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CIRCULAR TAXATION DUE TO THE CIRCULAR ECONOMY: EUROPEAN UNION EXAMPLE

Ulug Ilve Yucesoy^a

^a Assistant Professor, Lefke European University, Faculty of Law, Cyprus, uyucesoy@eul.edu.tr, Orcid: 0000-0003-4028-9227

Abstract

Transition from “take-make-dispose linear economy” to circular economy has become significant importance and prominence in recent years for the aim “to develop a sustainable, low carbon, resource-efficient and competitive economy”. Parallel to sustainable development circular economy aims to promote resource efficiency by minimizing waste and maximizing the value of resources. Resource efficiency, sustainable development, effective management of waste are important cornerstones of circular economy. While as a substructure circular economy has becoming a significant key model for the World; superstructure has been being reshaped such as law, constitutions, public administration. In this study circular economy is considered in the respect of legislation especially taxation law. There are plenty legislation trends in circular economy. These are; setting strict environmental product standards, creating the role out environmental ‘scores’ for all products on the market, developing and mainstreaming certifications and warranties for recycled materials, strengthening universal ‘Right to Repair’ legislation, tightening producer responsibility regulations, cutting taxes on circular products and services and increase them on linear ones. In the scope of tax systems naturally in taxation legislation, certain types of taxes has become key term of taxation system On the grounds of the fact that circular taxes emerged and has become vital and versatile role in tax systems. When it comes to European Union, via harmonisation and approximation circular fiscal policies and circular tax can be implemented among the member states and candidate states. The radical shift of fiscal policies among the European Union has created new debates about approximation and harmonisation of circular tax legislation. This study is important for the literature by discussing the current situation, future of tax systems and alternative solution proposals which are analysed due to the emergence of the circular economy in European Union case. The aim of the study to reveal the panorama of the current environmental taxation system, to reveal the importance of the tax system in the process of the transition to circular economy as an arising phenomenon; circular taxes, to discuss the

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importance of circular taxes than environmental taxes, to discuss possible effects of circular taxes and essential precautions, demands and barriers of circular taxation in European Union case. The official data of European Union have been used in this study.

Keywords: circular taxation, European Union, sustainable development, circular economy

1. INTRODUCTION

In recent years European Union and member states have been enduring unpredictable socio economic issues. As of Covid -19 pandemic, the World have been facing many obstacles as well as the war between Ukraine and Russia. Besides this, Europe have been facing more plenty climate impacts such as deluges, floods, heat waves, forest fires and droughts. Furthermore, air pollution triggers approximately 300,000 premature deaths across Europe each year (European Environment Agency, 2023). Plastic pollution can affect the most remote places of the World. So food systems, drinking water sources, depletion of agricultural land and the biodiversity are new global challenges. Among all the problems in the World refugee and immigrant problem arised from many reasons such as climate change, wars are the other huge demands for Europe.

Therefore, managing and protecting the renewable sources are more urgent than yesterday for European Union. However among all the unforeseen problems well functioning labour markets, competition and welfare systems are the main aims of sustainability of European Union. When we are looking at this panorama EU still has been seeking new economic transformation to settle and survive in sustainability.

2. PANORAMA OF TAXATION IN EUROPEAN UNION

Environmental taxation has a vital key role in sustaining the European Green Deal objectives and the transformation to decarbonised economy. The European Commission states that well-planned tax reforms could “play a direct role by sending the right price signals and providing the right incentives for sustainable behaviour by producers, users and consumers” (European Commission, 2017). However, all attempts for transformation to green economy indeed circular economy; still environmental taxes made up the less than 6% of the revenue. 4% of the environmental taxes are made of taxes on pollution or use of the resources (European Environment, Agency, 2023). So environmental taxes are not well planned and well designed and lucrative tax reform design. On the other hand renewable sources are more urgent and more significant than yesterday. Hence, EU needs a new tool for more sustainable and more effective than environmental taxes. EU has an ambition to become the first climate-neutral entity and to transform the economy to competitive circular economy (Mottershead et. al., 2021). Arising firm industrial ecology and environmental economics Circular economy and circular taxation are new instruments to settle climate-neutral entity. Due to the plenty uneffective attempts for implementing of the environmental taxes it is obvious that transforming EU economy from linear economy to circular economy is very essential for EU economy and future. But there should be more aimed approach to be implemented. This approach encompasses behavior change, logic change, reduction in both resource use and resource waste.

2.1. Taxation Princibles in European Union

However, taxation is the last area that EU tempt to intervene due to the concept of taxation equals to national sovereignty. So, EU focuses on to remove the barriers for the Single Market

and preventing distortions to competition. Before shift to another tax principle; a consensus should be established among the member states.

Indeed, despite all awareness of essentiality of circular taxes special taxation legislation takes unanimity across all member states.

2.2. Pilot Implementations of Circular Taxation

Before to discuss circular economy, certain environmental tax cases among the EU can pave the way for circular taxation and can pave the way for new tax reforms. These examples are of importance for sparking new circular taxes.

However, indeed the concept of circular taxation is beyond the environmental taxation; first EU began to implement environmental taxes. Alas, EU is not successful at collecting environmental taxes. Before introducing circular taxes environmental taxes which were implemented in some cases below were not effective.

As of 1991 Sweden has implemented taxes on energy and transport that reduced the tax burden on labour (Tax Foundation Europe, 2020). Then successively Denmark 1993, Netherlands 1996, Finland 1997, Slovenia 1997, Germany 1999 introduced this kind of tax. In total, at least 25 Euro billion contributed to the economy (European Commission, 2021).

