Danish Experiences with Green Tax Reforms – and Lessons Learned

ENVIRONMENTAL FISCAL REFORM in Portugal
Perspectives, PURPOSE AND PROGRESS

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The Danish Ecological Council

EFR in Portugal - 19.4.2011
Why Green the Tax System?

- Taxation must also be a driver or innovation – green markets must be created both by strict minimum rules and standards but also by getting the right price signals.
- Doing the right thing must pay off – ethics are not the only nor the best instrument for saving the world.
- There actually is a double dividend.
Denmark has the Largest Variety of Green taxes in the EU

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Source: EEA, 2006
Environmental Taxes for Energy, Transport and Pollution/Resources

Revenue in % of GDP

Source: Taxation trends in the EU, Eurostat 2007

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Energy Taxes per GJ highest in Denmark

Source: Danish Ministry of Taxation

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Danish Green Taxes on Industry are Comparable with other EU Countries

Source: Taxation trends in the EU, Eurostat 2002 and own Calculations
The Danish Tax Shift in 1990’s

- Left Axis – Income Taxes in % of GDP
- Right Axis – Green Taxes in % of GDP

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There are Always Two Sides of a Tax Shift

- Revenue neutral and social balanced Green Tax shifts involves a two side approach

- **Front side** is the actual increasing of green taxes on energy and other things, that we do not want to be overused

- **Flip side** is the decrease of taxes on labour and the complimentary increase of social allowances etc. to balance the increased costs for low income families for e.g. energy

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Green Taxation was part of the 2001 Danish Election for Parliament

- The Social Democratic government did the tax shift from 1994 to 1998, and even did more than to neutralize the social impacts from the green taxes
- But they forgot to tell people about the positive flip side
- This made it easy for the Right wing opposition to take forward a campaign saying that green taxes will harm the poorest the hardest – promising a “Total tax freeze”
- Only seeing the front side will give a social unbalanced impression in the public
Green Taxation was part of the 2001 Danish Election for Parliament

- The Social Democratic Party lost the election
- The right wing government now introduced the “Total tax freeze” – because they in the election campaign had promised that no green taxes would (ever) be increased in order to defeat the Social Democrats
- This lead to an actual decrease in Danish Green taxes for 8 years – and the trend just changed in 2009
Level of Danish Environmental Taxes
1990 – 2010

Source: Danish Ministry of Taxation

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Lessons learned from the Tax Shift

• Massive information is needed to highlight Invisible flip side for the social balance of a tax reform
• Information depends on the possibilities to use the tax system for social balancing reasons
• If you just need more taxes, you must explain that introducing new green taxes makes it possible not to increase other taxes
• Loosers will cry out - you must show the future winners

Very important and very difficult
Important to note:

- Green taxes are better socially balanced than VAT.
- Green taxes on cars and car use are socially balanced.
- The documented double dividend – obtained by the correct use of the revenue - will make green tax shifts beneficial for the overall national economy.
- Green tax shifts also promote energy efficiency, less pollution and less use of resources.
- Green tax shifts create jobs.
- Everybody can reduce their tax by consuming green.
New Trends in Denmark

- A total phase out of fossil fuels by 2050 in Denmark is politically agreed by parties.
- Shifting from e.g. coal to biomass means potential loss of tax revenues.
- Denmark cannot anymore afford to loose tax revenues from green taxation.
- This means a likely introduction of a “Security of Energy Supply Tax” – on all fuels including biomass.
- Governments may come and go, but the need for tax revenues stays.

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Danes Support a Green Tax Shift

Question: Do you Support Increasing Green Taxes if a Similar Reduction in Income Taxes are done?

Source: Climate Opinion Survey - June 2010 by CONCITO
Thank you for your attention

www.ecocouncil.dk
Green Tax Reforms have Double Dividend and Create Jobs

CHART 7.4: THE EFFECT OF ETR ON GDP

Note(s): % difference is the difference between the base case and the counterfactual reference case.
Source(s): CE.

Source: The COMETR Project – Michael Skov Andersen, 2007
Distribution of Danish Energy Tax revenue

In 2010 = 5.4 billion Euros

Source: Danish Ministry of Taxation

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Level of Danish Environmental Taxes
1970 – 2010

Source: Danish Ministry of Taxation

Green Taxes in % of GDP

Danish Green Tax Reform
1994 - 1998

Danish Tax Freeze
2002 - 2008

Source: Danish Ministry of Taxation

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