

Sustainability of the taxation systems in the EU



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Change of economic model

1. Taxing for growth – current economic model
2. Covid crisis – opportunity to change the paradigm
3. **Taxing for sustainable growth** – new sustainable economic model





Sustainability gaps in EU Member States' tax regimes

1. High and increasing weight of labour taxes
2. Decreasing importance of Pigovian taxes
3. Intense tax competition including profit shifting
4. Tax compliance and tax fraud
5. Decreasing progressivity of tax systems





Objectives

We propose a **general concept of tax system sustainability.**

We develop a **model for evaluation and measurement of sustainability** of the tax system applicable across the EU countries.





Literature

A lack of literature focusing on tax system sustainability

- **Concept of Sustainability** based on the **principle of inter-generational equity**. Brundtland (1987), Asheim (1994), Becker and Jahn (1999), Barlett (2002).
- **Multi-dimensional view of sustainability**. Brundtland (1987), McKenzie (2004), Talbert, Cobb and Slatery (2006), Stiglitz, Sen and Fitousi (2009),
- **Taxation policy and tax system sustainability**
.....?





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Literature

Taxation policy and tax system sustainability

...?

Literature usually mentions the **role of taxes** in keeping **fiscal sustainability**. Thompson (2002), Shick (2005), Merola and Sutherland (2013)

..or it deals with issues of **fair taxation, equality in taxation**. Stahel (2013), Beck (2015), Ooghe and Peichel (2015),.





Definition of tax system sustainability

Due to lack of literature, original definition of sustainability of the tax system is needed.

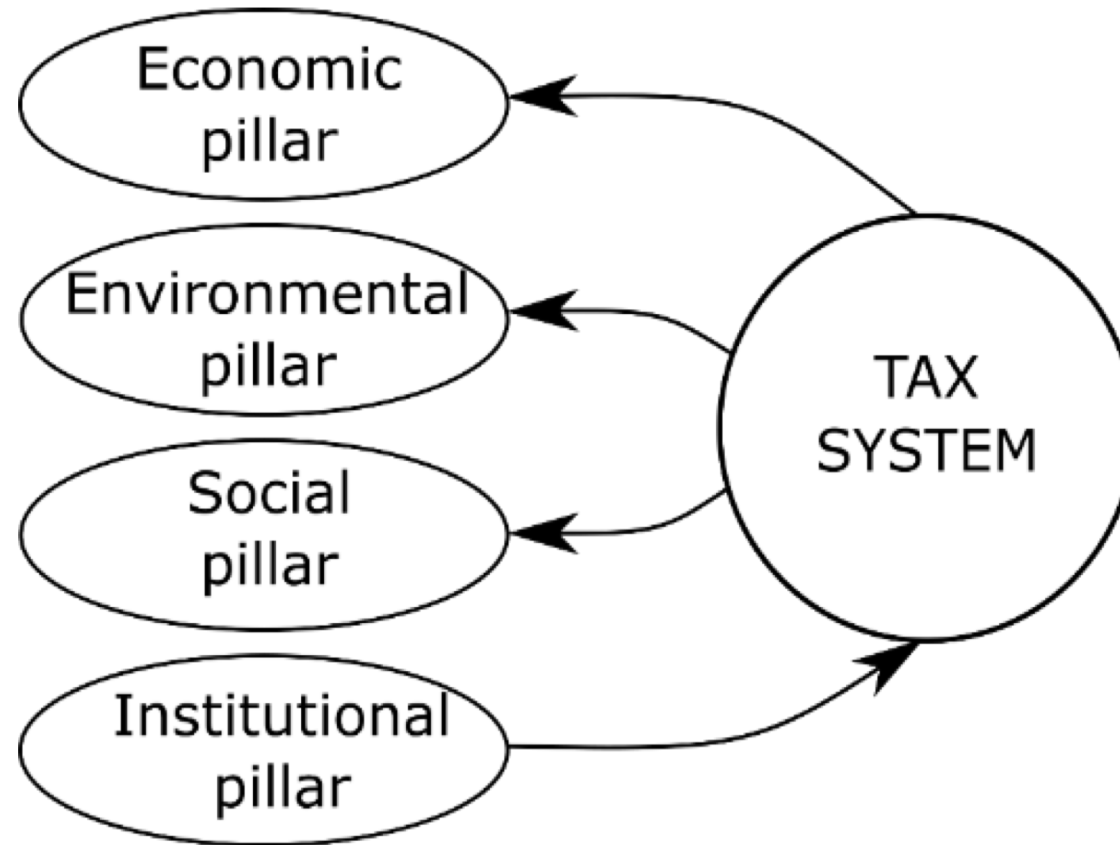
- Based on current generation's priorities (set in Europe 2020)
- Based on contemporary literature on sustainability.

