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**Committee of Experts on  
International Cooperation in Tax  
Matters Twentieth session**

Venue and Timing of Session TBC

Item 3(h) of the provisional agenda

**Environmental tax issues**

**Coordinator's Report**

*Summary*

This note is presented to the Committee FOR INFORMATION at its 20<sup>th</sup> Session.

The main purpose of the note is to provide the Committee with a summary of the work the Subcommittee on Environmental Taxation has carried out since the 19<sup>th</sup> session of the Committee, in particular of the outcomes of the Subcommittee meeting that took in place in Paris from 2 to 4 February 2020. The note also intends to update the Committee on the status of the development of the outline of the *United Nations Handbook on Carbon Taxation* (hereinafter the Handbook), as a way to introduce Chapters 2, 4 (CRP.19 and CRP.18) for DISCUSSION, and Chapter 3 (CRP.17) for DISCUSSION and APPROVAL.

1. In its 15<sup>th</sup> Session, the Committee decided to form a Subcommittee on Environmental Taxation Issues (hereinafter, the Subcommittee) with the following mandate:

The Subcommittee is mandated to consider, report on and propose guidance on environmental tax issues and opportunities for developing countries in particular, on the basis that it shall:

- identify and consider the most pressing issues where guidance from the Committee may most usefully assist developing countries in this area and initially report to the Committee on such issues at its sixteenth session in 2018;
- pay particular attention to the application of carbon taxes, and report on current country practices, policy considerations and administrative issues;
- provide draft guidance on such issues as are approved by the Committee at its sessions.

In undertaking its work, the Subcommittee shall consult broadly and seek to engage with others active in the field. The Subcommittee shall report on its work at each session.

2. In its 16<sup>th</sup> Session, the Committee approved the programme of work submitted by the Subcommittee, whereby the Subcommittee proposed to focus primarily on carbon taxation.
3. During the 17<sup>th</sup> meeting of the Committee, the Subcommittee presented an extended outline of a future United Nations Handbook on Carbon Taxation (hereinafter the Handbook), which highlighted some of the key topics to be included in it (i.e. how to levy a carbon tax, who should pay the tax, how any tax exemption would work, what is the best tax rate, etc.).
4. At the 18<sup>th</sup> Session of the Committee, the Subcommittee presented an updated version of the outline of the Handbook taking into consideration the discussion and comments made during the previous Session. The second version of the outline comprised the following chapters:
  - Chapter 1 - Introduction
  - Chapter 2 – A Conceptual Approach (this chapter was to merge two former chapters – one on the definition of environmental taxes and environmentally related taxes, and another on the motives for introducing a carbon tax -; in addition, it was proposed to include in this chapter economic theory elements related to carbon taxation, as well as an overview of other instruments for pricing carbon and of some key factors a country should consider when deciding whether to adopt a carbon tax.)
  - Chapter 3 – Designing a Carbon Tax
  - Chapter 4 – Issues in the Administration of a Carbon Tax

- Chapter 5 - Revenue Use
- Chapter 6 - Interaction of a Carbon Tax with Other Measures (it was proposed that this chapter focus, in particular, on the interaction with other environmental policy instruments, other relevant taxes, tax subsidies and competition policies, consumption policies, and existing international agreements)
- Chapter 7 – Country Experiences

Finally, in order to keep the more practical character of the Handbook, the Subcommittee proposed to move to Annexes the following sections (which appeared as chapters in the outline of the Handbook that had been proposed to the Committee during the 17th session):

- Brief history of Carbon Tax
  - International governance related to carbon taxation
  - Detailed economic theory concepts related to the determination of Carbon Tax rates
5. At the 18th meeting of the Committee, the Subcommittee also presented for discussion a first draft version of Chapter 3 of the Handbook (Designing a Carbon Tax), considered to be the core of the Handbook. A second draft of Chapter 3 was presented to the Committee for discussion at its 19th Session. At both meetings, the Committee expressed its support to the work reflected in draft Chapter 3 and to the approach taken by the Subcommittee of providing very practical guidance on the options available for designing a carbon tax. In addition, at the 19th Session, the Committee supported the proposal made by the Subcommittee to divide Chapter 3 into three Subchapters (i.e. Subchapters 3A- Basic elements in designing a carbon tax; 3B – How to set the carbon tax rate; and 3C – Addressing undesired effects for households and industries). The Committee also decided not to include the Annex on the Detailed economic theory concepts related to the determination of Carbon Tax rates, as it found that the amount of information contained in Subchapter 3B serves well the purposes of the Handbook and therefore the Annex was not needed.
6. On February 2 – 4, 2020, the Subcommittee on Environmental Taxation held a three-day meeting at the UNESCO headquarters in Paris. The following are the topics addressed during the meeting and its main takeaways:
- **Chapter 3 – Designing a Carbon Tax.** The Subcommittee discussed the amendments introduced to the Chapter following the discussions held at the 19th Session of the Committee and the comments received from Committee members and observers; the latter, with the view of finalizing the draft of Chapter 3, which is now presented to the Committee FOR APPROVAL (document E/C.18/2020/CRP.17).
  - **Chapter 2 – Carbon Taxation: An Introduction for Policymakers** (formerly named as “A Conceptual Approach”). The Subcommittee discussed the draft

