributive and political feasibility concerns (→ Compensation and mitigation measures, graduality)

Need to consider policy and behavioural changes (shrinking tax bases and revenue erosion, above all for energy and transport fuels)



Future developments: the qualitative dimension

- Better aligning excise duties on different fuels to reflect externalities
- Better reflect the environmental impact of different sectors of economic activities
- Act on numerous special tax treatments and refunds (air transport, company car taxation, professional freight and passenger companies, chemicals in agriculture, etc..)
- Integrate the different fiscal instruments applied to the same theme/sector
- Periodically revise incentive mechanism and EFSs in order to assess their environmental (and overall) efficiency



Future developments: two (pre)requisites

- Detailed and updated knowledge of existing instruments and of their effects (e.g. Italian Catalogue on EHSs and EFSs, Environmental Accounting, Tax expenditures review, Peer reviews efforts, etc.)
- Capacity to design and include re-allocative efforts within more general strategies for sustainable development in order to exploit synergies and taking account of potential trade-offs (e.g. BES exercise; SEA of budget plans and programmes).