

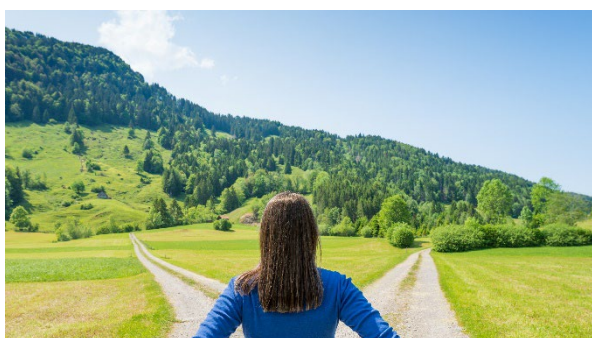
# Shaping choices: Behavioural taxation in the EU

## SUMMARY

Behavioural taxes, such as those levied on tobacco, alcohol, and fossil fuels, serve as instruments to influence consumer behaviour, as well as to collect revenue. By levying these taxes, governments seek to discourage the consumption of products that contribute to (significant) negative externalities, such as health costs or climate change. However, the design and implementation of such taxes can be quite complex, with volatile revenue collection. Additionally, public acceptance and consumer responses can vary widely between groups.

The European Union has set ambitious environmental and health policy targets that will likely influence the future direction of behavioural taxation. Taxes such as excise duties on tobacco, alcohol or energy and general value-added tax (VAT) – for which common EU rules are in place – may help Member States achieve these objectives and provide additional revenue.

In the meantime, several Member States have introduced other behavioural taxes at national level, for instance on flights and on sugar.



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- Public support for behavioural taxes
- Economic consequences of behavioural taxation
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- Changing dynamics
- Possible avenues for new behavioural taxation
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## Introduction

Many countries use behavioural taxes as a strategic tool to influence and 'correct' individual and corporate behaviour. While all taxes can be considered, to an extent, behavioural, these specific taxes are introduced and intentionally designed to discourage certain activities that are deemed 'harmful' to the consumer and/or society. Countries employing these taxes hope to earn a ['double dividend'](#): a reduction in the consumption of harmful goods (the societal dividend) and generation of (additional) tax revenue, which can displace the revenue of other, more distortionary taxes (the economic dividend).<sup>1</sup>

In the EU and its Member States, such taxes are likely to gain prominence in the years to come due to ambitious EU targets in the fields of environmental and health policy:

- By 2050, the EU aspires to become the first climate-neutral continent, necessitating a significant transformation of industrial production methods, and the accelerated roll-out of renewable energy sources ([EU Green Deal](#)).
- The EU [Beating Cancer Plan](#) envisions a tobacco-free generation by 2040 (with under 5 % of the population using tobacco). Member States are also encouraged to reach the [UN goal](#) of a 10 % relative reduction in the harmful use of alcohol by 2025.

## Public support for behavioural taxes

Behavioural taxation is not without controversy. Taxes targeting behaviours deemed harmful, particularly health taxes, raise questions about the role of the state and the extent to which the state should intervene in citizens' lives in pursuit of public health or other objectives. It is no coincidence that behavioural taxes are often dubbed ['sin taxes'](#), underscoring their inherent link to moral judgement. The delicate balance in pursuing public welfare while also respecting individual freedoms, requires careful consideration by policymakers.

Public support for health and alcohol taxes varies, reflecting the many different views on state intervention and taxation in Europe, and particularly in the case of alcohol, different cultural traditions. One [study](#) found much more support for alcohol control policies, including taxation, in northern Europe than elsewhere. Public support for health taxes also appears to be stronger when the revenue is specifically ['earmarked'](#) for (tobacco or alcohol-related) healthcare initiatives. Differences between consumer groups is also worth considering: in a [survey](#) on increasing tobacco taxes in France, support was (unsurprisingly) lowest among heavy smokers and highest among non-smokers. However, the motivation to quit smoking due to price rises was strongest among occasional smokers, with motivation decreasing as smoking frequency increased.

