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

Thirtieth session

24-27 March 2025

Item 3(g) of the provisional agenda

Environmental Taxation

Co-Coordinator's Report

Summary

This note presents a final progress report on the Subcommittee's work under its mandate on environmental taxation, highlighting the completion of the workstreams and outlining suggestions for consideration by the next Membership of the Committee. At this session, the Subcommittee:

- Proposes for final approval the remaining paper under Workstream 1 Part B, "Assessing the Interaction of Carbon Taxation with Excise Duties, VAT, and Income Taxation" (Annex to CRP.21).
- Provides a tabular update of the status of the Subcommittee's work under this mandate.
- Presents suggestions for consideration by the next Membership of the Committee regarding potential future work on environmental taxation.

Background

1. The UN Tax Committee established the Subcommittee on Environmental Taxation during its Twenty-third Session. The Committee approved the Subcommittee's workplan at its Twenty-fourth Session (document [E/C.18/2022/CRP.9](#)), with progress updates reviewed at subsequent sessions, most recently at the Twenty-ninth. The Subcommittee's mandate is structured around five workstreams:
 - (a) **Workstream 1:** The interaction of carbon taxation with other national measures.
 - (b) **Workstream 2:** The role of carbon taxes and other measures in supporting energy transition.
 - (c) **Workstream 3:** The interaction between carbon taxes and carbon offsetting programs.
 - (d) **Workstream 4:** Carbon border adjustment mechanisms and how developing countries can avoid undesired spillover effects.
 - (e) **Workstream 5:** Other environmental tax measures relevant for developing countries.
2. Since the Twenty-ninth Session, the Subcommittee convened one virtual meeting (29 January 2025) to discuss the remaining draft paper and address Committee and observer feedback. Consequently, the Subcommittee has further refined and finalized the last remaining paper, Workstream 1 Part B, which is now presented for final approval.
3. The workstreams align with multiple Sustainable Development Goals (SDGs), particularly SDG 7 (Affordable, and Clean Energy), SDG 13 (Climate Action), and SDG 17 (Partnerships for the Goals). The outputs serve as tools for developing countries to strengthen domestic resource mobilization while advancing climate policy objectives.

Progress Under the Workstreams

4. Since the last session, the Workstream 1 Part B paper has been refined for clarity and structure, strengthening its analysis of carbon taxation and fiscal measures. It now includes updated data, broader country coverage, and refined policy classifications. The revisions highlight fiscal trade-offs, the impact of excise duties, fuel subsidies, and value-added tax (VAT) on carbon pricing, and the role of income taxes in mitigating regressivity and promoting green investment. The paper also enhances discussions on policy coherence and the challenges developing countries face, emphasizing the need for transparent tax policies to support a low-carbon transition. The paper is presented for final approval by the Committee at this Session.
5. Supported by the Subcommittee, the Committee has concluded its work under all the other workstreams, with the following guidance products approved:

Workstream title & parts	Status
<i>Advance unedited versions of all papers approved by the Committee are available here.</i>	
1: Interaction of carbon taxation with other national measures in the context of a broader tax reform and particular attention to fossil fuel subsidies	
Part A: Interaction between carbon taxes and other environmental measures (emissions trading and climate policy)	Approved – 27 th Session
Part B: Assessing the Interaction of Carbon Taxation with Excise Duties, VAT, and Income Taxation	Proposed for final approval – 30 th Session
Part C: Phasing out fossil fuel subsidies	Approved – 29 th Session
2: The role of carbon taxes and other measures in supporting energy transition	Approved – 28 th Session
3: The interaction between carbon taxes and carbon offsetting programs	Approved – 28 th Session
4: Border Carbon Adjustments: Impact and relevance for developing countries	
Part A: Carbon leakage and ways to address it	Approved – 27 th Session
Part B: Border carbon adjustment measures	Approved – 27 th Session
Part C: Potential responses to border carbon adjustments	Approved – 29 th Session
5: Other environmental measures other than carbon taxes	
Main paper: Environmental taxation (Other than Carbon Taxes)	Approved – 29 th Session
Appendix: Inventory of Select Environmental Taxes and other Measures	Approved – 29 th Session

