

SUSTAINABLE TAX SYSTEM AND CUSTOMS DUTIES

Gitana DUMBRAITĖ, Vytautas Magnus University, Agriculture Academy, Faculty of Bioeconomy Development, Lithuania, email: gitana.dumbraite@vdu.lt

Erika BESUSPARIENĖ, Vytautas Magnus University, Agriculture Academy, Faculty of Bioeconomy Development, Lithuania, email: erika.besuspariene@vdu.lt

Summary

This article presents the concept of a sustainable tax system and customs duties, as well as the importance of customs duties in the structure of a sustainable tax system. A content analysis was carried out to identify the impact of different taxes on the dimensions of a sustainable tax system - economic, social and environmental. Literature analysis, synthesis and comparison methods, content analysis and graphic visualisation were used for the research. The present research allowed to identify the impact of customs duties on sustainability. Customs duties can ensure the reduction of carbon dioxide (CO₂) emissions and a more efficient management of resources, and it is an important part of a sustainable tax system. According to the content analysis, it was found that different tax instruments are more likely to target one of the dimensions (economic, social, environmental), while customs duties have an impact on all dimensions.

Keywords: customs duties, sustainable tax system, sustainability dimension.

Introduction

Taxes are the fiscal tool that ensures revenue for the government is used to provide public goods to citizens. Customs duties are one of the tax instruments that aims to protect domestic producers and at the same time citizens from harmful goods importation.

Nowadays policymakers, practitioners, and scientists discuss that the tax system must be sustainable. The sustainable tax system usually describes that taxation goals are in line with environmental issues. But still there is a lack of the discussions about the place of customs duties in sustainable tax systems. Therefore, the present research is dedicated to the understanding of sustainable tax systems and customs duties concepts and their interconnections.

Research object – concepts of tax system and customs duties.

Research aim – after revealing the concepts of a sustainable tax system and customs duties, to identify the impact of the customs duties on the sustainable tax system.

The following **objectives** have been set to achieve the aim:

1. To reveal the concepts of a sustainable tax system and customs duties.
2. To identify the impact of the customs duties on the sustainable tax system.

Research methods applied: analysis and synthesis, summarization and comparison of scientific literature; content analysis; graphic visualization.

Concepts of Sustainable Tax System and Customs Duties

Customs duties are one type of tax instruments that affect the tax system. Various scientists (Svetlozarova Nikolova, 2023; Alimbarashvili, Vevere, 2023; Krzikallová, Tošenovský, 2020; Nerudová et al., 2019) discuss the importance of a sustainable tax system. To understand the place of customs duties in a sustainable tax system a literature analysis was made. It allowed to clarify the concept of a sustainable tax system and the concept of customs duties. Table 1 presents several definitions of a sustainable tax system.

As shown in Table 1, researchers used different definitions of a sustainable tax system. On one hand, scientists (Svetlozarova Nikolova, 2023; Alimbarashvili, Vevere, 2023; Krzikallová, Tošenovský, 2020; Nerudová et al., 2019) focus on the structure of the tax system, including different taxes and optimal tax rate, discussing tax evasion, budget balance. On the other hand, scientists describe a sustainable tax system as linked to resource use and including economic, social and environmental aspects. Based on these definitions, the main principles of sustainable tax system design have been identified:

- to use the mix of various taxes (Alimbarashvili, Vevere, 2023);
- to ensure the optimal tax rates (Svetlozarova Nikolova, 2023);
- to promote the trust and compliance among taxpayers (Alimbarashvili, Vevere, 2023);
- to decrease the level of tax evasion (Krzikallová, Tošenovský, 2020);
- to ensure the balance of budget (Nerudová et al., 2019);
- to ensure the sufficient use of resources (Krzikallová, Tošenovský, 2020);
- to increase the quality of public services (Krzikallová, Tošenovský, 2020);
- to ensure the balance between economic, social, environmental and institutional dimensions (Svetlozarova Nikolova, 2023; Alimbarashvili, Vevere, 2023; Nerudová et al., 2019);

- to promote economic growth and economic competitiveness (Alimbarashvili, Vevere, 2023).