Public acceptance of green taxes appears much more contentious and uncertain. Much as the Yellow Vests movement (*Gilets jaunes*) took to the streets in France to protest planned fuel tax increases, energy taxes have led to protests and uprisings [across the world](#) in recent years. Public acceptance of such taxes may depend on a [range of factors](#) (e.g. trust in politicians, individuals' attitudes towards environmental policy, or perceived fairness of the tax increase).<sup>2</sup>

## Economic consequences of behavioural taxation

The motivation for imposing behavioural taxes is to stem negative 'externalities' – harmful side effects affecting third parties or society as a whole. These can range from public health costs to air pollution and climate change. To address these externalities, economists advocate the introduction of ['Pigouvian taxes'](#) on such 'harmful' goods, with tax levels set at an equal level to the marginal cost imposed on society from additional consumption of the goods.<sup>3</sup>

While the economic logic is straightforward, a key determinant in the effectiveness of such taxes is consumer sensitivity to price changes (price elasticity of demand). Demand for tobacco and alcohol is generally [found](#) to be price inelastic (consumers respond less to price increases, with the

percentage decline in consumption typically smaller than the percentage increase in price).<sup>4</sup> This inelasticity can be partly attributed to the addictive properties of alcohol and tobacco which can reduce consumer price sensitivity. Governments would therefore have space, in the short and medium term, to raise taxes on tobacco and alcohol with the expectation of continued revenue gains (while reducing overall consumption). However, price elasticity estimates may vary (e.g., [young smokers](#) are generally more responsive to price rises than adults). When designing taxes, accounting for variations in elasticity is crucial to effectively target and alter behaviour.

In addition, standard consumer choice theory predicts that a price change triggers both an [income](#) and a [substitution effect](#) as consumers can afford less of the more expensive product with the same income, and typically respond by substituting a cheaper alternative for the goods subject to higher taxation. Applied to tobacco, alcohol or carbon taxes for instance, the affordability of these products is reduced (income effect), while also encouraging consumption of alternative goods, such as alcohol-free beer, nicotine patches, or renewable energy (substitution effect), or cheaper goods (of perhaps lower quality). It is therefore essential to understand how a tax on one good might influence the demand for related goods through spillover effects (known as cross-price elasticity of demand).

## Role of the EU

### Legal basis

Taxation is a national competence and EU Member States are free to design their own tax systems. Behavioural taxes therefore vary in both their adoption and implementation across Member States (such as taxes on plastic, sugar, congestion, flights, gambling). Furthermore, even when similar taxes are in place across multiple Member States, their design, structure, or applicable rates can differ.<sup>5</sup>

However, the EU has some scope for intervention when it comes to excise duties on alcohol, tobacco and energy products and the general value added tax (VAT), where EU-wide frameworks are in place, ensuring a certain level of harmonisation across the EU. Nevertheless, the EU only acts on excise duties and VAT where it is 'necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition', subject to unanimous Council support ([Article 113](#), Treaty on the Functioning of the EU). The European Parliament is consulted on legislative initiatives concerning excise duties and VAT, but can only issue (non-binding) opinions.

It is important to clarify the differences between the two taxes (see Table 1).

Table 1 – Comparison of excise duties and VAT

	Excise duties	VAT
Scope	Applied to a narrow range of products.	Applied to (nearly) all goods and services.
Application	Specific tax, typically applied as a fixed amount per unit (per litre of fuel, per 1 000 cigarettes, ...).	<i>Ad valorem</i> tax, i.e. applied in proportion to the price of the goods or services (%).
Purpose	Often with the purpose to discourage the consumption of certain goods.	General tax, with the main purpose of raising revenue.

These taxes operate alongside each other rather than replacing one another, creating a **cumulative impact** on the overall tax charge. When excise goods are sold, the VAT is calculated and paid on the price of the goods after the excise duty has been added. In other words, a higher excise duty charge automatically leads to a higher VAT charge.

In the EU, excise duty revenue remains with Member States, while a portion of VAT revenue [goes](#) to the EU budget.

