

Distr.: General
10 March 2023

Original: English

Committee of Experts on International Cooperation in Tax Matters Twenty-sixth session

New York, 27-30 March 2023

Item 5(g) of the provisional agenda

Environmental Taxation

Co-Coordinator's report

Summary

At its Twenty-fifth Session, the Committee considered note [E/C.18/2022/CRP20](#), which, among other things, provided an update on the progress of the four main workstreams as follows: (a) the interaction of carbon taxation with other national measures (**Workstream 1**); (b) the role of carbon taxes and other measures in supporting energy transition (**Workstream 2**); (c) the interaction between carbon taxes and carbon offsetting programmes (**Workstream 3**); and (d) carbon border adjustment mechanisms and how developing countries can avoid undesired spillover effects from the implementation of such measures by other jurisdictions (**Workstream 4**). Also, in that CRP, the Co-Coordinator updated the Tax Committee about the additional workstream on other environmental (tax) measures other than a carbon tax that are relevant for developing countries (Workstream 5).

The Committee, through its [Report of the Twenty-fifth Session](#), provided guidance and comments to further advance work under the four main workstreams above. For the additional workstream, the Co-Coordinator indicated that, on the basis of preliminary feedback received from a workshop organized by the Secretariat, the Subcommittee planned to commence work on and would provide suggestions for the specific scope of the workstream for the Committee's consideration at its twenty-sixth session.

The Subcommittee presents this note on the progress of its work under the five workstreams. The Committee is asked to:

- 1) *consider and discuss* the Subcommittee's proposals under current Part B of **Workstreams 1** (presented in detail in note E/C.18/2023/CRP16).
- 2) *consider and discuss* the Subcommittee's proposals under Parts A and B of **Workstream 4** (presented in detail in note E/C.18/2023/CRP17).
- 3) provide *comment and guidance* on the progress of **Workstreams 2 and 3**; and
- 4) provide *comment and guidance* on the draft proposed outline under **Workstream 5**.

Background

1. At its Twenty-fourth Session, the Committee approved the proposed workplan of the Subcommittee on Environmental Taxation as laid out in [E/C.18/2022/CRP.9](#) along four broad workstreams, with an additional workstream whose scope would be determined upon further consultations. The four main workstreams are as follows: (a) the interaction of carbon taxation with other national measures; (b) the role of carbon taxes and other measures in supporting energy transition; (c) the interaction between carbon taxes and carbon offsetting programmes; and (d) carbon border adjustment mechanisms and how developing countries can avoid undesired spillover effects from the implementation of such measures by other jurisdictions. The additional workstream was expected to consider environmental (tax) measures other than carbon taxes that are relevant for developing countries.

2. At the Twenty-fifth Session, the Subcommittee presented progress under the above workstreams vide [E/C.18/2022/CRP20](#). Some of the points noted for the Subcommittee's attention in the Report are as follows:
 - (a) Workstream 1: to include interaction between carbon taxes and other excise taxes on fuels and vehicles to address possible double taxation;
 - (b) Workstream 2: to consider other potential candidates for the archetype selection (e.g., Bolivia (Plurinational State of) and Ghana), and further explain the use, selection and criteria of archetypes, as well as how policymakers and taxpayers could use that analysis;
 - (c) Workstream 4: to undertake an objective description of carbon border adjustments. Importantly, as was already cautioned at the twenty-fourth session (E/2022/45/Add.1-E/C.18/2022/2, para. 50), it was reemphasized that the analysis under that workstream should be objective and not be deemed as an implied endorsement or rejection by the Committee of measures developed by any organizations, or implied support of carbon border adjustments.

3. The Subcommittee has met three times virtually since the Twenty-fifth Session of the Tax Committee in October 2022, with various side meetings also with the Subcommittee on Extractives Industries Taxation and the Subcommittee on Transfer Pricing, to ensure proper coordination of the work of these three subcommittees on various closely related aspects.

