

TAXATION OF ACTIVITIES WITH ENVIRONMENTAL IMPACT

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Abstract

The study has as starting point the need to stringent of taking position to establish financial responsibility for the environmental damages. Taxation of the activities with environmental impact is one of the tools used for achieving environmental objectives. Therefore necessity of balancing between the pressing need of environmental protection and the pressures engendered of the socio-economic need, the means by which this tool can be used as efficiently represents a particularly complex problem. It requires addressing the issues that in view the opportunity of using tax instruments absolutely necessary to be able to change the model of activities with environmental impact.

Keywords: environmental taxes, activities with environmental impact, tax instruments, difficulties.

JEL classification: Q 50, Q56.

1. Introduction

At present, the environmental policy faces some major changes which can be found in its objectives and priorities, but also in the number of its tools of implementation: legislative, technical and economic-financial, plus the set of "helping tools", which correspond to the new tendencies and strategies of protecting the environment.

The legislative environmental pack of the E.U. is recognized as being one of the most powerful in the world; it functions when it is applied and performed properly so that our environment would look completely different in its absence.

The environmental taxes and charges within the European Unique Market represent a way of promoting the use of fiscal tools in order to increase the efficiency of the environmental policy.

The incomes from these taxes and charges are added to the budgets of the states members and they can be used to finance the activities of protecting the environment, but also to reduce other taxes (working taxes). In this context, the strategy of the E.U. consists in:

- ✓ analysis and comparison of the experiences of the states members of the E.U. regarding the environmental taxes;
- ✓ knowledge and analysis of the economic and environmental effects of the taxes and charges that exist in the E.U.;
- ✓ monitoring these on the European Unique market and on the European competition, in order to appreciate the efficiency of these fiscal tools.

Even if the tax offers advantages for the society on the whole, this is not as advantageous for each individual polluter, so we can explain the behaviour that is sometimes hostile regarding them. In the conditions of the presence of contradictions between the collective welfare and the private interest, it is imposed that the tax should be a means of solving this litigation in the collective benefit.

In order to determine a tax we need to have knowledge regarding the taxable subject. On the one hand, there is pollution easy to follow, and when the measurement is difficult/ expensive it is required the taxing of products that give birth to these emissions.

Starting from the reality that the damages caused to the environment appear under the shape of external expenses – differences between the private expense and the social expense of the activities developed – there appears the necessity of covering them, or in other words operating the internalization of externalities, by making the payments of the external expenses by the polluters through taxes.

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In order to allow the acceptance of a tax, a certain number of conditions are required:

- ✓the progressive adaptation, without coercion, of the economic agents that pollute depending on the percentage of the tax (we exclude the substances with a high level of harmfulness);
- ✓the acceptance of residual pollution for which they pay a tax (less for the polluters that are required to be forbidden);
- ✓the more correct and faster update of the results obtained with the help of taxes.

The introduction of the tax needs an adequate informing of all the pollutant agents, as a certitude of the understanding of its need; at the same time with elaborating the environmental policy, it is required to be known the life cycle of the products, the possible techniques of production and the existing interchangeable products, the sources of emitting pollution, as well as the existing techniques to eliminate emissions and scraps. On the other hand, as we have already mentioned, as a consequence of the divergences appeared between economic agents, *the application of environmental taxes* involves major problems:

- ✓institutional baulks – need a stronger involvement from the authorized public institutions which, very often, are unable to put into practice the environmental taxes with the help of which the situation could be solved;
- ✓the opposition of private economic agents who identify the environmental tax as an attempt to supplement their expenses and a minus for international competition;
- ✓the lack of trust in the efficiency of taxes, as a consequence of a certain uncertainty over the results (taxing certain products – chemical products, fertilizers – a possible effect would be the reduction of their intensive use, but another side effect would be the support of an extensive agriculture, with major negative consequences: deforestation, using some marginal lands with forests in the conditions in which the farmers will not benefit of a indemnification for protecting the environment);
- ✓the identification of the environmental tax as a possibility of buying the “polluting right”.

The institution of a technique of fighting pollution requires investments and a reorganisation of production, it needs planning and reaction time.

Implicitly, it is possible to make a scheduled evolution of taxes under the shape of some known progressive growth, on a long term, but there are also taxes that cannot be announced (pollutants with irreversible effects, accumulations that are slowly reabsorbed into the environment).

We must also take into account the fact that the effects of the taxes come into prominence after some time after they have been introduced; it is required a reglementation or even some legal measures that would ban some dangerous substances, when they want a fast reaction from the economic agents.

Therefore, there appears the need that the fiscal tools should be predictable, as stable as possible, to allow to all those involved to dispose of investments in their fight against polluting the environment, the environmental taxes should come into prominence through a real transparency and a simple applicability into practice.

The environmental tax may determine, on the one hand, the growth of the price of the resources at their real cost (including the cost on terms of pollution, affecting people's health and so on) and on the other hand, they are also a way of collecting in an organised manner the resources that are necessary to financing some projects that aim at fighting against the harmful effects of human activities on the environment. We can state, without being wrong, that it is required the implementation and abidance of some effective policies of protecting the environment, which are dependent on the existence of a correct fiscality in the field of environment.

