



Business at OECD (BIAC) **Principles for Addressing Tax and the Environment**

Established in 1962, *Business at OECD (BIAC)* stands for policies that enable businesses of all sizes to contribute to growth, economic development and societal prosperity. Through *Business at OECD*, national businesses and employers' federations representing over 7 million companies and international sectoral federations provide and receive expertise via our participation with the OECD and governments promoting competitive economies and better business.

Introduction

Environmental tax measures can play a critical role in furthering environmental objectives - including net-zero greenhouse emissions targets by putting a cost on pollution. Additionally, when well designed for example by setting the right price signal, they can stimulate investment by the private sector to further a wide range of environmental objectives. However, as green taxes have a narrow tax base they are potentially inefficient from a tax raising perspective; therefore environmental goals, rather than raising revenue should be the primary goal of such mechanisms.

In this context, *Business at OECD* is pleased to put forward a set of principles for environmental taxation to advance a more broadly structured dialogue between business, other stakeholders and policy makers. These principles are intended to 1) cover a broad set of issues, not just with respect to carbon taxes, 2) supplement the [Business at OECD Statement of General Tax Principles](#), and 3) apply irrespective of the names given to relevant terms in the various territories.

We note that environmental taxation is only one of the instruments used to incentivize stated environmental objectives and that the relative effectiveness and efficiency of tax (versus other available instruments) in promoting environmental objectives are not uniform worldwide. Instead, the utility or design of environmental taxes and incentives depends on the situation in a given country or region, including the country or region's state of economic and technology development, their energy environment, and their industrial structure among others.

In this respect, non-legislative approaches towards environmental objectives, with the input of business and relevant stakeholders, can provide prompt and flexible solutions to emerging environmental issues, and towards achieving outcomes that align environmental effectiveness and economic efficiency. Where properly designed, environmental taxes and incentives may induce positive behavior and innovation by businesses in environmental improvement, and may set incentives for environmental improvements at a lower economic cost than regulatory policy, which may lack flexibility.¹

Importantly, any enacted taxation policy should be considered in a holistic fashion, with existing and/or contemplated regulations defining robust and integrated policy frameworks towards economic efficiency, social acceptability, and environmental objectives.

In this context, we set out ten principles for the consideration of policymakers in designing environmental taxes and incentives. They are designed to help ensure that any new taxes and incentives will be coherent, pro-growth, and will not inhibit continued private sector investment and innovation. We expand further upon each principle in the “Explanatory Text” below.

¹ Member companies have suggested these improvements could be within strategic areas, including decarbonization and reduction of other greenhouse gases, the promotion of the circular economy, reduction of waste, and more efficient use of water.

Business at OECD Principles for Addressing Taxation and the Environment

1. The primary purpose of environmental tax measures should be to address clearly defined, science-based environmental objectives. Therefore environmental goals, rather than raising revenue should be the primary goal of such mechanisms.
2. Assess policy impacts and ensure their proportionality.
3. Develop policies through inclusive consultation with business and other stakeholders and clearly and openly communicate them to the public.
4. Consider reinvestment of generated taxation revenues in related environmental objectives and measures to address social inequalities.
5. Be compatible with fostering cross-border trade and investment and inclusive growth.
6. Deepen consensus, promote coordinated rules and strengthen international cooperation.
7. Ensure a comprehensive approach that considers the existing regulatory framework and social, competitiveness, and other issues.
8. Spur investment and innovation in green technologies and circular economy initiatives.
9. Provide simplicity, tax certainty, and predictability.
10. Minimize administrative burden.

Explanatory Text

- 1. The primary purpose of environmental tax measures should be to address clearly defined, science-based environmental objectives. Therefore, environmental goals, rather than raising revenue should be the primary goal of such mechanisms.**
 - Traditionally, taxes and incentives are assessed on the basis of revenue-raising capacity and resulting effects on economic activity and investment decisions. However, environmental taxes and incentives are generally designed to modify taxpayers' behavior and should primarily address clearly defined, science-based environmental policy objectives—revenue raising should not be a primary objective.
 - In cases where policy goals may compete or conflict, potential adverse consequences should be adequately considered in the formulation of objectives to ensure coherent policymaking. When environmental taxation is applied alongside other market mechanisms to reduce environmental externalities, it is necessary to define appropriate harmonization criteria to avoid distortions and economic inefficiencies.
- 2. Assess policy impacts and ensure their proportionality**
 - When considering tax changes and new taxation capacities, budget neutrality has often been considered as a guiding principle. However, in the context of environmental taxation, which should not be driven primarily by revenue-raising needs or capacity, budget neutrality becomes a more difficult aim.
 - Nonetheless, before enacting new policies aimed at environmental taxation, evidence-based impact assessments of the environmental effectiveness and economic efficiency of various policy options (on both an ex-ante and ex-post basis) should be conducted to understand direct and indirect impacts of policy design on products and production process through the full supply and consumption chain.
 - Obstacles to the acceptability of environmental taxation should be identified so they can be addressed.
- 3. Develop policies through inclusive consultation with business and other stakeholders and clearly and openly communicate them to the public**
 - When taxes are adopted, businesses and taxpayers are generally closely involved in measuring, verifying and remitting these taxes. For this reason, the best and most coherent solutions to guide the role of environmental tax policy in addressing climate change will be found if environmental taxes are developed through inclusive consultation with business and other stakeholders with

different experiences and ideas and clearly and openly communicated to the public. The most effective and efficient placement of environmental taxes in the value chain should depend on the economics of the specific sector.

