

Introduction

Electricity taxes are charges levied by governments on the consumption or supply of electricity and collected through energy bills. They are part of the wider system of energy taxation, alongside taxes on fossil fuels such as gas, oil and coal. Although they appear as an additional cost on consumers' bills, they are ultimately a way for governments to collect public revenue from energy use. Because energy and in particular electricity is essential and consumed continuously, energy taxes provide governments with a stable source of income that can help finance public budgets.

The way these taxes are recovered is relatively straightforward: suppliers collect the relevant taxes and levies from consumers as part of their electricity bills and then transfer the revenues to the public authorities. This means that taxation can have a direct and visible impact on the final price households and businesses pay for electricity. While taxes can serve legitimate purposes (in particular discouraging pollution and influencing consumer choices) their design matters greatly. If electricity is taxed more than fossil fuels, taxation can make electricity and hence electrification less attractive, working against climate and energy objectives.

This is particularly important as Europe seeks to rapidly replace fossil-fuel use with (renewable) electricity, as per the EU Electrification Action Plan. The question is therefore not whether energy should be taxed, but what governments choose to tax, at what level, and for what purpose. A well-designed system should raise the revenues needed to fund public services and a just transition while ensuring that taxation reinforces climate policy. The stakes of the current reform are therefore much broader than the price of an electricity bill: it is about whether Europe's tax system will continue to favour fossil-fuel consumption or help make renewable electrification the affordable and accessible choice for everyone.

What electricity taxes are we talking about

Taxes are one of the main components of electricity bills, together with the energy costs and network tariffs. They comprise:

- **Excise duties:** these are consumption taxes applied directly to electricity use. Under the EU Energy Taxation Directive, Member States set national rates subject to EU minimum rates. They are typically charged per unit of electricity consumed (e.g. €/MWh).
- **VAT:** electricity is also subject to value-added tax, generally applied as a percentage of the final taxable price. Unlike an excise duty, VAT increases as the underlying price of electricity increases. Member States have some flexibility over the VAT rate they apply within the framework of EU VAT rules.
- **Levies and other charges:** Member States can also add charges to electricity bills to finance specific policies or public expenditures. These can include support for renewable energy, energy efficiency, social schemes, capacity mechanisms, public service obligations,

or even non-energy-related costs. Their design and size vary considerably between countries.

The Emissions Trading System should be clearly distinguished from taxes, levies and charges on electricity consumption. A market-based instrument that puts a price on greenhouse gas emissions, it influences electricity prices when fossil-fuel-fired power plants set the marginal wholesale market prices. The role of the ETS is to incentivise the decarbonisation of the energy (and industry) mix and should therefore not be confused with the taxes and charges that governments apply directly to electricity consumption¹.

What the European Commission is proposing

The Commission's proposal on future-proofing electricity bills is broader than electricity taxation, as it amends the Electricity Regulation to reduce electricity system costs, improve grid use and accelerate electrification, by regulating network charges and electricity taxation.

The taxation aspect is a small part of the proposal and addresses national excise duties solely. The proposal does not reform the [Energy Taxation Directive](#) (the revision of which is on hold since the latest negotiations have not been successful) and does not harmonise electricity tax rates. Instead, it introduces a principle into the [Electricity Regulation](#) (through article 18c in the Electricity regulation) that national excise taxation should provide a more favourable framework for electricity than gas.

- The central proposal is that Member States must set their excise duty rates so that the rate applied to electricity is not higher than the rate applied to gas. The aim is to reverse the existing situation in Member States where taxation gives an advantage to gas over electricity and therefore discourages electrification. A flexibility is introduced in the proposal to allow Member States to ask the Commission to defer the application of the electricity/gas tax differential where it can demonstrate specific national circumstance, including its fiscal situation.
- The proposal also makes it easier for Member States to apply reduced electricity excise rates, potentially down to zero, for energy-intensive industries. It effectively considers the environmental/climate condition for these reductions to be fulfilled when electricity is supplied to qualifying energy-intensive companies, because electrification is considered to have positive environmental and climate impacts.

What CAN Europe proposes

Correcting the structural tax disadvantage of electricity over fossil fuels is a necessary step to meet the EU's climate and energy objectives and [make electricity more affordable in order to unlock electrification and foster social acceptance for the transition](#). When designed appropriately, taxation reform can be an important lever for reducing electricity costs, but it must form part of a broader package of measures addressing other drivers of electricity prices, including tariff schemes and pricing structures, network costs and levies.

¹ [A revision of the ETS](#) was proposed by the Commission on 17th July as well. CAN's position on the ETS can be found [here](#).

Moreover, such reform must be designed and accompanied by specific measures to ensure taxation actively drives fossil-fuel phase-out, accelerates renewable electrification, incentivises energy savings and protects vulnerable households.

1) Incentivising electrification by aligning fiscal policy with climate and energy objectives

Today, electricity can be taxed more heavily than fossil fuels such as gas, creating a perverse incentive against electrification². The first priority should therefore be to ensure that electricity is never taxed more heavily than fossil fuels, considering all taxes and levies which are placed on electricity bills, and eventually that electricity faces the lowest tax burden.