Table 1. The concept of a sustainable tax system

1 lentelė. Darnios mokesčių sistemos samprata

Author Autorius	Definition Šavokos apibrėžimas
Svetlozarova Nikolova (2023)	The sustainable tax system is defined as a tax system with the level of optimal tax rates ensuring the balance between economic efficiency and social justice of the tax system.
Alimbarashvili, Vevere (2023)	A sustainable tax system must be designed to assess the environmental and social challenges – promote sustainable economic growth and economic competitiveness; use a mix of various types of taxes (e.g. carbon taxes, resource taxes, pollution taxes); avoid tax leakage to other countries; tax policy must be fair, efficient and effective; promote the trust and compliance among taxpayers.
Krzikallová, Tošenovský (2020)	A sustainable tax system has to generate sufficient revenues for various activities of government and ensure the sufficient use of resources, increase the quality of public services, and decrease tax evasion.
Nerudová et al. (2019)	Simple definition of the sustainable tax system is the balance of budget. On the other hand, the sustainable tax system must cover economic, social, environmental and institutional dimensions.

Summarizing the identified principles of a sustainable tax system, it can be concluded that the country ensuring all principles can be considered as having a sustainable tax system.

Customs duties are one of the tax instruments. In the present research, the concept of customs duties was analysed to understand the place of customs duties in a sustainable tax system (see Table 2).

Table 2. The concept of customs duties

2 lentelė. Muitinės mokesčių samprata

Author Autorius	Definition Šavokos apibrėžimas
Novikov et al., 2020, cited Dolgova, Novikov, 2022	Customs duties is the tax calculated on the price of goods imported taking into account the domestic market to ensure the domestic similar goods equal competition and profitability of domestic producers.
Bureau et al., 2017	Customs duties have been applied in an attempt to stop the growth of international trade. The research found that a 17% tariff would only reduce 3.5% of global CO2 emissions.
Ekici et al., 2016	Customs duties is the indirect tax used on the import and export of goods. Usually, a tariff selected from the list of commodities is called custom duties.
Ciobanu, 2015	Customs duties are indirect taxes on consumption levied on goods crossing a country's border. Customs duties are classified into import duties, export duties and transit duties. Import duties focus to protect domestic producers, as export duties linked to isolate some raw material into country and transit duties used goods crossing country territory.
Freeman et al., 2010	“Customs duties is a tax charged by government on goods produced outside the country.”

The analysis of the literature (see Table 2) showed that customs duties are indirect taxes and a type of consumption taxes, focused on import, export, or transit (Novikov et al., 2020, cited Dolgova, Novikov, 2022; Ekici et al., 2016; Ciobanu, 2015). The calculation of customs duties includes the price of goods produced outside the country and the tax rate (tariff) according to the list of goods. (Novikov et al., 2020, cited Dolgova, Novikov, 2022; Ekici et al., 2016; Freeman et al., 2010)

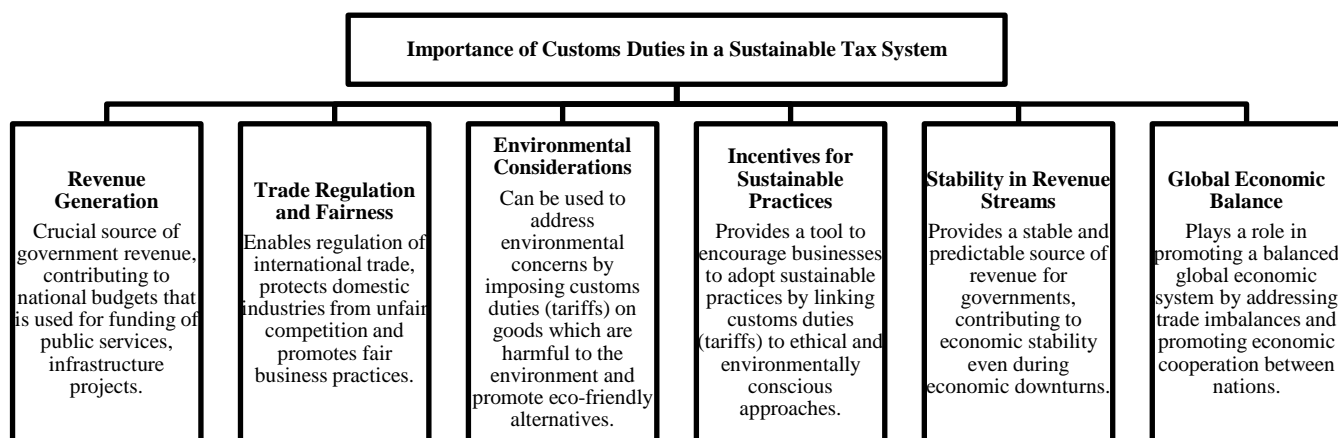
There are three types of customs duties, which have different objectives. Import duties aim to protect the local producer (Novikov et al., 2020, cited Dolgova, Novikov, 2022; Ciobanu, 2015). Transit duties are used to tax goods crossing the country (Ciobanu, 2015). Export customs duties are important in the context of sustainability because it helps to control the use of resources (Ciobanu, 2015).

