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Environmental Tax Issues of Relevance to Developing Countries

Carbon taxation – an instrument for developing countries to raise revenues and support national climate policies

Report to meeting in the United Nations Committee of Experts on International Cooperation in Tax Matters

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1. Introduction

The 13th session of the United Nations Committee of Experts on International Cooperation in Tax Matters took place in New York on 5-8 December 2016. One of the items on the agenda was a presentation by (i) a representative from the Swedish Ministry of Finance; and (ii) a representative from the IMF on environmental tax issues of relevance to developing countries. Following a brief but positive discussion, it was decided that a report should be produced to give recommendations on this issue to the next Membership of the Committee. This report was to be discussed at the 14th Session of the Committee of Experts in International Cooperation in Tax Matters (Committee) in April 2017.

2. Why bring this up for discussion now?

Many developing countries are confronted with low government revenue, due to a variety of reasons. The G20/OECD BEPS project has shed a light at how harmful base erosion and profit shifting (BEPS) can be, particularly for many developing countries lacking the resources to control and tax

5. In scope

A countries' climate change policy may involve the application of one or more taxes, amongst which are:[1] energy taxes, pollution taxes, a value-added type tax, or a carbon tax. This paper will dra

GHG stabilization targets and reduce reliance on fossil fuels. Such an achievement would be in line with the adaptation and mitigation measures assumed by countries, to the extent the global community delivers on commitments which are in line with the Paris Agreement. In fact, the goal is to reach the point where the revenues derived from the application of a carbon tax is decreasing over time, as a result of its reduced fossil fuel reliance. At that point the revenues lost as a result of the country's conversion into a green economy can be recaptured by increasing some other tax (e.g. by increasing a general energy tax).

An involvement of Finance Ministries in climate change actions can ensure that adaptation and mitigation policies are supportive and consistent with macroeconomic and growth objectives in the most efficient and effective way. To advance this goal, at the invitation of the Moroccan Presidency to the Conference of the parties to the UNFCCC, a Finance Ministers roundtable took place in Marrakesh in November 2016. The roundtable discussion resulted in a request to the World Bank to further explore the establishment of a more formal mechanism to advance the role of Finance Ministries in climate policy.

6. Global outlook

Finland was the first country to introduce a specific carbon tax in 1990, closely followed by Sweden, Norway and Denmark. Within the EU such national taxes are now also found in France, Ireland, Portugal and Slovenia and during recent years there has been a significant increase of jurisdictions outside the EU which have launched carbon taxation. Examples are Switzerland, Japan the design of the tax. For example, derogations may be deemed necessary at least during a transitional period to strike a balance between environment and competitiveness as well as to address distributional consequences.

7. Restructure existing taxation of energy to bring it in line with climate policy - key issues to consider when implementing a carbon tax

Putting a price on carbon emissions is another way of expressing the Polluter Pays Principle (PPP), namely that the burden for the damage caused by the fossil carbon emissions is shifted back to those responsible for releasing the carbon emission in the first place. Climate change theory has taught us that by putting a price on carbon, a direct link is created between government policy and what society wants to achieve, namely to reduce harmful emissions. The PPP aims to internalize the external cost of carbon, by quantifying the harm caused by every ton of carbon dioxide emissions

9. Recommendations to the next committee

As briefly outlined in this paper, carbon taxation can be a cost-