Chapter, which resulted from (i) merging two prior chapters<sup>1</sup>, and (ii) adding an overview of the mechanisms for pricing carbon, their potential effectiveness from an environmental point of view, and the policy considerations for introducing a carbon tax.

At its meeting in Paris, the Subcommittee decided to restructure the Chapter, so it could provide a more clear and comprehensive explanation of the environmental problem posed by carbon emissions and the potential for carbon taxes to tackle such problem. The Subcommittee also decided to rename the Chapter in order to reflect more accurately its content. Hence, the draft Chapter 2 that is now presented to the Committee FOR DISCUSSION at its 20th Session (document E/C.18/2020/CRP.19) starts by describing the climate change effects produced by green-house gas emissions in general, and carbon emissions in particular, to then describe the international legal framework for combatting climate change, the policy instruments for reducing carbon emissions, and among them the mechanisms for pricing carbon, in particular carbon taxes. The Chapter then describes the motives for choosing carbon taxes over other carbon pricing mechanisms, the core principles informing carbon taxation, and the main policy considerations a country should take into account when deciding whether to introduce a carbon tax.

The Chapter includes a definition of “carbon taxes”, drafted for the purposes of the Handbook (which does not pretend to be exhaustive or to compete against the various definitions provided by other organizations), and a brief reference to the definitions of “environmental taxes” and “environmentally related taxes”. The Subcommittee agreed that the more theoretical discussion around the aforementioned definitions was not necessary for the purposes of the Handbook. However, if the Committee decided that some detail on the matter would be desirable, such detail could be provided by means of an Annex.

On the other hand, current draft Chapter 2 briefly describes the international legal framework regarding environmental protection and climate change that has been produced under the purview of the United Nations. Pursuant to the outline presented to the Committee in its 18th Session, the Subcommittee produced an Annex on Carbon Tax in the Context of the United Nations (former Annex on International governance related to carbon taxation), which is presented alongside draft Chapter 2. Given the inclusion of a brief description of the abovementioned international framework in the main body of the draft Chapter, the Committee will also be asked about its opinion on the need to include the Annex on Carbon Tax in the Context of the United Nations in the Handbook.

Based on the discussion of this note by the Committee and on the comments received, the Subcommittee intends to revise draft Chapter 2 and send it to the

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<sup>1</sup> One on the definition of “environmental taxes”, “environmentally related taxes”, and “carbon taxes”, and another one on the motives for introducing a carbon tax.

Committee in advance of its 21st Session, when it would be presented for final discussion and approval.

- **Chapter 4 – From Design to Administration: Practical Application of a Carbon Tax** (formerly named as “Issues in the Administration of a Carbon Tax”). The Subcommittee discussed draft Chapter 4 with the view to finalizing and presenting it to the Committee FOR DISCUSSION at the 20th Session. Draft Chapter 4 describes the different steps and procedures a country may follow for implementing a carbon tax. Also, the Subcommittee decided to rename the Chapter to better reflect the fact that the administrative aspects of a carbon tax need to be considered since the design phase. In effect, Chapter 4 (as Chapters 5 and 6 of the Handbook will do) addresses key issues that inevitably impact the design features of a carbon tax and which therefore will need to be considered in such phase.

Based on the discussion of this note by the Committee and on the comments received, the Subcommittee intends to revise draft Chapter 4 and send it to the Committee in advance of its 21st Session, when it would be presented for final discussion and approval.