Using a per-unit excise duty, rather than VAT or other *ad valorem* taxes, to target harmful consumer behaviour offers some advantages. For instance, VAT is generally recoverable for businesses, so any behavioural tax in the shape of VAT carries little incentive for businesses. Generally, VAT is also complex and costly to administer and audit for both businesses and tax authorities, compared to the simpler, more evasive-proof, excise duty. A per-unit tax can also maintain its price signal, regardless of whether consumers get discount prices for bulk buying. The main disadvantage however is that a per-unit excise duty must be indexed repeatedly to prevent inflation from eroding its impact, while VAT automatically adjusts to price changes.<sup>6</sup>

## Excise duties

Following the abolition of (fiscal) borders in 1993, the EU set out common rules to oversee the cross-border trade of certain products, and introduced EU-wide minimum rates of excise duties on [alcohol](#), [tobacco](#), and [energy products](#). These goods were targeted as they were considered to be prone to cross-border shopping as well as fraudulent transactions and smuggling.

While each product category has a separate directive (see Table 2), the directives share the same key structure:

- The structure of the tax to be applied to a particular group of products, meaning the definition of the product categories, the scope of possible exemptions, the way in which the excise duty is calculated (per litre of fuel, per hectolitre alcohol, ...).
- Minimum rates of duty Member States must respect for each type of product. Above these, Member States are free to fix their own rate levels according to national needs.

Table 2 – Excise duty directives in force

Directive	Excise goods
<a href="#">Directive 2011/64/EU</a>	The <b>Tobacco Tax Directive</b> sets out minimum rates applicable to cigarettes, cigars, cigarillos, fine-cut tobacco and other tobacco products.
<a href="#">Directive 92/84/EEC<sup>7</sup></a>	The <b>Alcohol Tax Directive</b> sets out minimum rates applicable to beer, spirits and other alcoholic products.
<a href="#">Directive 2003/96/EC</a>	The <b>Energy Tax Directive</b> sets out minimum rates applicable to energy products and electricity.
<a href="#">Directive 2020/262/EU</a>	The <b>Excise Duty Directive</b> sets out common provisions that apply to all excise goods under EU law. It includes rules on how excise goods acquired by private individuals for their own use, and transported by them from one Member State to another (cross-border shopping) should be taxed.

While these directives have clear implications for health or environmental outcomes, the behavioural 'objective' of the corresponding directives vary. The Tobacco Tax Directive is the clearest, with an explicit dual goal of 'ensur(ing) the proper functioning of the internal market and, at the same time, a high level of health protection (...) bearing in mind that tobacco products can cause serious harm to health' ([recital 2](#)). The Alcohol Tax Directive makes a passing reference to health.

The Energy Tax Directive, enacted in 2003, recognised the environmental implications of taxation and underscored its role in supporting the [Kyoto Protocol](#) goals ([recital 7](#)). After over 20 years without change, the directive's fit with EU climate goals is questioned. The European Commission [finds](#) the directive now contributes to EU environmental policy 'only to a very limited extent'. A [proposal](#) to revise the directive was tabled in 2021, with Council negotiations [ongoing](#).

## Value-added tax

From the start, EU VAT legislation primarily focused on ensuring the free movement of goods and services and avoiding distortion of competition, with little emphasis on shaping consumer behaviour.

The revision of the [VAT rate setting rules](#), agreed by Member States in [December 2021](#), incorporated more behavioural incentives into the EU VAT Directive, with Member States explicitly aiming for a framework that was 'overall coherent' with the [EU4 Health programme](#) and the [Green Deal \(recital 4\)](#). The change focused on the range of goods and services for which Member States may apply reduced VAT rates (listed in '[Annex III](#)'). In the 2021 reform, the scope of this list was revised and expanded. New 'green' provisions include for instance the option for Member States to give preferential VAT treatment for the supply and installation of solar panels, low-emission heating systems, and the supply and rental of (e-)bikes. The reform also mandates the phasing out of lower VAT rates on fossil fuels by 2030, and on chemical fertilisers and pesticides by 2032.

The reform was criticised as a '[poisonous gift](#)' by the European Academic Network of VAT ([EANO VAT](#)), arguing reductions in VAT rates were unlikely to be passed on to consumers by businesses, and even if they were, it would come at a significant revenue cost, benefiting mostly high income households (who are more likely to purchase solar panels or e-bikes). Then European Commissioner for Economy and Taxation, Paolo Gentiloni, also [expressed](#) concern about the 'bad track record' of VAT cuts.<sup>8</sup>

## (Changing?) revenue dynamics

Analysis of EU trends in alcohol and tobacco consumption, as well as greenhouse gas emissions reveals a notable decline over the past decade.

