Converging fiscal policies and tax systems toward the EU vision on Green initiatives

- By fiscal policy we understand the measures taken by the government to stabilize and develop the economy, by maneuvering the levels of taxes and duties and the distribution of government expenditures to fulfill macroeconomic objectives such as low unemployment, low inflation, economic growth, etc.

- Fiscal management goes beyond the requirement of equality of income and expenditure and is guided by public ideals or economic-social equality.

Important fiscal management objectives

- Economic sciences examine the fiscal issues or their challenges from the practical criterion for the government.
- In the conditions when the national or international economic situation for the achievement of the objective changes, the fiscals, and their management as well as the management of public expenses must be adapted to the new reality. For example, the failure of markets requires an increase in the profile of fiscal science to achieve market efficiency.

- A fiscal administration shows the reality of government and public organization in providing public goods or service to the citizen.

Management of the allocation of public expenses

Public expenditures are the government's cash flow to meet society's needs. Public revenues have two essential characteristics, they serve to meet the needs of the community as well as they are cash outflows.

While the interest groups in the case of the government are many and sometimes their priorities can be contradictory or even unrelated, once again the managerial coordination becomes complex. The complexity comes because public resources are limited.

Among EU countries, Germany is a federal state consisting of 16 regions (Länder). The exercise of state powers and the performance of state functions is a matter of the " Länder" unless otherwise determined by law. The Lands are further divided into municipalities.

The role of government (state)

➤ Fiscal management manages government revenues and expenditures, while the role of government can be summarized in three main roles:

I. The state as a provider of institutions, and as a determiner of the rules of the game.

II. The state as distributor or redistributor of income.

III. The state as a driver of the growth of the economy.

General strategic planning

▪ Expected revenues, long-term spending programs, government policies, and the sustainability of government fiscal policies should be considered, especially their impact on the national debt. A medium-term view is necessary because the one-year budget period is too short for the purpose of adjusting spending priorities.

▪ Forecasts should cover the current year and a forecast period of three or four years. The forecast of three or four years does not mean matching with the time of a government, even if this forecast coincides with two different governments, this will preserve the line of important development policies.

- The forecast is made by detailing the broad economic categories of both income and expenses. The expenditure forecast is detailed according to the main functions or sectors. The forecast is based on overall strategic planning, which is based on thorough analysis to realize and implement policy design.

- Forecasting economic parameters is essential. One of the most important elements of the forecast of public revenues is the forecast of the GDP growth rate.

In general, fiscal indicators such as the level of debt and fiscal deficit are reported depending on the GDP. For example, the 2017-2021 governance program of the Albanian government aimed at fiscal consolidation and was committed to the gradual reduction of public debt to around 60% of GDP. Public investments financed from the state budget in the program were estimated at around 5% of GDP, while income assurance at the level of 28% of GDP.

The GDP forecast is not separated from the performance of other fiscal and economic indicators. For this reason, the forecast of public revenues, the number of existing businesses and the number of new ones that will be opened, is of particular importance, predicted according to the divisions of large, medium, or small business.

Prediction of results

During the forecasting process, all the elements that influence the increase or decrease of public revenues and expenditures must be included. In the case of a fiscal reform, with changes in tax rates and with changes in the taxable bases of various taxes, the financial effects or results must be calculated in advance.

The indicators that are predicted every year and, in every mid-term, or long-term forecast are three:

I.   Increase in revenues from taxes and duties
II. The necessary level of public spending
III. Public borrowing and interest costs

Environmental protection

The impact of human activities on the environment due to economic and social development has been very intense. This impact on the environment is multidimensional from land use and underground exploitation to environmental pollution.

Environmental pollution has a major impact on climate change and human health. For this reason, environmental protection has become a necessity and public awareness.

- To protect the environment, economies are turning to the circular economy. Waste management and recycling is seen as one of the most efficient ways to protect the environment, not only from pollution, but also from the indiscriminate use of resources through the reuse of waste.

- Fiscal incentives are needed to stimulate these activities. The need for environmental protection has encouraged the increased use of fiscal instruments. Externalities can be positive or negative.

- If one party, specifically the producer, produces a good no matter how harmful it is, that party will continue to produce if it provides profits. As a result, there is a need for government intervention through various instruments.

- Economic activities during production processes or during the use of certain products such as fuel can cause harmful external effects such as environmental pollution. The global economy has been increasing in innovation and production volume, causing externalities. Thus, the need for various industrial products has caused an increase in harmful emissions into the air

- All this has created the need for political intervention through taxes. Tax instruments are used to curb harmful activities. In the same line, the incentives or laws and regulations that encourage the non-use of harmful products or encourage the creation of greenery are also part of a package of measures to reduce environmental pollution.

- The use of fiscal instruments in this direction in the form of excise duty has been used by governments for years. Environmental taxes used to reduce externalities are also a source of revenue for governments.

- Environmental tax revenue measured as a share of all taxes and social contributions is an indicator to help assess progress towards 'greening' the tax system. In the Europe 2020 Strategy as well as in other EU policies, environmental taxation and environmental tax reform are in the focus of the political agenda.

- Economic instruments for pollution control and natural resource management are an increasingly important part of environmental policy in EU countries. These include, among others, environmental taxes, fees and charges, tradable permits, deposit refund systems and subsidies.

- At the national level, the European Green Deal will create the context for broad-based tax reforms, removing fossil fuel subsidies, shifting the tax burden from work to pollution and taking social considerations into account.

- The European Green Deal expresses the crucial role of taxes in the transition to greener and more sustainable European growth and the need to better align tax systems with the EU's climate objectives.

➤ Revenues from environmental taxes are divided into four main categories:
1. energy taxes,
2. transport taxes,
3. pollution taxes and
4. resource taxes.

▪ Pollution and resource taxes account for a small share of total environmental tax revenues. Energy taxes include taxes on energy products (e.g. coal, petroleum products, natural gas, and electricity) used for both stationery and transportation purposes. In 2021, most environmental tax revenues (78.4%) came from energy taxes.