In 1996, the UK began to implement landfill tax however now UK is not a member state. Also, for reducing unemployment contributions Germany increased the VAT rate (Elliott, 2016).

On the grounds of the fact that implementing government bodies such as limited knowledge of environmental taxes and data requirements, concerns about the potentiality of lack of competitiveness, administrative burden, difficulty of tax collection are certain reasons of why environmental taxes are not effective tool. Circular taxation due to the circular economy is another approach of taxation for accomplishing the objectives.

Circular taxation embarks from the discussion on getting the prices right” to using taxation as efficient ways of accomplishing the objectives. Circular taxes can diminish consumption and exceeded use of resources and drive to positive green impacts such as carbon footprints. In addition circular taxes helps transform linear economy to efficient circular economy.

In 2021 European Union’s Plastics Own Resource was begun to be implemented. This implementation was thought to be contribution by each member state due to the mission of the establishment of EU (Mottershead et. al., 2021).

Transition to circular taxation from environmental taxation certain tax cases can show the current situation, barriers and recommendations. Therefore, some past implementations and the newest implementation as to the circular and environmental taxes can give clues for the future. For instances, product Tax-Vehicles (Yanatma, 2023).

Another pilot case is product tax-vehicles. Automotive vehicles are made of intensive materials so reducing environmental impacts of producing intensive materials are significant important for EU. On the grounds of the fact that the introduction of circular taxes of vehicles can strengthen the existence of other environmental taxes and incentives.

However, taxes for vehicles have many challenges so it should be enforced in common consensus among the member states and the citizens.

Due to the logic of circular economy some member states like Belgium and the Netherlands introduced VAT reduction for repair services or relief tax. VAT is considered as consumption tax hence VAT can be implemented through the production to distribution phase of the product's supply chain. VAT reduction on repair stage or relief tax aims to extend the reuse and repair the product so it will extend the product's lifetime.

As the former member state UK introduced waste tax or Landfill tax while being a member state of EU. The logic of this tax is to encourage the circular economy transition. This tax case is beyond the environmental tax for protecting the impact of landfilling. Via this tax landfilling can be priced.

3. BARRIERS AND CHALLENGES OF THE IMPLEMENTATION OF CIRCULAR TAXES

Despite many barriers taxation has become a new base or context of circular economy. In March 2023, EU Commission proposed a directive on the 'Right to Repair' targeted at handling the growing e-waste problem and accomplish 2050 net-zero goals. It is a legal guarantee for prioritizing repair of a product over replacement for consumers who can be only able to request replacement if the repair is more expensive.

Government bodies, limited knowledge, nature of difficulty of tax collection, consumers' behavior, difficulties of compliance and enforcement, higher cost of circular taxation etc. Despite plenty barriers for implementing circular taxation the World and EU is on the edge of requirement of transforming the economy due the climate crisis. However circular economy approach is urgent, it is still in infancy because of the demands. So, there should be some recommendations for implementing circular taxes. Lack of consumer awareness, low prices of virgin materials, lack of data, no sense of urgency and company culture, products are not designed for circular economy are some barriers of circular taxes.

Despite many planed tax reform attempts there are many barriers and challenges of implementation of circular taxes. The first reason of the challenges of implementing a circular taxation among EU is being as domestic, national. Although not only Sustainable Development Goals also EU has aimed that circular taxation is the novel broader approach of EU; many attempts are regulated in domestic base. So, the results of these domestic implementations can be minimised. Taxation is seen as the indication of sovereignty hence EU has played as a referee

in taxation field. As if there was a broader EU circular taxation legislation there would have encompassed many concerns due to the dubious nature tax structure of circular taxation.

4. RECOMENDATIONS OF THE IMPLEMENTATION OF CIRCULAR TAXES

Although there have been many barriers and challenges for implementing the circular taxes, circular tax concept is unescapable and unavoidable for the next generations and the rest future of the World. Hence, what can be done or what kind of shifts can be done for effective implementation of circular taxes.

Despite its applicability and potential impact across the economy, the concept of circular taxation is still in its infancy. Circular taxation is a versatile tool for circular public finance policy will lead to a reduction in many resources and resource waste.

Circular taxation aims needs an integrated approach for every member state's characteristic for long term results. Not only in EU also among the World EU and member states are to be in collaborative approach involving government bodies.

A more targeted approach to fiscal reform is essential and required for getting more benefits from circular economy.

So, what should be done for spreading the implementation of circular taxes.

- By harmonisation and approximation across the Europe, candidate states circular economy and circular taxes can be supported. Legislation is an essential tool for harmonisation.
- Tax instruments should be designed to guarantee environmental sustainability and measures to combat irreversible situations of environmental degradation
- Furthermore, EU can develop guidance for how to use revenue in fighting tax evasion and tax avoidance.
- The last one, various circular taxes can be implemented due to the regional properties

5. CONCLUSION

Due to the plenty reasons of the requirement of circular taxes because of circular economy many challenges have been still waiting to be implemented. As government bodies, limited knowledge, nature of difficulty of tax collection, consumers' behavior, difficulties of compliance and enforcement, higher cost of circular taxation demands still have been demands for circular taxation. Especially legislation for circular taxes is the first barrier for the new approach.

However, many obstacles, barriers, challenges circular taxes will play a prominent role for circular economy. Beyond the environmental taxes circular taxes will contribute more radical shifts in the economic structure and change prices, consumer behavior, repair, recycling, reuse etc.

In addition, circular taxes will bring more social outcomes and bring another approach called as ESG (environment, social, governance) and sustainable development.

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