

# Indirect tax developments and their redistributive consequences: 2010-19

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*Sofia Maier & Mattia Ricci (JRC)*

# Outline

1. Introduction
2. Motivation and contribution
3. Methodology and data
4. Results
5. Preliminary conclusions
6. Next steps

# 1. A new Indirect Tax Tool for EUROMOD

- ▶ Developed with KU Leuven, University of Essex and Praxis.
- ▶ It covers 18 EU member states (2019-2020), including: BE, CY, CZ, DE, DK, EL, ES, FI, FR, HU, IE, IT, LT, PL, PT, RO, SI and SK.
- ▶ Extension to the remaining 9 member states currently ongoing.
- ▶ Project report, information and news:  
<https://euromod-web.jrc.ec.europa.eu/overview/extended-functionalities>

## 2. Motivation for this work

- ▶ Indirect taxation is a crucial source of revenues in the EU accounting for about a third of fiscal revenues.
- ▶ In the pre-COVID decade (2010-2019), a number of factors promoted a sustained increase in indirect taxation, such as:
  1. Austerity policies (particularly in 2010-2014);
  2. Consensus on tax shift, e.g OECD (2010) and EC (2011);
  3. Taxing tobacco, alcohol and energy products.
- ▶ In the next years significant scope to use indirect taxation, e.g: Green transition, EC initiative on alcohol taxation, COVID fiscal legacy etc.

## 2. The literature and our contribution

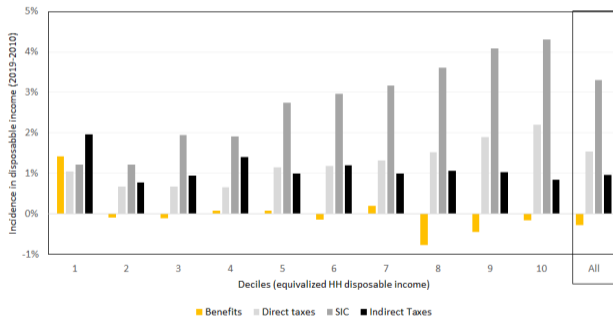
- ▶ The literature (among others: [Decoster et al. \(2010\)](#) and [André et al. \(2021\)](#)) finds indirect taxation to be regressive and to affect vulnerable individuals.
- ▶ Lack of cross-country analysis on the distributive impact of last decades of indirect tax changes and providing an up-to-date assessment of the indirect system.
- ▶ Our paper addresses this gap analysing the indirect tax changes occurring in 2010-19 and assessing the distributive impact of indirect taxation in the EU.

### 3. Methodology and data

- ▶ Microsimulation with EUROMOD-ITTv3, using **the 2019 and 2010 policy systems** for the 18 MS currently available in the model.
- ▶ “Pure” effect of policy changes. No role for changes in consumption, labour market and demographic structure.
- ▶ Imputation of HBS (2010) to EU-SILC (2010), following [Akoğuz et al., 2020](#).
- ▶ Standard Gini-kakwani-RS indicators, decomposition based on [Onrubia et al. \(2014\)](#).

## 4. 2010-19: a decade of tax hikes

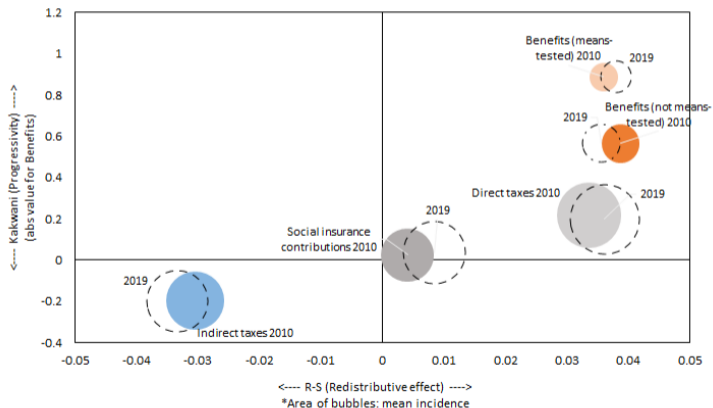
Figure 1: Incidence of tax-benefits changes (EU-18), 2010-19.



Source: own elaboration based on EUROMOD-ITT.