4. The Subcommittee has progressed work under the four main workstreams mentioned above, as discussed hereunder. The work of the Subcommittee is closely linked to broader contextual considerations of the **sustainable development goals (SDGs)**, specifically SDG 13 (Climate Action). SDG 13 interacts with multiple SDGs including SDG 7 (Affordable and Clean Energy). The workstream on energy transition, for example, clearly expounds the interlinkage between tax and the SDGs as low carbon transition plays a crucial role in balancing these SDGs. Discussions around all the workstreams will exhibit great attention to simplifying complex subjects to ensure that the guidance provided will aid developing countries to navigate those issues to be able to protect their tax bases and generate revenue to finance sustainable development and to finance the SDGs. Workstream 5 (other environmental tax measures) proposes as one of its areas of focus to emphasize the relevance of environmental taxation in

striking the intricate balance between attaining climate objectives while also promoting revenue mobilization and the considerations for countries in this regard.

Progress under the various Workstreams

Workstream 1: Interaction of carbon taxation with other national measures in the context of a broader tax reform and particular attention to fossil subsidies

5. After the Twenty-fifth Session, the Subcommittee developed the paper further along the three key elements identified in CRP 20 as follows:
 - Part A: How to assess and correct the interaction between carbon taxes and other taxes.
 - Part B: Interaction between carbon taxes and other environmental measures (emissions trading and climate policy).
 - Part C: Phasing out fossil fuel subsidies.
6. Part B - ‘Interaction between carbon taxes and other environmental measures (emissions trading and climate policy)’ draws inspiration from the 2021 UN Handbook on Carbon Taxation for Developing Countries (Handbook) on various elements already covered there. Further information is provided in E/C.18/2023/CRP16, which contains an annotated outline and the draft paper.
7. The Subcommittee proposes to reorder the three parts of Workstream 1 as follows:
 - Part A: Interaction between carbon taxes and other environmental measures (emissions trading and climate policy).
 - Part B: How to assess and correct the interaction between carbon taxes and other taxes.
 - Part C: Phasing out fossil fuel subsidies.

The Subcommittee proposes this reordering of the parts on the basis that the first part of the paper should address the general issues and then narrow down to specific elements.

8. The Subcommittee presents Part B [now proposed to be Part A] to the Committee for consideration and discussion, with the hope to obtain approval at the Twenty-seventh Session. That part is presented in detail in note E/C.18/2023/CRP16.

Workstream 2: The role of carbon taxes and other measures in supporting energy transition

9. **Objective and approach:** This Workstream considers the role of environmental taxation in supporting the energy transition with a special focus on the perspectives of developing countries. Energy transition policy has to balance the need for climate change mitigation with the social aspects of universal, and secure, access to energy. It seeks to examine the contribution environmental tax can make to the energy transition as regards *consumption*. The focus will be on the potential use of carbon taxation. Other forms of carbon pricing – such as tradeable emissions permits, duties and taxes on road use and statutory regulation of the consumption of energy – are not in scope.
10. The work will include analysis of what aspects of the energy transition can be supported by carbon taxation, whether there are certain design features that are particularly relevant for energy transition, and whether these would trigger specific administrative issues. The energy

transition journey will vary for different countries, depending, for example, on their current reliance on fossil fuels, availability of relevant mineral resources and population size. Relevant considerations include the overall budgetary impact, the need for transition to be socially just, energy security, and local investment attractiveness.

11. As presented at the Twenty-fifth Session, the Workstream will consider 5 countries for in-depth case studies, each one representative of a group of countries with similar energy transition features ('archetype countries'). The archetypes proposed are the following:
 - Countries without significant extractive resources, but with potentially significant agricultural or forestry resources [archetype Jamaica]
 - Countries with a large population and consumer base [archetype Indonesia]
 - Countries with significant fossil fuel resources [archetype Ghana]
 - Countries with significant mineral resources relevant for energy storage such as cobalt or lithium [archetypes Bolivia and Chile].

12. The guidance note is expected to cover the following:
 - High level considerations and aspects of energy transition and environmental taxation
 - Identifying archetypes
 - Options with respect to environmental taxation under different archetypes
 - Depending on the options and time permitting, elaborating on specific environmental tax aspects.