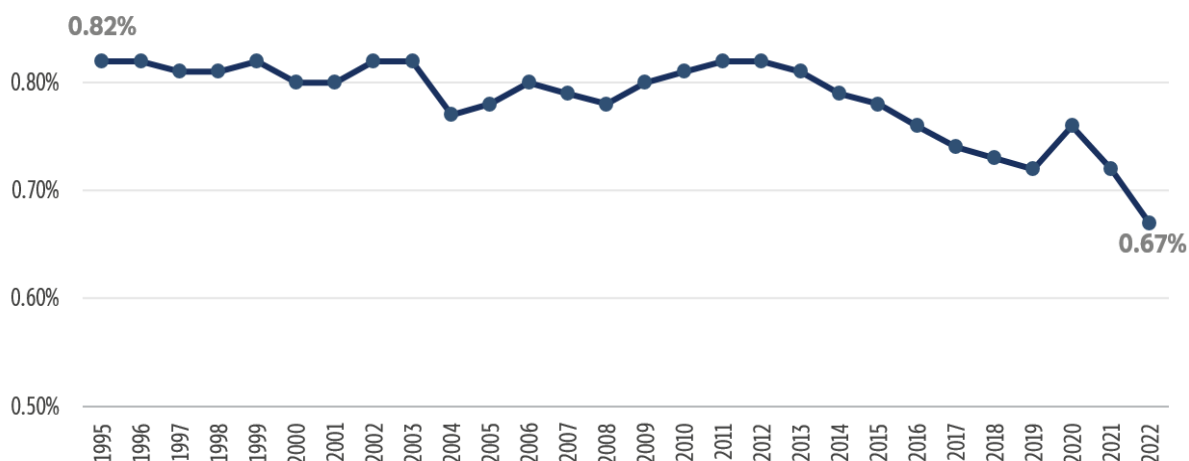
- In [2009](#), 29 % of EU citizens (aged 15 and over) identified as smokers. By [2023](#), this had fallen to 23 %.
- The [share of EU citizens](#) (aged 15 and over) who consumed alcohol daily dropped from 9.5 % (2014) to 8.4 % (2019), indicating a soft trend towards more moderate consumption.
- EU greenhouse gas emissions [fell](#) by more than 30 % (compared to 1990 levels), accompanied by a strong rise in renewable energy use.

Ideally, national budgets are made up of secure and predictable revenue sources to ensure stable funding for both public services and long-term investment. In this light, behavioural taxes are criticised for their potential inherent trade-off between generating revenue and achieving a behavioural objective. All else being equal, increasing the cost of a product should lead to a gradual decrease in its consumption over time, resulting in a gradual shortfall in tax revenue in the long term.

In the context of tobacco tax, The World Health Organization dismisses the notion of the trade-off as a '[scare tactic](#)' by tobacco industry stakeholders. While the trade-off is 'theoretically plausible' in the long-term, the WHO argues countries' current tobacco tax rates are still far from a revenue-maximising point. Moreover, a decline in revenue due to reduced consumption of tobacco does not necessarily mean that tobacco tax rates are beyond their revenue-maximising point.<sup>9</sup> Similar [results](#) were found for alcohol taxes in several European countries. Moreover, changes in consumer behaviour are gradual, allowing governments time to even out any fiscal shortfall through gradual increases in other taxes.

Alcohol and tobacco tax revenue in the EU has remained stable, consistently representing around 0.80 % of EU GDP, until this share began gradually to fall, ultimately reaching 0.67 % of GDP in 2022, marking its lowest recorded level to date (see Figure 1). While these GDP shares might seem small, alcohol and tobacco excise duties still generate over €100 billion in tax revenue across the EU. In some Member States, these taxes contribute significantly to total revenue – 6.2 % in Bulgaria and 4.4 % in Latvia.

Figure 1 – Alcohol and tobacco tax revenue as a percentage of EU GDP, EU-27 (1995–2022)



Data source: [European Commission](#).

While declining revenue can be partly attributed to decreased alcohol/smoking prevalence, other factors also play a role. First, Member State performance on regularly indexing alcohol and tobacco excise duty rates varies.<sup>10</sup> Without real tax rate growth, the real value of the tax declines over time, leading to reduced revenue. Another factor is that some products escape taxation through illegal trade in alcohol and tobacco products ([smuggling](#) and counterfeits). The EU's anti-fraud office, OLAF [estimated](#) that €10 billion in revenue was lost in the EU in 2019 due to the illegal tobacco trade.

