

Reforming Energy Excise Duties: A Possible Balance Between Environmental and Redistributive Objectives

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Abstract

The paper proposes a strategy to reform energy excise duties in Italy to address climate change while considering the redistributive effects of environmental reforms. The analysis employs a micro-simulation model based on data from the 2019 Household Budget Survey provided by the Italian National Institute of Statistics (ISTAT). The study focuses on three products: petrol, diesel, and electricity. Consistent with the objectives outlined in the proposed revision of the Energy Taxation Directive, the initial step of the simulated reform involves adjusting the excise values of these three products. Accordingly, in alignment with the European target of achieving carbon neutrality by 2050, excise duties on petrol and diesel are increased, while the excise duty on electricity is reduced. Subsequently, following the logic of the double-dividend theory, attention shifts to the additional revenue generated by the environmental reform. The additional revenue is used to simulate two different reforms. Firstly, intervention occurs within the sphere of the value-added tax, the main indirect tax in Italy, through the implementation of a flat-rate reform, where regressive effects are mitigated by introducing a monetary transfer to the most vulnerable households. The same tool is employed for the second reform, which involves the same excise duties on energy products, aiming to mitigate the regressive effect of the environmental reform following the modification of excise duties. The main findings of the paper emphasise that stronger redistributive effects can be achieved by using public spending to mitigate the regressive effects of environmental reforms. This in turn facilitates a comprehensive fiscal reform programme and a possible balance between environmental and redistributive objectives.

Keywords: Tax Reform, Energy Excise Duties, VAT, Redistribution.

JEL Classification: H20, H23, H31

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