

## EU Tax Symposium 2023 – Minutes of Parallel Session 2, 24 October 2023

### *“The role of behavioural taxation”*

**Parallel Session 2** focused on *“The role of behavioural taxation”*. Behavioural taxes typically encompass environmental taxes targeting energy, transport, resources, and pollution, and health taxes, including taxes on alcohol, tobacco and food high in fat, sugar, and salt (HFSS) such as sugar-sweetened beverages (SSBs). More generally, any tax which aims at inducing a change of behaviour on any activity that generates (negative) externalities can be deemed a behavioural tax. While the current picture on the revenue raised by behavioural taxes is mixed, the structural changes and the challenges faced by our economies and societies call for greater consideration of their utility. Panellists exchanged views on the economic rationale behind behavioural taxes, design options as well as their role in the future policy mix.

The panel, moderated by **Elisabeth WERNER** (Deputy Secretary-General for Policy Coordination, Secretariat-General, European Commission), was composed by:

- **David SURY** (Director-General for Environmental Protection, Ministry of Environment, Czechia)
- **Erich KIRCHLER** (Psychologist and Professor of Economic Psychology at the University of Vienna and Institute for Advanced Studies, Vienna)
- **Niall CODY** (Commissioner, Revenue, Irish Tax and Customs Administration)
- **Manal CORWIN** (Director of Centre for Tax Policy and Administration, OECD)
- **Mohammed CHAHIM** (Member of the European Parliament & Vice-President of the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament)

**Elisabeth WERNER** opened the panel by providing an overview of the state of play. Behavioural taxes currently provide a stable albeit small share of the total tax revenue. She then highlighted the strong link between behavioural taxes and public policies with European dimension, as well as the need to rethink their role in the future tax mix.

During the introductory remarks, **David SURY** shared the positive experience of Czechia in using taxation, among other measures targeting both production and consumption, to address behaviours for the protection of the environment, and notably those regarding plastic use and waste (landfill). He insisted on the importance to balance out taxes with financial incentives to maximise the behavioural effect.

**Erich KIRCHLER** underlined that behavioural insights are particularly important and relevant in designing taxes. For behavioural taxes to work, people must collaborate. This can only happen if authorities build trust in what they do and the way they exercise their coercive power. Another element for a behavioural tax to be effective is the targeting of the motives or behavioural drivers, which evolve over time. There can be different effects due to the diversity of human nature.



# TAX SYMPOSIUM

**Niall CODY** shared the perspective of the Irish tax administration. Building on the example of tobacco taxation in Ireland, he explained that while excise duty was traditionally motivated by raising revenue, most recent measures have a stronger focus on changing behaviours. For instance, the introduction of a tax on plastic bags in Ireland led to a reduction in their use by 90% over 20 years. **Niall CODY** then emphasised that from a tax administration point of view, the tax should be charged early in the supply chain and should be set on objective criteria, e.g. food labelling for SSB tax. It should be easy to collect, and hard to avoid. He recommended increasing digitalisation to ease enforcement and compliance. He added that the cooperation between public health, environmental and tax agencies is crucial.

Reacting on the future role of behavioural taxes, **Manal CORWIN** highlighted the importance of constant evidence-based readjustment of the scheme towards the pursued objectives, looking at their impact on revenue, on behaviours, with consideration of distributional effects. There is a role for international cooperation in the form of setting a minimum standard, with a view to achieving collective goals. She added that policy makers tend to assess success based on revenue considerations, while such taxes should be seen as behaviour shifting factors as well as generators of new investment opportunities.

Both **Mohammed CHAHIM** and **Niall CODY** agreed and insisted on the fact that effective taxes targeted at behaviours become irrelevant from a revenue perspective, but this can be defined as success since the main policy objective is achieved. **Niall CODY** added that total costs should be considered, being mindful of the balance between the cost to administer the tax and the revenues obtained, particularly when behaviours change. He gave the example of Ireland's plastic bag levy.

Asked about of the areas where behavioural taxes could be recommended, **Mohammed CHAHIM** advised to look at both supply and demand. He also underlined the importance of considering how different income groups are affected. In the Netherlands for instance, a "pay as you go" road tax is discussed to steer drivers towards clean mobility. However, low-income households have no alternative thus may end up being disproportionately impacted. To effectively drive behavioural changes, sustainable alternatives must be available and accessible. Reacting to this point, **Niall CODY** referred to the introduction of the SSB tax in Ireland, with tax rates tiered according to sugar levels. A key result was the reformulation of products by the industry toward lower sugar beverages, by anticipation of the tax.

