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The Ex'tax Project in collaboration with
Cambridge Econometrics, Deloitte, EY, KPMG, PwC

Taxshift could be vital for success EU Green Deal

New study: by 2025, switching taxes from labour to pollution and resources could bring EU more jobs, higher economic growth, fewer emissions and less dependence on imports.

BRUSSELS, 2 JUNE 2022 – EU Members States could jointly save a total of €56 billion on their fossil fuel energy import bill while achieving 1.6% higher GDP levels on average, increase employment levels by 3.0% and emit 7.1% less CO2, in no more than five years' time. These are some of the groundbreaking results of a new study by the think tank The Ex'tax Project, in cooperation with Cambridge Econometrics and tax experts of Deloitte, EY, KPMG, PwC. The study is launched today in Brussels, as part of the EU's Green Week and is titled 'The Taxshift. An EU strategy to support the inclusive, circular economy.'

The taxshift scenario aims to strengthen the European Green Deal, which includes a commitment to shift the tax burden from labour to pollution. The study presents a roadmap for such a rebalancing of the tax mix, both at national levels and in an EU context. It assesses the impact of 20 taxshift measures that significantly decrease the tax burden on labour (for households and employers) while increasing taxation of resource use and pollution. Cambridge Econometrics has modelled the impacts in 27 EU Member States using the E3ME model.

Support for lower income groups
The burden for households is eased through a reduction in income tax and social contributions, and income support for the lowest two income groups. For employers, various payroll tax credits have been included: a generic payroll tax credit, one specifically for new employment, for reskilling and training, and for circular process innovation. Finally, a payroll tax credit has been included in the corporate income tax.

The necessary tax revenues are generated by introducing a kilometre charge, increasing VAT, taxing CO2 emissions and other emissions from industry, aviation, shipping and agriculture, and increasing excise duties on tobacco. In addition, measures have been included that put a higher price on water, waste and the use of fossil fuels in chemical processes.

Real incomes are higher than the baseline and the results suggest that a progressive impact is possible, with more benefits (in relative terms) for lower income households. This means that it is possible to design policy measures that address environmental issues (applying the Polluter Pays Principle) and social issues ('leaving no-one behind') simultaneously.

Results highlight:
Between 2021 and 2025, the scenario shifts a total of €1,765 billion (non-discounted) in tax revenues in the EU27. Compared with the baseline, cumulative impacts over the five-year period are:

- **Higher economic growth,** adding €574 billion to GDP
- **Job creation,** adding 18.5 million person years of employment
- **Public investments,** enabling €124 billion in infrastructure investment
- **Carbon emission reductions,** saving 529 million tonnes of CO2 emissions
- **Saving on energy imports,** with EU member States jointly saving €56 billion on their energy import bill.

Impacts in EU Member States
Compared to business as usual, the scenario leads to lower CO2 emissions, higher economic growth and higher employment growth in 26 of the 27 Member States. The exact macroeconomic impacts vary, depending on factors such as the existing VAT structure, CO2 intensity and the labour market characteristics:

- The GDP increase ranges from 0.2% (Denmark) to 3.5-4% (Portugal, Estonia, Latvia, Lithuania, Poland, Slovenia, Bulgaria). The only exception is Malta, where GDP has fallen lightly in 2025 (0.2%).
- The employment increase ranges from 1.4% (Denmark) to 6.6% (Lithuania, Bulgaria). Despite the ageing of the population, the 27 EU Member States have enough potential workers to meet the increasing demand for labour in the scenario.
- CO2 emissions fall between 2.0% (Malta) and 11.6% (Luxembourg). Energy savings vary between 0.9% in Malta and 9.9% in Luxembourg.
- The reduction in personal income tax per person ranges from 1.8% in Denmark to as much as 86.0% in Bulgaria.

Femke Groothuis, president of The Ex'tax Project *states: "This study shows that shifting the tax burden from labour to resource use would boost the green transition, economic growth and employment. A smart taxshift also increases real incomes, especially for low-income households. It's a game changer for achieving the goals of the EU Green Deal. Now is the time for collaboration towards implementation."*

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Full study: https://ex-tax.com/taxshift