The European Commission has already expressed its concern about a similar dynamic in energy taxation and any potential long-term future revenue erosion for Member States' budgets, without changes to the Energy Tax Directive's minimum rates.<sup>11</sup> According to Commission [analysis](#), energy tax revenues in the EU are expected to drop substantially by 2035 (-46% compared to 2015), due to a combination of increased energy efficiency and the use of renewables (which generally benefits from lower tax rates). Revenue from taxing energy products (coal, gas, oil) would decrease, although the shift towards electrification should partly mitigate the drop in electricity tax revenue. Similar concerns have already been expressed by national tax authorities, for example in [France](#) (where fuel duties are projected to drop by more than €10 billion by 2030).<sup>12</sup>

### EU budget and behavioural taxation

The dynamic between revenue generation and changes in consumer behaviour has also been discussed in the context of the EU budget. In 2016, the [High-level Group On Own Resources](#) (the 'Monti report') warned that new 'own resources' that were geared too strongly towards environmental protection could hold 'a long-term built-in-decrease in revenue'.

While the current EU budget largely comes from broad revenue sources (GNI-based contribution, VAT and customs duties), the EU has been discussing and/or has implemented several [new revenue streams](#), in light of (time limited) repayments on the [Next Generation EU](#) recovery fund, that contain elements of behavioural guidance. For instance, in 2021, a [plastics levy](#) was put in place as a new own resource. Member States allocate €0.80 per kilogram of non-recycled plastic waste in their Member State to the EU budget per year. While Member States' contributions through this levy rose from €6 to €7 billion initially, the Commission [expects](#) revenue will start falling during the next few years.

Other proposed environmental own resources, such as the emissions-trading scheme, may also be temporary (although with the potential to generate [significant amounts](#) of revenue in the short and medium term). [Bruegel](#) argues this should not be an issue: even with own resources of a more temporary nature in place, the EU could still buy time until other more stable, long-term revenue streams are agreed. Additionally, these new resources are mainly intended to repay recovery fund debt, which is temporary by definition.

## Possible avenues for new behavioural taxation

Considering the previous chapters, and in the context of some Member States facing tight budgets, it may be worthwhile to explore potential avenues for new behavioural taxes that may be considered in future. The taxes below are intended to provide **a range of examples** that are either already in use in some Member States or floated in policy circles. The examples provided below are by no means exhaustive and should not be interpreted as a policy recommendation or a commentary on their effectiveness or desirability at EU or Member State level.

### Sugar tax

Obesity is a major public health issue, raising chronic disease risks and placing significant financial burden on the healthcare sector. [OECD countries](#) are expected to spend an average of 8 % of their health budgets on treating diseases related to obesity. In 2019, **16 %** of the EU population was obese, with most Member States seeing a rising trend. While the causes of obesity are multiple, the high sugar intake in Europe is often blamed.<sup>13</sup>

To discourage sugar consumption, a number of EU Member States (Belgium, Croatia, Denmark, Finland, France, Hungary, Ireland, Latvia, Netherlands, Poland, Portugal and Romania) have sugar taxes in place.<sup>14</sup> These taxes are usually restricted to sugar-sweetened beverages, although Member States may (also) target other goods (for instance, [Denmark](#) has a tax on chocolate, sweets, and other sugary products). The design of those specific taxes [varies](#).

Under the EU VAT Directive, Member States can apply reduced VAT rates (or grant VAT exemptions) to all non-alcoholic beverages (regardless of sugar levels).