*The **sustainable tax system** of a country – the tax system comprising of tax tools and tax-related legislative measures, which contribute in sufficient extent to sustainability of **economic, social, environmental and institutional dimensions**. Such system supports meeting the needs of **present generation** without limiting the **future ones** in the **before mentioned areas**.*



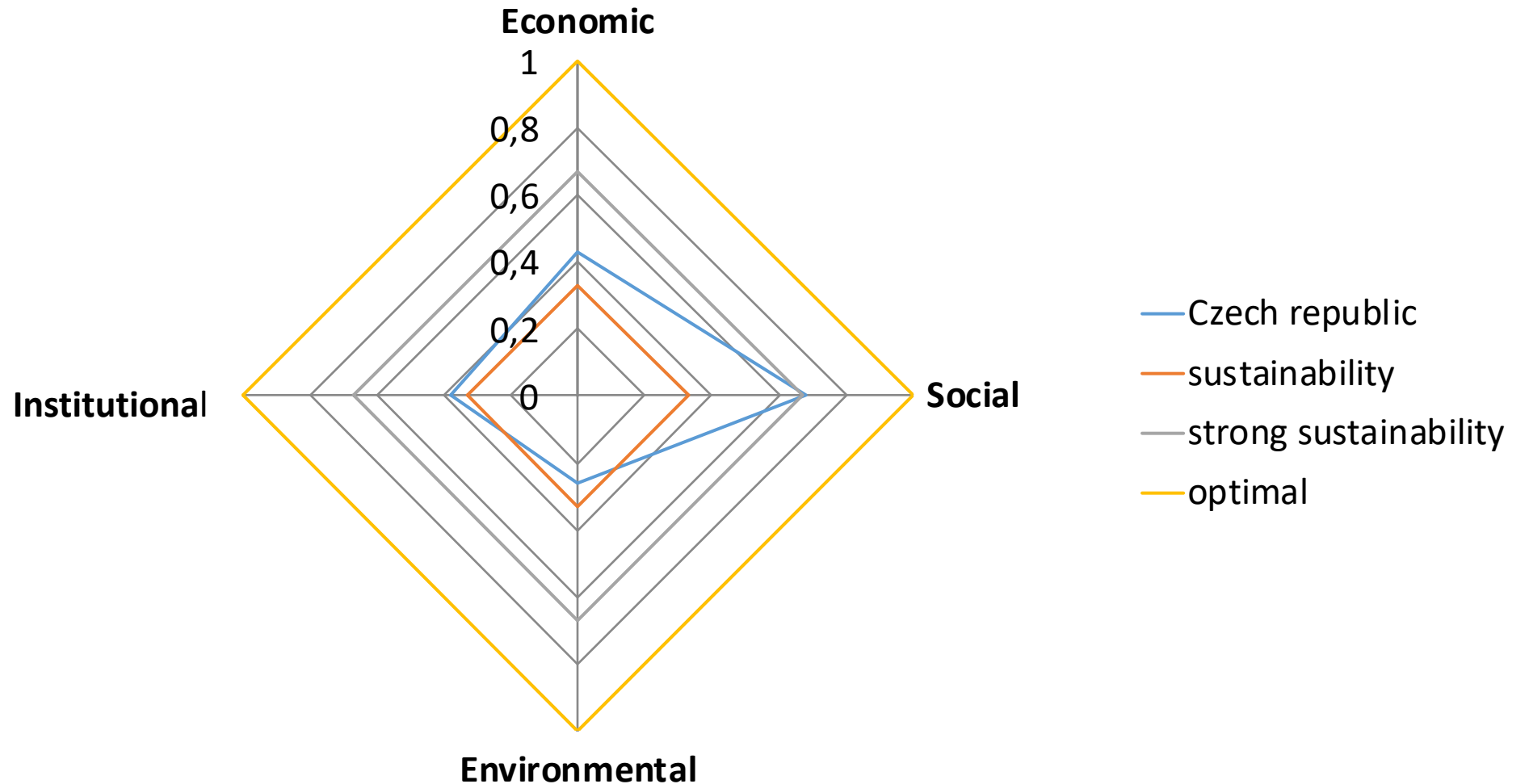


Interactions between the tax system and dimensions (pillars)





Tax System Sustainability Index: The Case of the Czech Republic (*D scenario*)





Tax System Sustainability Index: The Case of the Czech Republic

- **Tax system is sustainable**
- **Sufficient** contribution to sustainability of **economic** and **institutional** dimensions.
- **Strong** contribution to sustainability of **social** dimension (employment, social cohesion, demography and population growth)
- **Deficient** contribution to **environmental** dimension
 - **Critical policy areas** identified:
 - *Climate change*
 - *Green innovations*
 - *Renewal energy and recycling*





Conclusions

- Conceptual and technical **definitions** of tax system sustainability and its empirical evaluation.
- **Applicable** to EU countries.
- Flexible **modification**: *generations' priorities, tax tools and legislative measures selection, thresholds for indicating unsustainability*

Policy implications

Due to its modular construction the model allows to **indicate critical policy areas** and formulate the recommendations for policy of EU Member States in respective dimensions.





Thank you for attention.



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