SUMMARY

This research report provides an update of the MIRA studies of 2004, 2011 and 2013 on the greening of the tax system in Flanders. The study develops and updates indicators for measuring the greening of the tax system for Flanders. Since many of the fiscal competences in Belgium are at the federal level, we study the taxes that apply in Flanders, thus including both Flemish and federal tax measures.

Before providing the update of the indicators, an overview is given of the most important reforms that have taken place in Flanders in the field of environmental taxation. Five tax measures are discussed: the federal tax shift (2015-2015), and on the Flemish level the Increased Contribution Energy Fund (better known as the ‘Turtel tax’, 2016), the reform of the car registration tax (BIV, 2012 and 2015), the reform of the annual circulation tax (2016) and the introduction of the road pricing system (kilometer charge) for trucks (2016).

In the next part of this report two types of indicators are developed and calculated for Flanders: revenue-based indicators and tax rate-based indicators. The revenue-based indicators have the advantage that they can easily be added up, the evolution in time is easy to follow up, and they are very suitable for international comparison. However, they also have an important drawback: the tax revenues are partly determined by the quantity of pollution. More pollution leads to higher tax revenues, and this could (wrongly) lead to the conclusion of a greening tax system.

The second type, the tax rate-based indicators, responds to this weakness: if the tax rate of an environmentally related tax goes up, this is really a sign of a greening tax system. However, tax rate-based indicators also have a downside: tax rates, or prices, cannot be added up with each other. Therefore, to develop aggregated tax rate-based indicators, we will convert the tax rates into an index.

The revenue-based indicators are calculated until the data year 2014, while the tax rate-based indicators can be updated until the current situation (December 2016).

The six revenue-based indicators that are discussed in the report are:

1. total revenues from environmentally related taxes;
2. division of the revenues according to the category (energy, transport, Flemish environmental levies, federal ecotaxes);
3. revenues from environmentally related taxes as a percentage of GDP;
4. revenues from environmentally related taxes as a percentage of total tax revenues;
5. the ratio of environmentally related tax revenues to labour tax revenues;
6. revenues from environmentally related taxes per sector and division between households and firms.

The discussion on the tax rate-based indicators includes the following eight indicators:

1. individual tax rates on diesel and petrol;
2. aggregated tax rate-based indicators on energy;
3. aggregated tax rate-based indicators on transport;
4. aggregated tax rate-based indicators on Flemish environmental levies;
5. global aggregated tax rate-based indicators;
6. tax rates as a proportion to the end price;
A conclusion from the analysis of the revenue-based indicators is that the total revenues from environmentally related taxes (in real terms) has hardly changed in the past fifteen years. Within the EU, this means that Flanders and Belgium have always been laggards in terms of the use of green taxation, and this conclusion has not changed recently. Thanks to a number of newly taken measures, such as the increased contribution Energy Fund and the road pricing system for heavy goods vehicles, the revenue-based indicators can be expected to go up in the next few years. Another observation is that households pay about 53% of all environmentally related taxes in Belgium, and companies pay 45%. Since 2010, a small shift of the tax pressure to the disadvantage of the households has taken place.

The analysis of the tax rate-based indicators tells us that it is particularly the increased contribution Energy Fund (the so-called ‘Turtel tax’) has considerably increased the tax rates on energy use (by households). The tax rate-based indicator for transport shows a small increase in 2016 due to the introduction of the road pricing system for heavy goods vehicles. If we look at the percentage of the tax in the final price of the product, again the increased contribution Energy Fund is the eye-catcher, as it has increased the percentage for electricity for households from 3.5% to 16.3% of the final price. Although still much lower than the transport fuel tax rates, this change can be considered as a major deviation of the trend.

Next to the two types of indicators, this study also maps the so-called ‘tax expenditures’, which are reductions and exemptions that apply for environmentally related taxes and which potentially hollow out their environmental impact. We have made up an comprehensive inventory of all reductions and exemptions that apply in Flanders, and we present a separate sheet for each tax and each tax expenditure.

The conclusion of the study on the greening of the tax system in Flanders is different from the previous editions. For the first time, we can conclude that Flanders has gone through a wave of fiscal greening in the period 2015-2016. Part of the tax measures were decided because of budgetary necessity (Increased Contribution Energy Fund), but in most cases the green reforms were implemented because of environmental reasons. This could be an indication that Belgium and Flanders are finally responding to the persistent calls from international organisations to green the fiscal system.

\[ (7) \text{ implicit tax rates on energy and transport;} \]
\[ (8) \text{ effective carbon rates on } \text{CO}_2. \]