Prompted by a question from the audience (Ana DOURADO, Director, European Economics and Fiscal Law Research Centre) on the allocation of tax revenue, **Erich KIRCHLER** confirmed that earmarking could increase acceptance. However, earmarking could also serve as a justification for continued undesired behaviour. Consumer information and price transparency should accompany the introduction of behavioural taxes, to improve people's perceptions.

Building upon a question from the audience, **Elisabeth WERNER** asked for panellists' views on whether behavioural taxes should be aimed at influencing consumers or producers (upstream or downstream). **Manal CORWIN** replied that those two are interdependent, while the impact on consumers may be limited by the partial absorption of the tax by industry. **Erich KIRCHLER** added that, while behavioural insights work better if addressed to individuals, the introduction of a behavioural tax creates a reputational risk on the production side. **Mohammed CHAHIM** complemented these words by explaining

that first movers among industry players may gain a competitive advantage, as seen with companies investing into sustainable technologies in the context of the EU Emission Trading System. He also emphasised that pricing externalities can also be a challenging task.

**Elisabeth WERNER** further asked about the opportunity for EU level intervention. **Niall CODY** underlined the importance of information exchange and a common supply chain analysis. Tax systems and procedures should be adjusted to reflect new types of transactions in a global and post COVID-19 pandemic world. **David SURY** called for the harmonisation of taxation on the use of plastic, encompassing all stages of the supply chain. **Mohammed CHAHIM** expressed support for a coordinated approach to the interaction between positive and negative taxation, as well as EU-level action against harmful subsidies.

A participant commented that, although behavioural taxes are expected to have a bigger role to play in the future, they can individually be seen as volatile due to the need to adapt their scope and design over time due to inherent erosion of the tax base, as highlighted by the panel. **Manal CORWIN** confirmed that in her view, taxes should evolve constantly as the world evolves, and they should be directly connected to relevant public policy objectives. This should be balanced out with, according to **Mohammed CHAHIM**, the need for predictability.

The panelists then discussed the role of taxation versus regulatory approaches and compared their effectiveness and efficiency. **Mohammed CHAHIM** underlined that a combination of policy instruments is most effective at tackling a policy issue, building on his experience with environmental measures. He nonetheless added that product bans can only be effective when alternatives are available on the market. **All panelists** supported an approach based on the mix and sequencing of a range of policy instruments to maximise effectiveness on behaviour change. **Erich KIRCHLER** warned against the risk of seeing bans backfiring, as they may be seen as more paternalistic.

Prompted by a question from the audience, **Mohammed CHAHIM** underlined that consideration should be given to where to levy the tax, which was echoed by **Niall CODY**, i.e., at which level of the supply chain or production stage, and what would be the resulting impact on the final consumers. **Mohammed CHAHIM** also stressed the need for urgent action considering key societal challenges, despite the current inflationary environment.

Finally, **Elisabeth WERNER** invited panelists to share some concluding remarks on their main takeaways from the discussion with a focus on policy implications. **David SURY** called for consideration of business taxation in accordance with the polluter pay principle. **Erich KIRCHLER** insisted on the signaling effects of taxes in steering behaviours, while transparency is important to maximise the behavioural effects. **Niall CODY** underlined the key role of tax agencies in collecting tax revenue and fighting against fraud and called for further cooperation at EU and international level for information exchange. **Manal CORWIN** summarised her previous interventions by insisting that behavioural taxes require careful design and constant evaluation. She concluded that international cooperation is key to maximise the effectiveness of fiscal intervention, as policies can be constrained by international externalities. **Mohammed CHAHIM** recommended to accompany taxation with an analysis of product requirements, while looking at shifting production patterns, to achieve policy objectives while safeguarding competitiveness and growth.

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# TAX SYMPOSIUM

In her concluding remarks, **Elisabeth WERNER** stressed that while all taxes have a behavioural effect, a consensus seemed to emerge on the fact that there is room for more specific taxes targeting defined products or activities considering current societal challenges and that behavioural taxes can play a role in the tax mix. Taxes aimed at changing behaviours need to be carefully designed, keeping in mind the need for alternatives to be available. Specific product taxes as we know them may need to be redesigned to maximise the behavioural effect. The level at which they need to be levied should be duly considered. She took away from the panel discussion that notably because of their link with externalities and EU policies in these areas, there is clearly a role for the EU in promoting and coordinating the use of taxes to shape behaviours towards common objectives.