

## Energy taxation in Denmark

*By Vibe Busk Larsen (The Danish Ministry of Taxation)*

Energy taxation in Denmark is used as an instrument to fulfill a variety of objectives. These objectives include limiting pollution and emissions of greenhouse gases as well as attaining Denmark's energy and climate policy obligations. Also, some of the taxes are largely based on fiscal considerations. At the same time, energy taxation is designed according to political desires, for example, to promote specific technologies.

The energy taxation provides a tax revenue. The revenue has since the beginning of the 2000s decreased as a percentage of GDP. This development reflects, among other things, an increase in use of renewable energy and an improved energy efficiency.

Today, energy taxation entails large differences depending on the purpose of use, e.g. energy used for heating and energy used for production purposes in industry is taxed differently. This differentiation applies to both fossil fuels and electricity consumption. Thus, the energy tax on electricity consumption for households is very high compared to the tax levied on the industry, and higher in Denmark than in other comparable countries. In addition, the difference between the households' and business' tax rates in Denmark is larger than in other comparable countries.

From a national socioeconomic point of view, taxes on energy should be added to balance out the negative externalities such as climate, environmental and health damaging emissions. Taxes that are targeted the damage costs result in a socioeconomic gain given the abatement cost of reducing pollution is lower than the benefits of less pollution. The lowest socioeconomic costs are generally achieved by using uniform tax rates on what is less wanted. Recent political initiatives have reduced high and primary fiscal tax rates. As a theoretical exercise we show positive socioeconomic effects of uniform tax rates on fossil fuels.