### Aviation tax

The aviation sector taxation system is somewhat unique, with preferential tax treatment frequently applied due to the industry's significant economic importance.<sup>15</sup> However, taxation of the aviation sector is increasingly facing scrutiny, particularly regarding its alignment with countries' objectives to reduce CO<sub>2</sub> emissions (the sector accounts for some [2 %](#) of global emissions) and to promote low-emission transport modes.<sup>16</sup>

A key criticism is that intra-EU flights are de facto exempt from VAT, therefore not aligned with VAT's role as a broad consumption tax applicable to all goods and services. The decision of whether to impose VAT on intra-EU flights or not is a yes/no question, although the choice itself involves complex considerations and trade-offs. One such challenge would be to determine the ['place of supply'](#) for VAT purposes, or in other words, identify to which Member State(s) the VAT charged on an intra-EU flight should be allocated. One option could be to allocate the VAT to those Member States where the transport takes place in proportion to the distances covered, as is currently the standard rule for other passenger transport services.<sup>17</sup> However, this approach may be technically complex and would require clear methods for calculating distances, such as considering flight detours due to weather. Other, more easy-to-administer options could be to allocate the VAT to the Member State of the flight's departure or the Member State of arrival.<sup>18</sup>

Fuel used in international aviation is also exempt from excise duties, although the Energy Tax Directive allows Member States to limit this exemption and apply the tax on fuels used for domestic flights and for intra-EU flights (provided a bilateral agreement is in place). The Commission's proposal to revise the Energy Taxation Directive (currently in negotiation in Council) would remove the exemption on aviation fuel.<sup>19</sup>

Ahead of possible EU-level changes, some Member States have introduced unilateral flight taxes. While rates vary, most of these taxes are based on flight distance, primarily targeting long-haul flights.

Table 3 – Flight tax/ticket tax (per passenger), commercial aviation, EU, 2024, overview

Member State	Flight tax
Austria	€30 for short flights; €12 for all long flights (>350 km great circle (shortest flight path) distance).
Belgium	€10 where the final destination is less than 500 km from Brussels airport; €4 where the final destination is outside the European Economic Area (EEA); €2 where the final destination is more than 500 km from Brussels, but inside the European Economic Area (EEA), the UK or Switzerland.
France <sup>20</sup>	€5.05 where the final destination is in the EEA, UK or Switzerland; €9.09 for other destinations.
Germany	€15.53 where the final destination is a country listed in <a href="#">Appendix I</a> of the <a href="#">Luftverkehrsteuergesetz</a> (mostly European countries); €39.34 where the final destination is a country listed in <a href="#">Appendix II</a> (mostly African and central-Asian countries); €70.83 for any other destination.
Italy	Ticket rates differ per airport (e.g., Rome €7.5; Venice €9; other airports €6.5.)
Netherlands	€29.05, regardless of final destination.
Portugal	€2
Sweden	SEK76 (€6.61) for flights to countries listed under Appendix 1 of the <a href="#">Skatt På Flygresor</a> (European countries); SEK315 (€27.38) for flights to countries listed under Appendix 2 (countries from North and West Africa, the Middle East, Central Asia and the United States); SEK504 (€43.80) for flights to other countries.

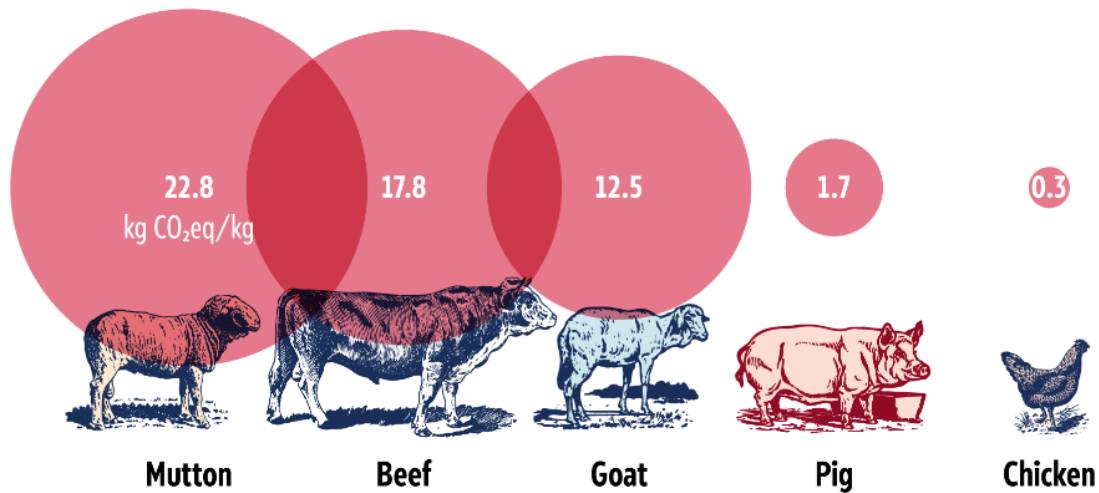
Data source: [FCCAviation.com](#) and national websites. For further details on the overview above, consult national legislation. Taxes applicable to private aircraft or helicopters are excluded. 1 SEK = €0.087. [Denmark](#) will introduce a flight tax in 2025, while [Sweden](#) will reportedly abolish its tax.