6. With the completion of its work, the Subcommittee has supported the Committee in developing practical and policy-relevant guidance on environmental taxation, particularly for developing countries. This work has emphasized the critical role of tax policy in sustainable development and climate action. It has benefitted greatly from the contributions of the Member States and other observers.
7. As the Subcommittee concludes its work, it would like to take the opportunity to highlight some key areas for consideration by the next Membership of the Committee (2025-2029) to further advance environmental taxation, as outlined in the Appendix to this note. These include taking a closer look at other environmental taxes than carbon

taxation, also focusing on how to make use of existing tax schemes in developing countries to enhancing transparency and reporting and integrating different kinds of environmental taxes into broader fiscal reforms. The Committee may also explore sector-specific guidance, including fossil fuel subsidy reform, emissions taxation in shipping and aviation, and incentives for sustainable resource use. Strengthening tax administration and enforcement will be essential to ensure effective consideration of options by countries.

Issues for the Committee & Next Steps

8. Final Approval of Workstream 1 Part B: The remaining document (Annex) is presented for final approval.

**Appendix: Subcommittee on Environmental Taxation’s Suggestions for Consideration
by the Incoming UN Tax Committee**

To support fair and effective tax systems worldwide, the incoming UN Tax Committee has the opportunity to build on the work of the previous mandate while expanding into new and emerging areas of environmental taxation. This includes:

- Focusing on a cross-cutting challenge for all kinds of environmental tax reforms, namely addressing administrative and implementation challenges to ensure clarity and more efficient administration for tax authorities and economic operators.
- Encouraging a comprehensive approach that integrates different environmental taxes within broader fiscal reforms, building on existing tax systems to foster simpler, more growth-friendly tax systems yielding societal benefits.
- Developing sector-specific guidance on tax aspects of, for example fossil fuel subsidy reforms, as well as reforms relating to agriculture, forestry, land use, water, waste management, maritime and aviation sectors.

By pursuing these priorities, the Committee can provide practical and actionable guidance to support developing countries in leveraging environmental taxation as a tool for sustainable development while at the same time yielding overall societal benefits.

Some specific areas are indicated below.

1. Strengthening the Role of Environmental Taxation in Developing Countries

- Continue and expand work on different kinds of environmental taxation of interest to developing countries, giving particular attention to building on existing tax administration to cater to the needs of countries with a low level of administrative capacity.
- Give practical guidance on how countries can stepwise transfer their excise fuel taxes to taxes based on carbon content, to boost domestic resource mobilization in a growth-friendly way while at the same time incentivizing investments in green technology development strengthening the environmental effectiveness of the policies used. This is also a way for exporting countries to respond to existing and upcoming Border carbon Adjustment Mechanisms.
- Identify new sources of environmental tax revenue, particularly in sectors such as waste management, water use, land use, forestry, and agriculture supporting responsible management of natural resources.

2. Addressing Administrative and Implementation Challenges

- Examine key administrative considerations—at both local and national levels—for implementing and enforcing environmental taxation measures. Develop a framework for assessing practical feasibility.

- Build on existing guidance in the UN Handbook on Carbon Taxation for Developing Countries, as well as work carried out under Workstream 5 of the current Mandate of the Tax Committee, to conduct a comparative analysis of different tax administration designs, specifically assessing necessary legislative framework regarding:
 - The choice of taxable person (who bears the tax liability).
 - Collection and enforcement mechanisms, including ways to mitigate tax evasion risks.
 - Administrative procedures that ensure compliance and improve tax efficiency.
 - Gather country examples to develop best practices, covering for example tax implications of trading in credits in voluntary carbon markets.

3. Advancing Sector-Specific Environmental Taxation

- Analyzing environmental taxation issues relating to sectors such as shipping and aviation.
- Examine how taxation in deforestation-linked industries can be structured to promote sustainable resource and for responsible forest management use while at the same time contributing to economic growth.