## 4. ..with a complex redistributive impact

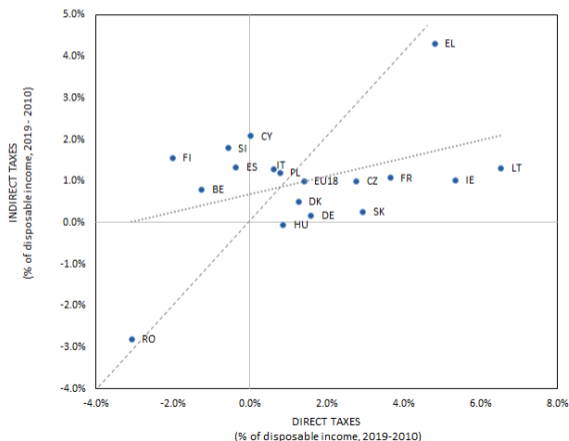
Figure 2: Tax-benefits redistribution, progressivity and incidence (EU-18), 2010-19





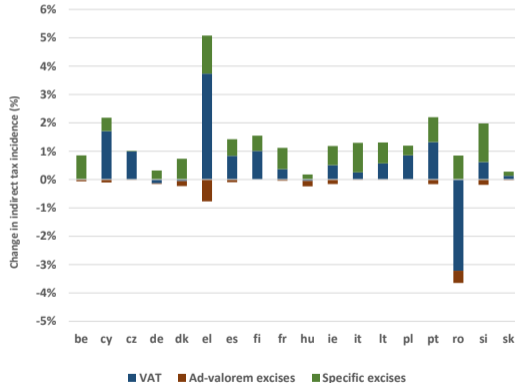
## 4. “Shift” towards indirect taxation? Where?

Figure 3: Change in mean incidence of direct and indirect taxation, 2010-19



## 4. Indirect taxes increased in nearly all EU-18

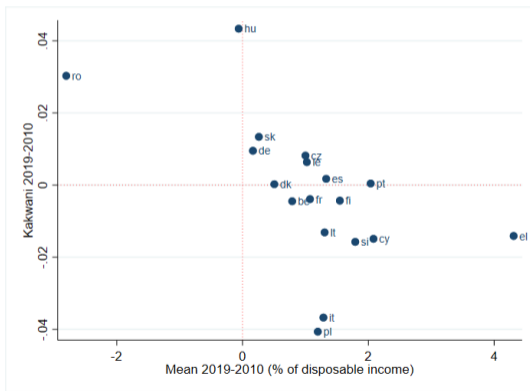
Figure 4: Change in mean incidence of indirect tax components, 2010-19



Source: own elaboration based on EUROMOD-ITT.

## 4. In many MS they became more regressive

Figure 5: Change in incidence and regressivity of indirect taxation, 2010-19



Source: own elaboration based on EUROMOD-ITT.

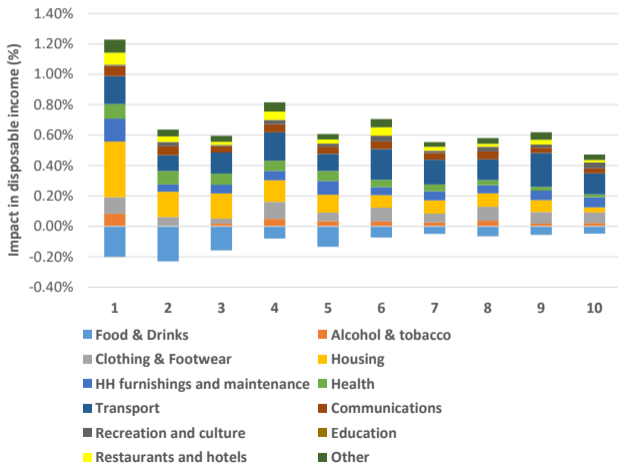
## 4. The first decile was often the most affected

Figure 6: The distributive impact by income deciles



## 4. Increasing VAT over housing, tobacco and alcohol was the most regressive.

Figure 7: VAT changes impact by product categories (EU-18), 2010-19



## 5. Preliminary conclusions

- ▶ During pre-COVID decade, a significant increase of social insurance contributions, direct and indirect taxation.
- ▶ While benefits have become more targeted to lower income groups, the raise of indirect taxation has more than offset their effect.
- ▶ More than half of the 18 MS have experienced an increase in both the incidence and in the regressivity of indirect taxes. Italy, Poland and Greece were “scoring the worst”.
- ▶ The analysis of VAT changes by product categories highlights that increased taxes over housing, tobacco and alcohol were the most regressive.

## 6. Next steps

- ▶ Extend the analysis to the EU-27.
- ▶ Analyse the individual components of indirect taxation (i.e. different rates of VAT and excises).
- ▶ Analyse the distributive impact of indirect taxation of main good categories (e.g. energy, housing, food, etc.).
- ▶ Assessing the impact of COVID-related indirect tax reforms.

# Main references

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# Thank you



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