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## FICHE 10

### ELECTRICITY TAX BASED OWN RESOURCE

#### 1. CONTEXT

Taxation on electricity already exists in all EU Member States. Taxation level is mostly decided by national governments and the accruing proceeds constitute national public revenue. EU legislation sets minimum levels of taxation and obligatory exemptions.

There are different types of taxes on electricity that can be implemented:

- Taxes on electricity production (eg. Environmental/pollution taxes);
- Taxes on the transport of electricity (eg. tax or levy on the use of public space);
- Taxes on the sales of electricity (eg. consumption taxes, environmental taxes).

The first two types of taxes are collected from electricity companies. The third one is paid by electricity consumers<sup>1</sup> (households and companies).

Consumers spend on average 6,4% of their total consumption on energy. In the context of the Energy Union initiative, the Commission has presented important proposals for redesigning the EU electricity market. It is expected to result in better, interconnections security of supply, more integrated and transparent markets, more choice for energy consumers and efficiency gains. A fundamental transformation of the electricity market should deliver tangible benefits for households and companies.

The upcoming 'Heating and Cooling strategy' is intended to reduce related electricity costs.

A common electricity tax at European level would be justified on the grounds that internal market integration benefits the production sector, and ultimately, consumers. In addition, current efforts at creating interconnected electricity grids would justify a more coherent taxation at European level. From the strict point of view of EU budget financing, the volume of such tax makes it an appealing candidate to finance a large share of revenue. The EU could also link this potential own resource to EU environmental and energy saving policies.

Most analyses seem to favour taxation on electricity consumption rather than production and transport, mainly for fairness and simplicity reasons:

- It is easier, less costly and more transparent to collect from consumers through the electricity bill. All consumers have already mandatory electricity bills, with taxes already included on it. An EU electricity tax could therefore appear clearly indicated in the bill for transparency purposes and EU contribution awareness. Additionally, the control of the usage and payment is already being done by the electricity companies, making this tax less prone to tax evasion.

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<sup>1</sup> The excise duties on electricity are normally paid to the budget by the distributor or redistributor of electricity which is normally the electricity supplier. The tax is billed to the final consumer.

- There seems to be proportionality between electricity consumption and income level. Richer regions tend to spend more electricity than poorer ones. Taxing consumers would therefore have a redistribution effect. However, this argument is challenged by some exceptions (higher consumption of electricity in northern countries due to higher heating needs, higher electricity consumption in industrial regions, consumption differences between electricity and substitute goods). At consumers' level, proportionality seems to be lower since poor households would suffer a bigger impact in electricity prices than richer households. These could require balancing or compensation mechanisms, both at European as at national level (subsidies and/or exemptions) which would lessen the simplicity and transparency of the tax.

## 2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

**1. Equity/Fairness:** An electricity tax on consumption would respect equity and fairness at macroeconomic level since the consumption trends seem to show that the level of electricity consumption is related to the level of income. The distributional impact of such tax, at national or even regional level, would have a clear equity and ability to pay dimension. At consumers' level, corrections or compensations to poorer households would need to be taken into account and if necessary, corrected. Harmonisation efforts would be very high for countries where such taxation is very low.

**2. Efficiency:** The collection of an electricity tax would be very efficient compared to other potential own resources. Current taxes on electricity are already efficiently collected by national authorities, via distribution companies. Moreover, because electricity is a basic consumption good and cannot be 'replaced' easily by another, such tax would not entail the similar trade-off between revenue generated and evolution of consumers behaviour than other polluter pays' schemes.

**3. Sufficiency and Stability:** The introduction of an electricity tax as an own resource could provide for a very large share of revenue depending on the share or percentage applied. The consumption levels of electricity seem to fluctuate according with the income levels of consumers, therefore having a similar volatility to the GNI.

**4. Transparency and Simplicity:** The collection of an electricity tax is simple, in particular if applied as a share or percentage of the total tax on the electricity bill. National authorities already collect tax on electricity and for transparency purposes the EU share could be made clearly visible as well on the consumers' bill. Complexity would depend on how the electricity tax is used as a policy tool (social policy e.g.) and the related tax reductions and exemptions. The design of the tax would therefore need to take these differences into account and provide exemptions.

**5. Democratic accountability and budgetary discipline:** No particular role on enhanced accountability or budgetary discipline.

**6. Focus on European added value and constrain narrow self-interest:** As consumers and actors of the EU internal market there would be a clear link between the beneficiaries of such space and the financing of the EU policies. It could also play a role in relation with the EU environmental and energy saving policies. However, in order to respect the Energy Union objective of electricity price reduction to EU citizens, an electricity tax would have to be implemented not as an additional burden in electricity taxes but as a shift from national tax revenues to EU revenue.

**7. Subsidiarity principle and fiscal sovereignty of member states:** As the collection of such tax already exists in Member States, the European tax could also be collected at the national level, similarly to the traditional own resources (custom duties and sugar levies). A new own resources decision, after adoption

and ratification by all Member States, would provide the revenue arrangements and the principle of transfer of such tax to the EU budget.

**8. Limit political transactions costs:** political costs would be high for a number of Member States because current EU legislation sets very low minimum levels of taxation and there are big differences between tax rates of MS. A minor tax increase for some (DK, DE) could be quite considerable for others (BG). Furthermore, despite the redistributive nature of the tax as identified in M. Konrad's paper, an electricity tax could also encounter hostility by high electricity consuming Member States and industries. Arrangements at national and/or EU-level would most probably be required to make such tax acceptable.

### **3. ADVANTAGES AND WEAKNESSES OF THE ELECTRICITY TAX-BASED OWN RESOURCE**

Depending on the design of the tax and the optional and obligatory tax exemptions or reductions, an electricity tax-based own resource charged on all consumers would be simple, fair and transparent. It would also be a stable source of revenue for the EU budget since it has a low volatility. Taxation at EU-level could also promote the harmonisation of electricity taxes in Member States, furthering potential gains of the internal market.

Such own resource would also create a link between some EU policy objectives on environment and energy savings and the financing of the EU budget, without entailing as much built-in risk for the stability of the own resource's proceeds as other polluter pays' schemes.

Weaknesses of such proposal would mostly concern political transaction costs, probably from industries and regions with high electricity consumption (although it is demonstrated that these correspond to richer regions, and thus would be equitable from a macroeconomic perspective) and from poorer households. The visibility of the EU share of the electricity tax should also be appraised in all its dimensions: transparency to tax payers would be ensured, but such presentation would highlight the costs of the EU, and not its benefits

### **4. ESTIMATE OF REVENUE FOR THE EU BUDGET**

The estimated revenue accruing from an EU electricity tax would depend on the share or percentage applied to the consumer's bill. It could vary from a fixed percentage to a progressive share (in case of link with an EU energy saving policy and/or to protect a minimum level of electricity without heavy taxation since electricity is an essential good).

As an example, the total revenues steaming from the application of EUR 0.03 per kWh tax charged to all consumers (households, services, transport, industry, etc.) would amount to EUR 81 billion.