2. Taxing the activities that have an impact on the environment

Energy sources, especially fuels have recorded a constant growth of their price in the last few years. On the one hand, we consider the evolution of the main raw materials (petrol, coal and so on) and on the other hand, the cost of these resources is determined in a high measure by the quantum of the taxes applied to finite products, so that the source of these increases is given by the evolution of the taxes applied to these products (which are called environmental taxes).

The policies of taxing the activities with an impact on the environment represent, together with the Instruments Based on Market, one of the most effective tools through which the contemporary states may cause changes in the way of using and developing resources.

Taxing the activities with an impact on the environment includes taxes and compulsory payments towards the central government imposed to a taxing basis with a great relevance for the environment; they fit into the class – Instruments Based on Market (IBM) and they represent a powerful tool of transforming the pattern of using resources at a national level. The definition is used by the international organisations such as: The International Agency for Energy and the European Commission.

The existence of a concrete definition which includes the environmental taxes is difficult from various reasons: many of these taxes were created and imposed from different reasons others than those linked to the environment, and the beneficiaries of the incomes generated by these taxes are not always preoccupied by the environmental reasons; on the other hand, the level of some taxes was established without taking into consideration the effects on the environment caused by certain changes.

As a consequence, the modification of the definition on the type of activity that determines a certain fiscal obligation may have undesirable effects when the effects from an environmental point of view are neglected. In exchange, the exclusion from the definition of the taxes imposed, without an argumentation that would be linked to the protection of the environment or the taxes whose level is not established connected to their impact on the environment, determine the apparition of some quantification problems.

It is a common definition which pertains to the type of taxing basis and not to the utility/purpose of that tool. The most important taxing bases in this field are: the taxes of using resources, energy products, taxes for the storage of scraps, taxing emissions measured or estimated of pollutant gases or with a greenhouse effect, the engines of the vehicles. These do not generate a proportionality between the level of the taxes paid by the economic agent and the benefits that he will take the advantages.

The Value Added Tax (VAT) is not included in this definition. The cause is of the general character of VAT, it is a tax that is imposed (with certain exceptions) to any good and commercial service, generating neutrality from the point of view of the impact on the environment.

There is a large specter, both regarding to what these taxes represent and to the principles that we take into account when we analyse and establish if a tax will or will not be introduced in the category of environmental taxes.

Taxing the activities with an impact on the environment represents one of the tools used in accomplishing the objectives connected to the environment. As a consequence of the need of ensuring a balance between the stringent necessity of protecting the environment and the pression generated by the necessity of a social-economic development, the ways through which this tool can be used as effective as possible represent a very complex issue.

It is imposed the approach of the aspects about the opportunity of using taxing instruments that are absolutely necessary in order to be able to change the pattern of developing the activities with an impact on the environment. In addition, there must be displayed the arguments that support the use of environmental taxes combined with other tools based on market (IBMs) such as: pollution shares and licences (certificates), the incentives and subsidies intended for supporting certain activities, the diagrams of responsibility and compensation for activities with a higher degree of risk for the environment (researching and implementing technologies to change the consumers' habits), the tariffs for different environmental services (the collection and storage of household wastes). We have to mention and analyse rigorously, as a conclusion of what we have mentioned above, the main political obstacles met during the implementation of IBMs, including the arguments that are contrary the efforts of increasing the quantum of some existing taxes / introducing new environmental taxes.

The use of a certain combination of instruments based on market must obtain a good assessment of the real price of a resource; an important part of polluting and exhausting natural resources is determined by the underestimation of the real price of a good/service that we consume. In order to ensure the accomplishment, both of the environmental objectives and of the economic and social-political objectives, we use instruments based on market (taxes, tariffs or licences) that take into consideration the hidden expenses of the production and consumption of some goods/services, considering, on the one hand, people's health and on the other hand, the impact on the environment.

According to the European Environmental Agency, we identify:

- The environmental taxes created to modify the behaviour of the economic agents (they aim at changing the price of some resources), but also to increase the budgetary incomes;
- The environmental tariffs, in order to cover partially/totally the costs of the environmental services and of treating;
- Subsidies and incentives – their purpose is to stimulate the apparition and development of some new markets with goods and services connected to the environment: new technologies, changing the consumers' behaviour by supporting the aquisition of goods with a low impact on the environment, as well as to support the enterprises so that they could reach a high level of protecting the environment;
- The diagrams of guarantee and compensation were created in order to ensure an appropriate level of compensation for the damages caused by some activities with a high degree of risk on the environment;
- The certificates (licences) that can be transacted – the purpose of reducing pollution (for example emissions of CO₂) or the reduction of the intensity of the use of some resources (for example fishing share) by giving some economic incentives for commerce.

We can use, in a combination: the environmental taxes and the other IBMs together with other instruments of public policies (reglementations regarding the minimum standards, prohibitions for certain substances/technologies, reglementations regarding the minimum standards).