13. **Status update:** Following the Twenty-fifth Session, the Subcommittee requested input on the case studies, in particular, information on: (1) demographic and energy related features, (2) the country's existing and planned fiscal policies regarding energy and the environment, (3) the country's approach to carbon credits and (4) its administrative capacity. The Workstream is currently analyzing the input received. Input from one archetype country is still pending. Preliminary/high-level analysis of the information received so far indicates the following focus areas will be relevant for the detailed analysis:
 - Existing energy mix and tax policy,
 - Nationally Determined Contributions (NDCs) on carbon reductions under the Paris Agreement for the specific country and any plans the country may have to achieve them, and
 - Plans to focus on specific opportunities such as hydrogen, biofuels and/or carbon capture.

14. **Next steps:** Once all the case study information is received, the proposed next steps are to:
 - Complete the country analysis, including the follow-up of any omissions.
 - Re-confirm common themes.
 - Determine if any additional information is required from the countries on the common themes and if so, obtain such information.
 - Invite other countries that are similar to the archetype to review the preliminary conclusions.
 - Draft an initial paper for discussion at the Twenty-seventh Session of the Tax Committee.

15. The Subcommittee invites the support of Committee Members in identifying local experts/colleagues in environmental fiscal policy and tax administration in the case study countries who could be contacted for more information on the archetype countries.

Workstream 3: The interaction between carbon taxes and carbon offsetting programmes

16. **Introduction:** This Workstream considers the interaction between carbon taxes and carbon offset programs with a special focus on the perspectives of developing countries. The rapid evolution of the compliance and the voluntary markets shows the importance of clarifying the tax approaches to deal with carbon offset credits. These commodities contribute to lowering the amount of carbon emissions and also serve to meet the NDCs pledges under the Paris Agreement. There is an urgent need to assess their cross-border impacts. The Workstream analysis has proceeded in close cooperation with the Transfer Pricing Subcommittee.
17. **Objective:** The Workstream has sought to offer an overview of what is happening in the emerging markets for carbon offset credits and how it justifies timely tax authority action. It has aimed at raising awareness of the framework provided by Article 6 of the Paris Agreement, capturing current problems and possible ways to further develop carbon taxation. It has targeted the core issues to address to ensure a coherent approach in qualification and valuation of those credits. Its purpose has been to have both policy considerations and implementation costs assessed. Its focus is on carbon taxation, leaving aside income taxation.
18. The current experiences of developing countries in different continents have been reviewed. The Workstream has considered mainly cases from South America and Africa, where the use of carbon offset credits in the framework of a carbon tax is allowed.
19. **General outline:** By sharing comparative examples about various legal options in the life cycle of carbon offset credits, the policymakers can learn from them (i.e. how and when tax credits are being applied in practice by the tax administrations in South Africa, Mexico, Colombia or Chile) and accordingly establish new opportunities to strengthen international tax cooperation.
20. **Status update:** Following the Twenty-fifth Session, the Subcommittee reached out to various sources to obtain input and updated data. The information available was analyzed and a draft initial paper has been produced for the Twenty-sixth Session of the Tax Committee (see Annex). It clearly reflects the current state of the art on this topic.
21. **Next steps:** The Subcommittee will:
 - Complete the country analysis in the draft initial paper, if more sources with country examples (with actions at state and municipal level) can be found.
 - Follow-up the work under the Paris Agreement (i.e. recent publications, consultations with experts involved in the climate negotiation), because some of the rules are still being developed (and will only be released after the mandate of this Tax Committee Membership has ended).

The Subcommittee proposes to revise the title of the workstream as follows “The interaction between carbon taxes and carbon offsetting programmes” to align with the terminology commonly used in relevant literature.

22. The Subcommittee:
- Requests the Committee’s guidance and approval regarding the proposal to revise the title of the workstream as mentioned in paragraph 21 above.
 - Invites Committee Members' support in identifying local experts/colleagues in environmental fiscal policy and tax administration from their countries who could be contacted for more information on this field especially regarding the countries mentioned in paragraph 19 above.

