5. Environment and the economy

5.1. *Response indicator*: Environmental taxation: share of environmental taxes in total tax revenue compared to taxes on labour 2005-2006-2007 (percentage)

Environmental taxes are an efficient market-based instrument to achieve environment policy objectives. Notwithstanding efforts in some Member States to make effective use of this policy instrument in recent years, the EU share of environmental taxes in total tax revenue decreased slightly in both 2004 and 2005, reaching 6.4% in 2006. At the same time the share of taxes on labour also decreased slightly (from 50.1% in 2004 to 49.1% in 2006).

Member States make very different use of environmental taxes: e.g. in 2006 the share was more than 10% in Denmark, the Netherlands and Malta, while it is less than 6% in Belgium, Spain, France, Sweden and Austria. During 2005-2006 trends were also different among countries: Latvia accounted for the greatest decrease in the share of environmental taxes (from 9.2% to 7.9%), while in Denmark the share increased (from 11.5% to 12.2%).

The graph below shows changes in the share of environmental and labour taxes in total tax revenue in the Member States since 1995.

Some countries considerably changed their tax structure between 1995 and 2006. Several Member States redirected taxation from labour to environmental impact (Austria, Bulgaria, Denmark, Estonia, Latvia, Germany, Poland and the Netherlands), while other countries followed the opposite direction (Italy and Greece).

Some Member States lowered both environmental and labour taxes as a share of the total tax revenue, i.e. Cyprus, Ireland, Malta, Romania and Spain. Only Lithuania and Slovakia increased the shares of both taxes in the period 1995-2006, although since 2000 they have redirected taxation to a greater or lesser extent from labour to environmental impact. Some countries have reduced the share of environmental taxes, while keeping around the same level of labour taxes (Czech Republic, France, Luxembourg, Portugal and United Kingdom), while others have kept the same share of environmental taxes, but have reduced labour taxes (Belgium, Sweden and Finland). Slovenia increased environmental taxes but kept labour taxes at the same level while Hungary remained stable overall. The EU as a whole lowered shares of both environmental and labour taxes over the period.