

# EARMARKING TAXES FOR ENVIRONMENTAL GOALS IN THE EU



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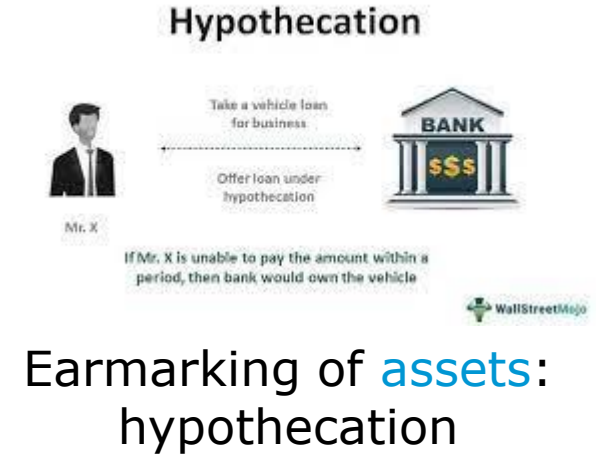
# Deconstructing Earmarking



Earmarking of **cattle**



Earmarking of **money**



Earmarking of **assets**:  
hypothecation

*"To set aside for a specific purpose or recipient"* (Black's Law Dictionary)

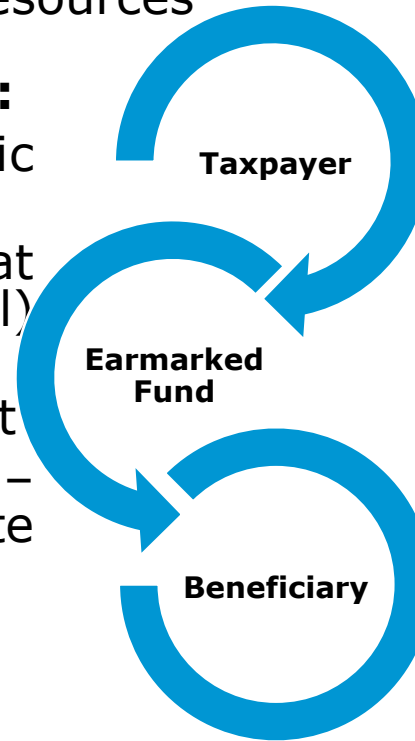
*"Dedication of a revenue source to specific public service(s)"* (Buchanan)

# Deconstructing Earmarked Taxes

**Earmarking of taxes:** **ex-ante assignment** of taxes for specific public purposes – treating taxes as **non-fungible** government resources

## Earmarked taxes – hallmarks:

- **Ex-ante dedication** for specific purposes by **law**
- May apply **benefit principle** at the **collective** (not individual) level
- **Proceeds earmarked** in budget
- **Spending of proceeds** – administered by State machinery



Taxpayer = Beneficiary  
**Strong earmarking**  
(benefit principle)

Taxpayer ≠ Beneficiary  
**Weak earmarking**

- Redistribution goals
- Regulatory purposes
- Pigouvian contexts

# Earmarking Taxes for Environmental Goals in the EU: Possible Models



**Taxpayer**



**Domestic Government**



**Domestic Fund**



**EU Fund**

# Earmarking for Environmental Goals in the EU: Looking Back

- Experience from Member States
- Experience from EU ETS:
  - EU Commission and Parliament supported earmarking all revenue but all Member States did not agree
  - **Compromise:** 50% of revenues should be spent on listed environmental purposes through “fiscal or financial support policies” (Article 10, Directive 2003/87/EC)
  - **2019 Statistics:** 77% of revenues were spent (or to be spent) for environmental purposes – more for domestic purposes
- EU Own Resources and repayment of NextGenerationEU: no earmarking (principle of universality)

# Earmarking Taxes for Environmental Goals in the EU

## Regulatory Goals: Why?

- Benefit justification and **interplay** with **polluter pays principle**
- Is there a **contradiction** in earmarking for **regulatory** purposes?
- Potential justification: behavioural economics - **efficiency** v. **acceptability** dichotomy – only studied in **domestic** contexts

## Regional Settings: When? What? For What? How?

- **Legal architecture** (constitutional and budgetary) of Member States
- **Legal instrument**: Parafiscal charges v. earmarked taxes?
- **Environmental goals** and priorities may be diverse
- **Shared accountability** in **fiscal federal** systems can be problematic–  
Can this be **overcome** in EU?

# Conclusions

- Intuitively, earmarking works best in **local** contexts – **is regional the new local?**
- **Earmarking of taxes for environmental goals in the EU**
  - Two possible models for implementation (domestic / EU fund)
  - **Why:** Behavioural justifications only tested in domestic contexts
  - **When, What, What for, How:** Legal architecture, choice of legal instrument, diverse environmental goals, accountability mechanisms
- **Designing** an earmarked tax involves a **host of choices** (tax base, tax rate, tax purpose, extent of earmarking, reliance on budgetary finances)



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**Thank  
You!**