Workstream 4: Carbon Border Adjustments: Impact and relevance for developing countries

23. At its Twenty-fourth Session, the Tax Committee approved the Subcommittee’s proposal to undertake an analysis of carbon border adjustments (CBA) and spillover effects to developing countries, to the extent that such work will not be viewed as the Committee’s rejecting or endorsing any mechanisms established by countries or regions. This guidance was reiterated at the Twenty-fifth Session (see paragraph 2 above).
24. After the Twenty-fifth Session, the Subcommittee continued working on the following parts of the paper (presented at that session for the Committee’s comments and guidance):
- Part A: Carbon leakage and ways to address it
 - Part B: Carbon border adjustment measures and proposals
25. Parts A and B are presented for the Committee’s consideration and discussion. Further details are set out in note E/C.18/2023/CRP17. Part C on Potential responses to carbon border adjustments is still being developed and will be presented for consideration and discussion at the Twenty-seventh Session.
26. The Subcommittee proposes and seeks the Committee’s approval to revise the title of the workstream as follows “~~Carbon~~–Border Carbon Adjustments: Impact and relevance for developing countries” to align with the common reference general terminology for the kind of measures discussed under the paper.

Workstream 5: Other environmental measures other than carbon taxes

27. During the Twenty-fourth Session, the Subcommittee proposed to commence work on environmental measures other than carbon taxes that are of immediate relevance for developing countries under the existing mandate.
28. At the Twenty-fifth Session, the Subcommittee informed the Committee about the preliminary feedback received from participants from developing countries following a workshop organized by UNDESA/FSDO in fall 2022. Participants indicated the need for comparative analysis on such measures across countries/regions and how they can be used not only as revenue generation mechanisms but also to address climate matters. At that session, and as already approved by the Tax Committee during its Twenty-fourth Session (*see* especially paragraphs 46 and 51 of the [Report of the Twenty-fourth Session](#)), the Subcommittee indicated that it

planned to commence work on and would provide suggestions for the specific scope of the workstream for the Committee's consideration at its twenty-sixth session (see para 56 of [E/C.18/2022/CRP.20](#)).

29. **Objective:** Accordingly, the Subcommittee proposes to develop a practical guidance note to assist developing countries in enhancing their capacities on how to design, implement and monitor environmental taxes (other than carbon taxes) tailored to their national environmental and policy objectives. The note will achieve the objective by highlighting how environmental taxation can accelerate sustainable development and embrace synergies across various policy areas. The guidance note will pay special attention to the double dividend that environmental taxation can achieve: environmental protection and revenue generation in times of a globally strained fiscal environment due to rising energy and food prices. It will present real life examples from around the world, and based upon them, will identify lessons, experiences and practices that might assist the developing countries to implement successful environmental taxation.
30. In undertaking its work, the Subcommittee will consult broadly with the Subcommittee on Extractive Industries Taxation on elements of the energy transition workstream.
31. **Next steps:** The Subcommittee presents the outline in the Annex to this note for the Committee's comment and guidance on the scope and other aspects that the Committee considers relevant to be covered in the context of the objective set out in paragraph 29 above. This outline is a work-in-progress and will be developed further after the Twenty-sixth Session of the UN Tax Committee

Next steps

32. The Coordinators present this report *to inform the Committee* of the progress of the various workstreams and *to seek further guidance* on the work. *Workstreams 1 (Part A) and Workstream 4 (Parts A and B)* are presented for the *Committee's consideration and discussion* with the hope to present them for final approval at the Twenty-seventh Session (see paragraphs 8, 25 and 26 above). Further details on Workstreams 1 and 4 are presented in notes E/C.18/2023/CRP16 and E/C.18/2023/CRP17, respectively. The items for the Committee's general guidance with respect to the other three workstreams are set out in paragraphs 16, 22, 26 and 31 above.
33. The Subcommittee proposes to continue to develop potential guidance on the workstreams as identified above, and based on the comments and guidance received from the Committee as outlined in paragraph 32 above. The idea is still that the various papers will be published as short papers throughout the mandate as separate documents as they are finalized with the approval of the Tax Committee (see para 12 of [E/C.18/2022/CRP.9](#)).
34. In consultation with the Secretariat, the Subcommittee hopes to hold one physical meeting in August or September 2023 to discuss the comprehensive drafts along the various well developed workstreams. The Subcommittee also plans to hold three virtual meetings before the Committee's Twenty-seventh Session.