## Meat tax

The food industry ranks among the largest contributors to the planet's climate footprint. Animal-based foods in particular are seen as a particular high-emissions source, with livestock responsible for some [12 %](#) of global emissions.<sup>21</sup> To address this, some policymakers and academics have called for the introduction of a 'meat tax'.

While no EU Member State applies a dedicated 'meat tax', the idea has gained traction, with studies considering [public support](#), the impact on [low-income households](#) and the potential [design](#) of such a tax. For example, such a tax may need to account for the significant variations in the carbon footprints of different meat products, ensuring that tax rates are proportionate to their respective environmental impacts (see Figure 2).

Figure 2 – Meat emissions-intensity (kilogram CO<sub>2</sub> equivalent per kilogram of meat product), EU-27, 2021



Data source: [Food and Agricultural Organisation of the United Nations - FAOSTAT](#)

In 2023, the [Group of Chief Scientific Advisors](#) to the European Commission [called](#) for a progressive introduction of 'sufficiently high taxes on red and processed meat', with the revenue directed towards addressing disparities in food access by channelling them into targeted subsidies that support low-income households. The Commission did not call for a meat tax as such when discussing the future of food policy ('[Farm to Fork strategy](#)'), but rather recommended that national tax systems 'ensure that the price of different foods reflect their real cost' in terms of emissions, pollution, etc. When asked, the Commission [responded](#) that it did 'not intend to propose taxing of meat, as taxation is a national competence'.

Under the EU VAT Directive, Member States have the option to apply reduced VAT rates (or grant VAT exemptions) for meat products (and milk and other animal food products).

## Looking ahead

The European Commission's taxation department, [DG TAXUD](#), recently set up a dedicated unit to cover behavioural taxes and requested a (forthcoming) study ('[Health taxes from an EU perspective](#)') to examine the performance of existing Member State taxes on products high in fat, salt, or sugar to identify best practises and draw lessons for potential future policymaking.

In terms of legislative initiatives, during the previous legislative term, [preparatory](#) work was carried out to revise the Tobacco Tax Directive. The Commission [considers](#) that the minimum tax rates set by the directive have lost their effect, as most Member States tax tobacco products above the minima, and new tobacco products are not fully covered. Additionally, [preparations](#) were made to amend the Excise Duty Directive's provisions regarding cross-border shopping of alcohol and tobacco. Although proposals to revise both directives were initially anticipated for 2021, they have yet to be launched.

