

Priorities - Tax

Green taxation



ISSUE

On 14 July 2021, the Commission presented the first series of adopted files under the 'Fit for 55' package. These are meant to revise the entire EU 2030 climate and energy framework, including the legislation on effort sharing, land use and forestry, renewable energy, energy efficiency, emission standards for new cars and vans and the Energy Taxation Directive.

Through the revision of the Energy Taxation Directive, the Commission aims at overhauling the way in which energy products are taxed in the EU to make sure that it better reflects the EU's climate ambitions. Additionally, the Commission encourages Member States - as part of their national recovery efforts - to design appropriate green taxes that can raise revenue and remove fossil-fuel subsidies while ensuring that those who pollute or waste bear the consequences of their actions (the 'polluter pays' principle).

In the same package, the Commission proposes to strengthen the emissions trading system (ETS) and introduce a new carbon border adjustment mechanism (CBAM). The CBAM would later introduce a requirement to submit "CBAM certificates" that reflect the carbon price of the embedded emissions in the covered products that are imported into the EU. Given that it is and being not, in its current design, not a tax per se, this measure is not covered by the present paper.

The primary purpose of environmental tax measures should be to address clearly defined, science-based environmental objectives rather than simply raising revenue.



RECOMMENDATIONS

Environmental taxation is only one of the instruments to incentivise environmental objectives, and its relative effectiveness and efficiency at doing so is not uniform worldwide. Instead, the utility of environmental taxes and incentives depends on the economic, technological and industrial situations in a given country or region, among others.

Any taxation policy should be considered in holistically and with existing and/or contemplated regulations defining robust and integrated policy frameworks towards economic efficiency, social acceptability and environmental objectives. Any new taxes and incentives have to be coherent, pro-growth and avoid inhibiting private sector investment and innovation.

In that context, when developing green tax policies, we would recommend to:

- Assess their impact and ensure proportionality;
- Develop them through inclusive consultation with business and other stakeholders and open communication with the public;
- Consider reinvestment of generated taxation revenues in related environmental objectives and measures to address social inequalities;
- Align them with cross-border trade, investment and inclusive growth;
- Deepen consensus, promote coordinated rules and strengthen international cooperation through the new policies to provide simplicity, tax certainty and predictability;
- Ensure that new policies spur investment and innovation in green technologies and circular economy initiatives;
- Minimise administrative burden to maintain competitiveness.