Taxation should reflect the environmental and climate costs of different energy sources: fossil-fuels should progressively bear a greater share of the tax burden, while electrification should become the more affordable choice.

This is particularly important as the introduction of ETS2 will put an additional carbon price on fossil fuels used in buildings and road transport. Electricity-tax reform should anticipate this new carbon price and be designed coherently with it, ensuring that the combined effect of taxes, levies and carbon pricing consistently makes renewable electrification the more attractive and affordable option.

In particular, CAN Europe favours addressing excise duties rather than VAT, as excise duties are specifically designed to influence consumption and can be differentiated between energy products. VAT, by contrast, is a broad consumption tax applied as a percentage of the underlying price and is not primarily intended to steer energy choices. While reducing VAT on electricity could also lower household bills, it could weaken incentives for energy efficiency and sufficiency by making electricity consumption cheaper across the board. A well-designed taxation system should therefore support the switch from fossil fuels to efficient electric technologies without creating incentives for higher overall energy consumption.

Excise-duty reform can help achieve this balance by lowering the taxation of electricity relative to fossil fuels while retaining an appropriate price signal on energy use. This makes excise duties a more suitable lever for promoting efficient electrification: they can correct the structural tax disadvantage of electricity while allowing taxation to remain progressive and preserving incentives to limit unnecessary or excessive consumption. Reducing VAT would be a less differentiated instrument for achieving these objectives and would also have significant implications for public revenues.

² See for instance the [analysis](#) from the European Heat Pump Association

2) Ensuring revenue sustainability

Lowering electricity taxation should not mean reducing public revenues. Energy taxes and levies provide governments with important and stable revenues that finance public services, social protection and the energy transition. A climate-aligned reform should therefore focus on shifting taxation rather than eliminating it: away from electricity and towards fossil fuels and pollution, while ensuring that revenues needed for climate investment and social support are maintained. In particular, [CAN Europe has shown](#) that a well-designed tax on fossil fuel profits would not harm consumers (households and firms). Such a tax could be put in place to replace revenues currently drawn from electricity taxation. This should be accompanied by a broader review of the charges placed on electricity bills, including levies and other policy costs, to ensure the way these costs are recovered does not penalise electrification.

3) Placing strict conditionalities for supporting energy-intensive industries

Competitive electricity prices are important for the decarbonisation of European industry, particularly where industrial processes can switch from fossil fuels to renewable electricity. Reduced electricity taxation for genuinely energy-intensive and trade-exposed industries can therefore be justified where it accelerates industrial electrification and transformation, but such relief should be targeted, temporary and conditional on credible commitments to reduce fossil-fuel use, improve energy efficiency (such as the use of waste heat) and increase the use of renewable electricity, rather than providing unconditional support for business-as-usual production³.

The existing EU regulatory and State aid framework already allow Member States to compensate energy-intensive industries in order to keep lower electricity prices. However, both the indirect cost compensation mechanism under the ETS as well as the Middle East Crisis Temporary State Aid Framework would need to be reformed to ensure that this support does not cover fossil-based electricity consumption. The support to energy-intensive industries is also to be balanced against the need to ensure social justice and therefore support people and especially vulnerable households facing high electricity costs.

4) Promoting electrification while fostering social justice and avoiding excessive consumption

Making electricity more attractive than fossil fuels is important, but it does not automatically ensure that vulnerable households can benefit from electrification, as lower-income households are often more dependent on fossil fuels and least able to invest in technologies such as heat pumps, electric vehicles or energy efficiency.

To provide relief to those most in need while further incentivising electrification, vulnerable and energy-poor households should be eligible for reduced tax rates, potentially down to zero where appropriate. A differentiated rate can provide immediate relief by lowering the tax component of electricity bills for households facing the greatest affordability pressures, while maintaining a price signal for those who can afford, thereby avoiding an adverse impact on public budgets and untargeted across-the-board tax reductions.

³ See [CAN Europe's briefing](#) on the lessons learned from Member States concerning social and environmental conditionalities in public finance for companies

Beyond income-based differentiation, electricity taxation could also be made progressive, with a lower rate applying to a basic level of electricity consumption and progressively higher rates for higher levels of consumption⁴. Such an approach would protect households' essential energy needs while maintaining incentives for energy savings and avoiding incentives for excessive consumption.

The Italian experience⁵ shows that consumption thresholds designed to encourage energy savings in a fossil economy can inadvertently discourage electrification: exemptions limited to a fixed level of consumption or contracted capacity may penalise households that need more electricity precisely because they are replacing fossil-fuelled technologies with efficient electric solutions. Progressive taxation should therefore protect essential consumption and maintain incentives for energy savings, while ensuring that households are not financially penalised for increasing electricity use as part of the transition to electrification.

Tax reform should be accompanied by targeted measures that enable these households to electrify and reduce their energy costs, so that households are not only protected from high bills today but can permanently reduce their energy needs and benefit from electrification. The Social Climate Fund is expected to play a key role in that regard.

⁴ See for instance the proposal for a progressive electricity tax from the [Swedish Society for Nature Conservation](#) (p.48)

⁵ Discussed in ECCO's paper "Electrification, interrupted - How taxes and levies are slowing down the energy transition in Italy", June 2026



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