## ENDNOTES

- <sup>1</sup> The 'double dividend' hypothesis was first developed by economist David Pearce in [The role of carbon taxes in adjusting to global warming](#), *The Economic Journal*, Vol. 101, p.938-948, 1991.
- <sup>2</sup> To read more about public acceptance of environmental taxes, see, for example: E. Cornago, [How to decarbonise EU road transport without summoning the gilets jaunes](#), Centre for European Reform, 2021; J. Anne-Braun and T. Guesdon, ['La fiscalité sur l'énergie peut-elle devenir acceptable?'](#), *Revue de l'OFCE*, Presses de Sciences-Po, Vol. 0(1), p. 55-85, 2022 and I. Muhammad et al., ['Empirical Research of Public Acceptance on Environmental Tax: A Systematic Literature Review'](#), *Environments*, Vol. 8, p. 109, 2021.
- <sup>3</sup> Named after economist Arthur Pigou, who developed the concept in his book *The Economics of Welfare* (1920).
- <sup>4</sup> G. Paraje, et.al. [Taxation of tobacco, alcohol, and sugar-sweetened beverages: Reviewing the evidence and dispelling the myths](#), *BMJ Global Health*, 2023. This article discusses evidence of the effect of health and tobacco taxes. Studies measuring the price elasticities of alcohol, typically find values around -0.5 (i.e. an alcohol price increase of 10 % implies a reduction in consumption of 5 %). For tobacco, estimates are around -0.4.
- <sup>5</sup> The EU has very little say in the overall design of such taxes. However, Member States must align with EU State aid policy. Generally, such taxes do not constitute State aid if taxing all comparable activities or products equally, based on the intrinsic objective of the tax. See [Commission Notice on the notion of State aid as referred to in Article 107\(1\) of the Treaty on the Functioning of the European Union](#).
- <sup>6</sup> For more information on the pros and cons of per-unit taxes and *ad valorem* taxes, see L. Powell & F. Chaloupka. ['The Design of Effective Health Taxes'](#) in: J. Lauer (et.al) (ed.), [Health Taxes: Policy and Practise](#), p. 265-294, 2023 and M. Keen, ['The Balance between Specific and Ad Valorem Taxation'](#), *Fiscal Studies*, Vol. 19(1), p. 1-37, 1998.
- <sup>7</sup> [Directive 92/83/EEC](#) defines the beverage categories subject to tax and the basis on which the tax is calculated.
- <sup>8</sup> For more information on the effectiveness of VAT rate cuts, see E. Binder, [VAT gap, reduced VAT rates and their impact on compliance costs for businesses and on consumers](#), EPRS, 2021.
- <sup>9</sup> The 'Laffer curve' is often mentioned in this context. This inverted U-shaped curve depicts the relationship between tax rates and the amount of tax revenue collected. The curve suggests that there is an optimal tax rate that maximises revenue. If tax rates are too low or too high, revenue will be lower compared to this optimal rate. The more price elastic demand, the lower the point where the curve inverts. According to the WHO, because demand for tobacco is inelastic, countries' tobacco tax rates have remained on the left side (the upward-sloping part) of the curve so far, indicating there is still room to raise tax rates, reduce consumption and increase revenue.
- <sup>10</sup> See section 3.7.1 in the European Commission's [Annual Report on Taxation](#) (2024 edition).
- <sup>11</sup> The proposal for a revised Energy Tax Directive includes a revision of the minimum rates, including an automatic yearly indexation. See P. Baert, [Revision of the energy tax directive: fit for 55 package](#), EPRS, 2024.
- <sup>12</sup> The decarbonisation of society is likely to also affect other taxes; the switch to electric vehicles for instance could impact car registration tax revenue, as countries apply lower rates to increase electric vehicle [uptake](#).
- <sup>13</sup> One [study](#) analysing data from 75 countries found that a 1% increase in soft drink consumption is associated with a 2.3 % rise in adult obesity and a 0.3 % increase in the prevalence of diabetes among adults. See S. Basu, et.al. [Relationship of soft drink consumption to global overweight, obesity, and diabetes: a cross-national analysis of 75 countries.](#), *American Journal of Public Health*, Vol. 103(11), p. 2071-2077, 2013.
- <sup>14</sup> See Chapter 3.7.2 of the European Commission's 2024 [Annual Report on Taxation](#) for more information.
- <sup>15</sup> On the aviation sector's role in the EU economy, see Steer Davies Gleave – [Study on employment and working conditions in air transport and airports](#), 2015.
- <sup>16</sup> For more information on the taxation of the aviation sector. See Ricardo, [Study on the taxation of the air transport sector](#), 2021 and CE Delft, [Taxes in the Field of Aviation and Their Impact](#), 2019.
- <sup>17</sup> Article 48 of the EU VAT Directive.
- <sup>18</sup> In the end, the fiscal outcome of choosing either the place of departure or the place of arrival as the place of supply for VAT purposes may not be that consequential, as most airline passengers also book a return flight.
- <sup>19</sup> Aviation industry stakeholders express strong concern about the proposed measures. See for instance Airlines for Europe, [Review of the Energy Taxation Directive, Position Paper](#), 2023.
- <sup>20</sup> The tax listed in this table is the civil aviation tax ('*Tarif de l'aviation civile*'), but France has [other levies](#) in place, such as a solidarity tax ('*Tarif de solidarité*').
- <sup>21</sup> For more information on the climate impact of the livestock sector, see FAO, [Pathways towards lower emissions: a global assessment of the greenhouse gas emissions and mitigation options from livestock agrifood systems](#), 2023.

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