In the context of sustainability, important aspects of customs duties are that they (1) have an impact on reducing carbon dioxide (CO₂) and (2) help control the use of resources (Bureau et al., 2017; Ciobanu, 2015).

The customs duties in a sustainable tax system are one of the important tools that showed relation connections in tax system because they generate revenue, support fair trade practices and maintain economic stability and growth. The following are some key ideas that highlight the role of duties in a long-term tax system, as shown in Figure 1.

As seen in Figure 1, customs duties are an extremely important element in any country in order to ensure economic and social cohesion, fair trade, and a source of government revenue. The correct setting and application of customs duties help countries to manage their economies more effectively and to achieve social goals.

After summarising the literature analysis on the concept of a sustainable tax system and customs duties, the following conclusions can be drawn. Customs duties are part of the tax system, so in order to ensure a sustainable tax system, customs duties must also be varied with optimal rates according to the lists of goods, ensure sufficient use of resources, and maintain a balance between economic, social, environmental, and institutional dimensions.



Source: created by authors based on European Commission, Directorate-General for Taxation and Customs Union (2018).
Šaltinis: sudaryta autorių pagal European Commission, Directorate-General for Taxation and Customs Union (2018).

1 pav. Muitinės mokesčių svarba darnioje mokesčių sistemoje
Fig. 1. Importance of customs duties in a sustainable tax system

The impact of the customs duties on the sustainable tax system

The impact of customs duties on the sustainable tax system is analysed in various scientific literature, with the majority of the research being carried out in the field of taxation. In the previous section, it was noted that a sustainable tax system has four dimensions – economic, social, environmental, and institutional. In the context of the present research, in order to show how customs duties affect sustainability in these dimensions, it was decided to examine three main dimensions – economic, social, and environmental.

The first step of the present research includes input indicator selection – various taxes including customs duties. These input indicators address the design of a tax system and attempt to quantify its (potential) impact on different aspects of sustainability. Therefore, these indicators could be used to assess the aspirations of tax policy makers who are committed to the long-term impact of the tax instrument to address a sustainable tax system. The second step is to identify the outcome in each of the sustainability dimensions. To do this, content analysis is used to find systematic relationships between sustainability dimensions and relevant indicators. The marking of the indicators according to the content analysis is shown in Table 3.

Table 3. Marking of indicators

3 lentelė. Rodiklių žymėjimas

Marking of indicators Rodiklių žymėjimas	Meaning Reikšmė
+	The positive impact of the applied tax on the sustainability dimension
-	The negative impact of the applied tax on the sustainability dimension.
0	The neutral impact of the applied tax on the sustainability dimension.
?	The unclear/ambiguous impact of the applied tax on the sustainability dimension.
1	Identifies cases of environmentally harmful tax exemptions.

Source: created by authors.
Šaltinis: sudaryta autorių.

Based on the analysis of articles by Schratzenstaller (2015) and Bureau et al. (2017), it has been possible to carry out research and identify the impact of customs duties on the sustainable tax system (see Table 4).

4 lentelė. Mokesčių, esančių darnioje mokesčių sistemoje, tyrimo rezultatai

Table 4. The research results of taxes on the sustainable tax system

Taxes as part of tax system	Sustainability dimensions		
	Economic	Social	Environmental
Inheritance and gift tax	+	+	0
Net wealth tax	+	+	0
Real estate tax	+	+	0
Capital transfer taxes	-	+	0
Environmental taxes	+	-	+
Sin taxes (tobacco, alcohol)	+	?	0
Value added tax	-	-	0
Personal Income tax	-	+	0
Social security contributions	-	-	0
Corporate Income tax	-	+	0
Tax exemptions	-	?	1
Customs duties	+	+	+

Source: created by authors based on Schratzenstaller (2015) and Bureau et al. (2017).
Šaltinis: sudaryta autorių pagal Schratzenstaller (2015) ir Bureau et al. (2017).

The content analysis (see Table 4) identified 9 taxes, social contributions, tax exemptions and customs duties, giving a total of 12 indicators against which sustainability was assessed. The results of the study revealed that different taxes have different effects on the dimensions of sustainability (see fig. 2).