- **Chapter 5 – Revenue Use.** The Subcommittee discussed the outline presented by the drafting group in charge of this Chapter, as well as the interaction of the planned Chapter with other sections of the Handbook, in particular Subchapter 3C where the measures for addressing undesired effects of carbon taxes are described. The importance of Chapter 5 lies in the fact that carbon tax revenues may be substantial when the tax rate is set at a meaningful level, and on the use of said revenues may play in the environmental, social and economic outcomes of the tax, as well as in the public acceptance of the measure. In broad terms, Chapter 5 will address the following issues:

- Introduction (description of the role of carbon taxes as a source for domestic resource mobilization -especially in developing countries with low tax-to-GDP ratios-, the potential use of carbon tax revenues, and revenue use constraints usually encountered by countries).
- Carbon tax revenue in perspective (which comprises subsections on current carbon tax revenue, potential carbon tax revenue, methodological aspects of forecasting carbon tax revenues, and revenue stability of carbon taxes over time).
- Destinations of revenue use and considerations for designing policy packages (this section will focus on four types of revenue use: compensation for affected industries -for addressing competitiveness concerns-, compensation for low-income households – for addressing distributional concerns-, environmental spending, and tax shifts).
- Communication of revenue use (which is particularly relevant for public acceptance of the tax).

The Subcommittee is prepared to present the outline of Chapter 5 for discussion by the Committee at its 20th Session, as originally planned. However, given the change in the dates of the 20th Committee meeting, the Subcommittee is planning to start working on the draft of Chapter 5 within the following weeks, in order to have a first version of the Chapter to be presented and discussed by the Committee at its 21st Session.

- **Chapter 6 - Interaction of a Carbon Tax with Other Measures.** The Subcommittee briefly discussed the outline presented by the drafting group in charge of this Chapter, as well as the interaction of the planned Chapter with other sections of the Handbook, in particular Chapter 2 (i.e. interaction of carbon taxes with other environmental instruments), and Subchapter 3C and Chapter 5 (i.e. interaction of carbon taxes and competition policies).

Based on the discussions, the Subcommittee decided to work on an outline which will focus in four main parts:

- A general overview depicting as much interactions as possible for policymakers to consider
- Interaction with other taxes (in particular, VAT and other energy taxes)
- Interaction with consumption subsidies
- Interaction with specific international agreements (in particular, those agreements not addressed in other chapters of the Handbook)

The Subcommittee is prepared to present the outline of Chapter 6 for discussion by the Committee at its 20th Session, as originally planned. However, given the change in the dates of the 20th Committee meeting, the Subcommittee is planning to start working on the draft of Chapter 6 within the following weeks, in order to have a first version of the Chapter to be presented and discussed by the Committee at its 21st Session.

- **Possible Chapter on Public Acceptance.** At its 19th Session, the Committee supported the proposal made by the Subcommittee of exploring the addition of a Chapter on Public Acceptance to the Handbook. Such proposal surfaced from the civil unrests that followed the measures taken by countries like France and Ecuador that resulted in the increase of the price of some fossil fuels.

At its meeting in Paris, the Subcommittee invited professor Sverker C. Jagers ( professor at the Department of Political Science of the University of Gothenburg, Sweden, and Director of the Center for Collective Action Research -CeCAR-), and professor Christian de Perthuis (professor of economics at the Paris Dauphine University, France, and founder of the Climate Economics Chair) to make presentations on their work regarding public acceptance of carbon taxes.

Professor Sverker did a presentation on factors that affect public's acceptance of carbon taxes in some countries within the OECD context. He also advanced, based

on the results of his research, some suggestions to be taken into consideration for the design of carbon taxes that are sensitive to the public opinion.

On the other hand, professor de Perthuis made a presentation on the case of “Gilets Jaunes” in France and on the lessons learnt from that particular case.

Both professors coincided in many of the measures that can be designed in order to address the public concerns and garner its acceptance of carbon taxation. It was noted that even though some of the public concerns regarding carbon taxes may be addressed at the design of the tax base or at the setting of the tax rate, evidence suggests that revenue use measures may be more effective in garnering public support for carbon taxes. Finally, professors Sverker and de Perthuis also coincided in stressing the role that good and transparent communication about the use of carbon tax revenue play in getting public acceptance of the tax.

Based on the discussions that followed the presentations by professors Sverker and de Perthuis, the Subcommittee decided that at the 20th Session of the Committee it would make a presentation on the issue of Public Acceptance of Carbon Taxes and that it would propose the Committee to include a piece on such matter in the Handbook. Also, given the link between the issues regarding public acceptance and the use of carbon tax revenue, the Subcommittee discussed the possibility of integrating the piece on Public Acceptance into the Chapter on Revenue Use (i.e. Chapter 5).

- **Glossary.** The Subcommittee decided to include a Glossary of technical terms used throughout the Handbook, which is in the process of being drafted.