

## Summary

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### Pilot project on Environmental taxes

European efforts such as the Lisbon strategy clarifies that environmental tax is an important instrument not only for the protection of the environment, but also for competitiveness and growing economies. The concept of environmental taxes is defined within a harmonised statistical framework developed in 1997, jointly by Eurostat, the European Commission's Directorate General Environment and Directorate General Taxation and Customs Union, the Organisation of Economic Co-operation and Development (OECD) and the International Energy Agency (IEA).

Environmental taxes are defined as taxes, tax base of which is a physical unit (or a proxy of it) of something that has a proven, specific negative impact on the environment. Environmental taxes are divided in four categories – energy taxes, transport taxes, pollution taxes and resource taxes.

Energy taxes include all taxes on energy products used for both transport and stationary purposes. Transport taxes include taxes related to the ownership and use of motor vehicles. Pollution taxes include taxes on measured and estimated emissions to air and water, on management of solid waste and on noise. Resource taxes include taxes on acquisition and use of natural resources. After detailed examination of different taxes in Latvia following taxes were found and allocated to corresponding environmental tax category:

#### **Energy taxes**

- Excise tax for petroleum products;
- Electricity tax;

#### **Transport taxes**

- Car and Motorcycle tax;
- Annual vehicle registration duty;

#### **Pollution taxes**

- Natural resource tax (partly);
- Duty on fertilisers;

#### **Resource taxes**

- Natural resource tax (partly).

Main data sources for compilation of environmental taxes in breakdown by industries are State Revenue Service data, State Budget data from the Treasury and CSB data on energy consumption.

Total amount of paid **environmental taxes in 2007 comprised LVL 320 mln**, from which 84% were energy taxes, 13% transport taxes, pollution taxes 2% and resource taxes 1%.

**Industry and service sector was main contributor for every environmental tax type** (66% for energy taxes, 68% for transport taxes, 84% for pollution taxes and 94%

for resource taxes). On average 82% of environmental taxes paid by industry and service sector (excluding public administration, education and households) were energy taxes (LVL 177 mln), transport taxes accounted for 13% (LVL 28 mln). For households energy taxes were also the most important type of environmental taxes paid, with a share of 87% in its total environmental tax paid.

To compare the total amounts of taxes paid by industries in breakdown by NACE section and households, it should be noted that, households paid 30% of all taxes; followed by transport and communication industries with 27%

Transport industry together with the wholesale, manufacturing and construction industry accounted for more than half of all environmental taxes paid. The entire manufacturing industry (NACE 15-37) paid only approximately 7 per cent of total environmental taxes.

### *Energy taxes*

Energy taxes paid by industries only shows that **25% was paid by land transport industry**. Energy taxes paid by land transport (NACE 60) constitute 21% of all environmental taxes. Environmental taxes transport industry together with the wholesale, manufacturing and construction industry accounted for more than half of all energy taxes. **Households paid 31% (LVL 85 mln) of total energy taxes**. Almost 100% of energy taxes paid by the households were related to transport, and that can be explained by excise tax reliefs and exemptions for heating purposes.

When examining the paid sums, it is noteworthy that, energy taxes were the most important type of environmental taxes paid by the industries and households.

### *Transport taxes*

In 2007 the transport taxes accounted for 13% or LVL 42 mln of total environmental taxes.

In respect to the transport taxes in 2007 the households paid 30% (LVL 12.5 mln) of their total amount. Land transport (Nace 60) follows with 28% or LVL 11.6 mln.

Transport industry together with the wholesale and construction industries it accounted for 50% of total transport taxes.

### *Pollution taxes*

Compared to energy and transport taxes share of households is very insignificant. Four industries contributing most to pollution taxes were wholesale, real estate and public administration, together accounting for 87% of all pollution taxes. Main contributor for pollution taxes was **wholesale industry with LVL 2.21 mln or 38% from total pollution taxes paid**.

### *Resource taxes*

Industries, which use water most of all (**NACE 90 and NACE 40**) were **main taxpayers of resource taxes**. Compared to other environmental taxes share of tax

paid by the mining and quarrying industry (NACE 10-14) was more significant -7% of all resource taxes.

All manufacturing industries (NACE 15-37) together accounted for 15 % (LVL 0.68 mln) of total resource taxes paid, and manufacture of food products, beverages had the highest share.