Economic dimension	Social dimension	Environmental dimension
<ul style="list-style-type: none"> • 50% of taxes in a tax system have a positive impact on economic sustainability. • 50% of taxes have a negative impact on economic sustainability. • Customs duties have a positive impact on economic sustainability. 	<ul style="list-style-type: none"> • 58% of taxes have a positive impact on social sustainability. • 25% of taxes have a negative impact on social sustainability. • 17% of taxes impact is unclear/ambiguous on social sustainability. • Customs duties have a positive impact on social sustainability. 	<ul style="list-style-type: none"> • 17% of taxes have a positive impact on environmental sustainability. • 8% of taxes have an environmentally harmful tax exemptions. • 75% of taxes have a neutral impact on environmental sustainability. • Customs duties have a positive impact on environmental sustainability.

Source: created by authors.
Šaltinis: sudaryta autorių.

Fig. 2. Summary of research findings in the context of a sustainable tax system
2 pav. Tyrimo rezultatų apibendrinimas darnios mokesčių sistemos kontekste

Although the concept of a sustainable tax system indicates that a balance must be maintained between all dimensions of sustainability, the results of the present research showed that taxes have different impacts on sustainability in different dimensions (see fig. 2). The results stood out the most in the environmental dimension, where only a small part of taxes have a positive effect. It is important to note that customs duties have a positive impact on sustainability in all dimensions and are an integral part of a sustainable tax system.

Conclusions

After analysing the literature, it was found that a sustainable tax system must comply with the main principles – diversity of taxes, optimal tax rates, budget balance, efficient use of resources, ensuring public services, and balance in the dimensions of sustainability.

Meanwhile, customs duties are a specific tax instrument applied to goods imported, exported or crossing the border in transit. Customs duties have been shown to have a sustainability impact through CO₂ emission reduction and resource management. Customs duties are one of the components of the sustainable tax system.

The content analysis showed that different taxes in the tax system have different impacts on the sustainability dimensions. About half of the taxes have a positive impact on the economic and social dimensions, but only 17% have a positive impact on the environmental dimension. Customs duties were found to have a positive impact on all dimensions of sustainability and are in line with the concept of a sustainable tax system.

Literature

1. Alimbarashvili D., Vevere V. 2023. Sustainable taxes in an open economy. *XXIV Turība University Conference. Change – the basis of a sustainable society*, p. 6-15. Access: <https://www.turiba.lv/storage/files/konference-2023.pdf#page=6> (Accessed 10/02/2024)
2. Bureau D., Fontagné L., & Schubert K. 2017. Trade and climate: Towards reconciliation. *Notes du conseil d'analyse économique*. Vol. 37, iss. 1, P. 1-12.
3. Ciobanu R. 2015. The National Institutional System with Competence in Administering Customs Duties. *Bulletin of the Transilvania University of Braşov, Series VII: Social Sciences and Law*. Vol. 2, p. 181-188.
4. Dolgova M. V., Novikov V. E. 2022. Improvement of customs and tariff regulation as a factor of sustainable development: 016. In *Dela Press Conference Series: Economics, Business and Management*. Vol 003, iss. 016, p. 1-6.
5. Ekici Ş. Ö., Kabak Ö., Ülengin F. 2016. Linking to compete: Logistics and global competitiveness interaction. *Transport Policy*. Vol. 48, p. 117-128.
6. European Commission, Directorate-General for Taxation and Customs Union. 2018. *A fair share: taxation in the EU for the 21st century*, Publications Office. Access: <https://data.europa.eu/doi/10.2778/848353> (Accessed 20/12/2023)
7. Freeman B., Gartner C., Hall W., Chapman S. 2010. Forecasting future tobacco control policy: where to next? *Australian and New Zealand journal of public health*. Vol. 34, iss. 5, p. 447-450.
8. Krzikallová K., p Tošenovský F. 2020. Is the value added tax system sustainable? the case of the Czech and Slovak Republics. *Sustainability*. Vol. 12, iss. 4925, p. 1-25.
9. Nerudová D., Hampel D., Janová J., Dobranschi M., p Rozmahel P. 2019. Tax system sustainability evaluation: a model for EU countries. *Intereconomics*. Vol. 54, p. 138-141.
10. Schratzenstaller M. 2015. Sustainable tax policy. Concepts and indicators beyond the tax ratio. *Dans Revue de l'OFCE 2015/5*, Vol. 141(5), p. 57-77.
11. Nikolova, B. S. 2023. *Tax Audit and Taxation in the Paradigm of Sustainable Development: The Impact on Economic, Social and Environmental Development*. Springer Nature