

ENERGY AND CLIMATE PROPOSALS IN THE SPANISH WHITE BOOK ON TAX REFORM

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Overview

In March 2022 an academic committee on tax reform, created by the Spanish government one year earlier, presented its report (white book) to the Minister of Finance. The report is available (in Spanish) in https://www.ief.es/docs/investigacion/comiteexpertos/LibroBlancoReformaTributaria_2022.pdf. The committee and white book were part of the Spanish commitments towards EU institutions within the Recovery and Resilience Facility, which involves a vast amount of resources for the post-COVID recovery strategies in Spain, and dealt with the main challenges of the Spanish tax system in the 21st century. The committee was required to pay a special attention to the environmental and energy domains, providing a diagnosis and proposals (with the proper foundations and assessment). Indeed, a sizable part of the white book is devoted to environmental taxation and, within it, to reforms in the area of electricity generation and transportation. This presentation summarizes the results of the work in energy and climate matters of this committee by one of its members. The paper emphasizes the guiding principles of the work of the committee in this area: environmental effectiveness, adequate integration with other existing policy instruments, and consideration of their distributional impacts and compensations.

Methods

The white book provides a theoretical foundation for its environmental proposals and also presents an environmental, revenue and distributional assessment of the impacts of the proposed reforms. Such (partial-equilibrium) empirical evaluation considers behavioral reaction to the tax and employs official energy and environmental data together with information from the Spanish household budget survey.

Results

Although there is a large heterogeneity in the committee's environmental tax proposals, those in the energy/climate domain generally show a remarkable environmental effectiveness, even in the short term, with sizable revenue capacities and corresponding distributional impacts. The white book also shows that regressive distributional impacts can be compensated, at limited revenue cost, for households in the lowest income deciles.

Conclusions

The white book on Spanish tax reform suggests that taxes on the electricity domain should just focus on externality corrections, thus eliminating barriers to electrification and decarbonization. On the other hand, the report indicates that significant actions should be taken to mitigate transport-related externalities (mostly related to emissions and congestion), with a sizable increase in the number and level of taxes on fuels and vehicles. The book actually suggests a combination of such tax decreasing and increasing proposals to achieve the desired environmental, fiscal and distributional outcomes.

References

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