Hereinafter, to support ehat we have stated, we present a study which reflects the possibility of using a mix of instruments which would create a positive impact.

Table 1

Mix of instruments used to ensure a positive impact

Ways of combining the tools used	
1.	<i>The labelling system may generate the growth of the efficiency of the environmental taxes</i>
2.	<i>Subsidies for different projects combined with using the taxes on energy.</i>
3.	<i>The application of an environmental tax and a voluntary approach may have as a result a growth of the acceptability of the environmental taxes, as well as the reduction of the impact of these taxes on sector competition</i>
4.	<i>The application of an environmental tax and a system of licences that can be transacted – the result may consist in a reduction of the expenses of respecting the rules by the companies, as these are interested in the effective functioning of the system; such a combination may raise the problem regarding the efficiency of the taxes imposed to the activities with an impact on the environment.</i>

Source: OECD

- ✓ensures relevant information for the users – certain features of the product with an impact over the environment (for example: the system of classifying the home appliances depending on their energetic efficiency A-G);
- ✓for example: *subsidies* for projects of insulation of buildings *combined with using the taxes on energy* may represent a positive solution which ensures the creation of some different incentives for the owners and tenanats of buildings; combination which may represent the basis for the growth of investments for the thermal insulation of buildings;
- ✓for example: *the negotiated environmental agreement*

There are various possible combination in approaching the problems regarding the environment.

Another level of analysis and decision requires to apply these solution taking into consideration a series of characteristics: the country/region-specific, the specific of each industry, the type of pollution and so on.

3. Conclusions

There are numerous opponents and it is required to take into consideration the process of thinking and implementing the tools, *“Understanding the sources of opposition regarding the proposals of implementing new environmental taxes/ of growing the level of the existing ones represents a major condition in order to ensure the successfully implementation of such measures.”*

Using taxes as instruments of modifying economic and social behavior related to the environment faces difficulties, being accompanied by arguments such as:

a. the impact of environmental taxes on the economic competition at an international level

Creating and implementing taxing instruments that would generate possible modifications of the incentives for pollutants face important obstacles both at a national and at an international level; there are taken into consideration the expected negative effects that these taxes could have on the level of competition of some fields/economies at an international level.

In practice, the companies, the fields/countries with high environmental standards have not recorded decreases of the level of competition; by taking some measures at a regional or global level, we can make sure that no country is more or less affected compared to other countries.

A measure adopted determined that the states members would be imposed with legal obligations of measuring and limiting the emissions of greenhouse effect gases (at the same time with implementing the Protocol from Kyoto). At the level of the E.U., this system was completed by ETS, through which the pollution licences can be transacted at an interstate level (2005); the effects of this system will be felt only on a medium term. According to a study of OECD, "differentiation is in fact based upon the availability of companies to be opened at the signals transmitted by the imposition of some taxes, the subsidies that are given or the opportunities that are linked to the diagrams of transacting the pollution licences; this opening should allow the implementation of some investment plan that would limit the negative impact of the companies' activities on the environment".

b. the impact of environmental taxes on social inequality and distribution of incomes

The distributive effects of different environmental taxes represent a very important point. According to some recent studies, the environmental taxes, especially the taxes on energy are characterised by a regressive impact on the distribution of incomes. The introduction of some taxes for electricity consumption, water, storing and processing scraps determines the growth of fiscal burden at the level of the individual/family; in many countries, this fact represented an important argument to introduce differentiated prices. Another approach is the maintaining of unsubsidized prices at the same time with offering some help or reduced rates for the families characterised by a minimum standard of living. We have to underline the fact that it is required that these measures should be operated through the system of social insurances, so as the incentives system would function well and the possibilities of abuse would be limited.

We face with an extended range of rules, regulations, financial instruments, institutional structures which form into a barrier in implementing, on a larger scale, the environmental taxes, according to the data provided by the European Agency of Environment.

Some consider that the taxes should be high in order to be effective, a fact which would destabilize the strategic approach on a long term; at the moment of the implementation, low levels are required in order not to generate a major impact; after that, these taxes increase gradually, taking into account the capacity of adaptation of the economic agents' behaviour.

Others take into consideration the potential conflict between maintaining a high level of incomes and changing the behaviour of those aimed at; the authorities highlight the danger of decreasing the incomes cashed as a consequence of the implementation of a tax reform, even if we face the same situation but just on a short term.

There are conceptions linked to certain regulations, which limit the area of implementing some reforms in the system of taxes and subsidies; motivated from an economic/social point of view, the subsidies from certain fields: energetic (for example: the fossil fuels), agriculture (payments for productions and reduced excises for diesel), transport (allocation tax for commuters) that allowed that the price paid by the population would be a low one if compared to their incomes. These subsidies may generate a positive effect for that activity, but at the same time they underlie some structural inefficiency in using resources, with a negative effect on the environment. According to the study that we made, we can state, without being wrong that the environmental taxes take shape in a very complex field, on the one hand because of the multiple types of taxes that are in this domain, on the other hand because of using the taxes in combination with other IBMs, and due to the social, economic and political connotations of the reforms from this field.

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