Annex – Other environmental taxes other than carbon taxes: Outline of the Chapters

Chapter I: Introduction

This chapter will briefly introduce the mandate of the workstream within the UN system as well as the objective and the structure of the paper. It will be further presented as follows:

1. Environmental taxation as a driver of sustainable development

This section will highlight for policy makers how environmental taxation can contribute to achieving multiple SDGs and synergies between them.

1.1 Environmental taxation boosting the circular economy along the whole value chain

This section will provide a more focused view of how various environmental taxes can shift production and consumption patterns to a more sustainable path.

1.2 Balancing revenue generation and environmental protection

This section will highlight the need for policy makers to ensure that environmental taxation, beyond generating revenues, would also yield the desired results in terms of environmental protection.

Chapter II: Broad Policy Considerations

This chapter will discuss some wider tax policy considerations that need to be looked into before introducing an environmental tax and will include the following sections:

2.1 How to design environmental taxes?

2.2 Distributional impact of environmental taxes

2.3 Need for an integrated approach:

(A) Intra- and inter-tax level

- (i) Overlapping tax policy items*
- (ii) Complementary tax policy items*
- (iii) Countervailing tax policy items*
- (iv) Environmentally neutral tax policy items*

(B) National & sub-national level and local government level

2.4 Some practical issues (How to enforce, administer and monitor?)

2.5 Measuring success

Chapter III: An Overview of Significant Environmental Tax Bases

The focus of this chapter will be on identifying and analysing the main examples of the numerous environmental tax bases. It will also present real-life examples of already implemented environmental taxes from around the world. It will provide an objective overview of the opportunities and challenges faced by the countries that impose these taxes, in terms of tax design, implementation and monitoring. Those examples will also address the administrative burden brought by newly introduced environmental taxes and how to reduce that.

The examples are structured along the following categories:

3.1 Taxes on natural resource extraction

This section will present national examples of taxes imposed on the extraction and use of natural resources, such as water extraction and pollution taxes, mining royalties and taxes on the extraction of fossil energy sources.

3.2 Taxes related to resource use

This section will present national examples of environmental taxes that aim to reduce the consumption of resources, such as plastic and packaging taxes (excluding energy products)

3.3 Taxes related to recycling and waste

This section will present national examples of taxes that aim to increase recycling rates and reduce waste, such as landfill taxes and incineration taxes.

3.4 Taxes related to energy consumption

This section will present national examples of energy taxation systems with an environmental orientation.

3.5 Biodiversity

This section will present taxes that aim at habitat protection, conservation & restoration, such as Payment for Ecosystem Services (PES) and stump charges.

Chapter IV: International Best Practices

An extensive effort would be made here to collect an inventory of various environmental taxes as a ready-reckoner resource for developing countries to look for solutions already tried and tested elsewhere to address the various environmental challenges they are faced with in achieving their environmental goals. It will be reflected as under:

Inventory of Environmental Taxes

#	Tax Base	Country	Tax Rate	Nature (Periodicity/Event-Based)	Year of Imposition	Revenue Potential		General Remarks
						US\$	% of Revenue	
(1)	(2)	(3)	(4)	(5)	(6)	(7)		(7)

Chapter V: Considerations for Effective Environmental Taxation

Based upon the examples presented in the previous chapters, this chapter will be dedicated to formulating key considerations will guide developing countries to effectively design, implement and monitor environmental taxes in each category. It will also highlight the ways developing countries can overcome the most commonly identifies challenges.

Chapter VI: Conclusion

This last chapter will remind policy makers that the considerations in the previous chapter can be good starting points to aid in achieving at least two complementary objectives: assist their governments'

efforts in raising more revenue and in achieving their national energy, climate and environmental policy objectives while modernizing and greening their tax regimes by shifting the tax burden from labour to consumption and pollution activities.