- Environmental tax policies should fully consider both current and future business models to design an effective, forward-looking pro-growth environmental tax framework that meets the needs of all stakeholders. Impact assessments and post-evaluation processes are critical to validate the efficiency of the measures in regard of these environmental objectives and their effect on the economy and competitiveness of business.

4. Consider reinvestment of generated taxation revenues in related environmental objectives

- Most countries do not allow formal earmarking (hypothecation) of generated taxation revenues. Countries should consider explicitly the use of any revenue raised from the introduction of environmental objectives.
- We suggest including considerations to utilize any generated tax revenues in a manner consistent with the broader governmental policy objectives, such as related environmental objectives and measures. Any reinvestments in lower carbon technologies and other climate initiatives should be prioritized in alignment with science-based targets and outcomes reflecting progress toward those targets.
- How generated taxation revenues are used should be made clearly visible and understandable to the public, including when allocated to the general budget.

5. Be compatible with fostering cross-border trade and investment and inclusive growth

- Environmental taxation will likely create significant effects on many aspects of production and consumption activities, meaning that absent a consistent global approach, there is a risk that production activities may shift from countries where environmental taxes are more costly or burdensome.
- We note that environmental taxes are often not revenue neutral for businesses in trade intensive industries. However, if the taxes in question are linked to clear and agreed environmental objectives and are part of a comprehensive multilateral approach, taxation on environmental activities should not reduce—but enhance—cross-border trade and investment. If appropriate impact assessments are conducted and potentially unintended effects are identified and addressed through the design of environmental taxation or supplementary legislation, environmental taxation will not be an obstacle to but rather induce inclusive growth.
- As discussed, environmental taxation should not be punitive but should be part of a more comprehensive fiscal policy approach that encompasses both taxes and incentives, which

encourage innovation, investment and entrepreneurship. If there are inconsistent cross-border approaches taken, however, instruments may need to be considered to mitigate any impact of a specific country or region's limited, asymmetrical, or discriminatory introduction of taxes and incentives.

6. Deepen consensus, promote coordinated rules and strengthen international cooperation

- A coherent, global approach to environmental policies, including environmental taxation, is needed to achieve comprehensive progress towards a resource-efficient economy, particularly against the backdrop of businesses' global supply chains and involvement in multiple markets. Any approach to environmental taxation should endeavor to be uniform and consistent to reduce potential inconsistencies and eliminate unintended consequences, such as competitive distortions among industry sectors domestically or among different countries where environmental tax and regulatory policies among countries may differ.
- In this respect, existing diplomacy frameworks and platforms could play a key role to enhance cooperation on a global level.

7. Be considered within a comprehensive approach that considers the existing regulatory framework and social, competitiveness, and other issues

- Environmental taxation is only one of the many instruments to achieve stated environmental objectives, meaning that the introduction of additional taxes or amendments to the existing taxation system should foremost involve a collective judgment, by all impacted stakeholders, as to whether it is reasonable and most effective to do so and also endeavor to incentivize (rather than punish) behavioral changes.
- To avoid conflicting incentives or duplication, environmental taxes should be introduced as a comprehensive package within the existing regulatory framework, taking into account interaction with existing measures and social, economic competitiveness, global tax competitiveness, and other issues.

Different tax and environmental measures also must be effectively coordinated to avoid overlapping policies (i.e., regional and domestic taxation over the same taxable event) that could result in double taxation. For this reason, proposed environmental taxes and incentives should be designed through cooperation with all stakeholders, including taxpayers, tax authorities, consumers and producers, policy makers, and international organizations, including the OECD, but with an eye toward their ability to be adapted for use by non-OECD countries.

8. Spur investment and innovation in green technologies and circular economy initiatives

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- To further promote intended environmental policy objectives, environmental taxation should incentivize businesses' investment and innovation in green technologies tied directly to environmental objectives. These incentives should create business opportunities and ensure ongoing engagement by the private sector by encouraging businesses to make or continue investments. At the same time, they should ensure that incentives are provided under a cost-effective approach that avoids incentivizing the locking-in of investments and risk of stranded assets.
 - Tax incentives for investment and innovation in green technologies can include corporate tax credits, as well as grants, subsidies, deductions and exclusions, but should be tied directly to science-based environmental objectives, rather than awarded to particular technologies.
 - There should be a particular coordination of rules, so that specific tax incentives applicable to technological innovation work together with others.

9. Provide simplicity, tax certainty, and predictability

- Environmental tax policies underpin investment decisions by consumers and businesses, and while it may not be easy to provide simplicity, tax certainty, and predictability, these three factors are critical to investment decisions, particularly where businesses must commit to long-term investments to achieve compliance. Any new requirements, including forms of reporting, should be designed to minimize inconsistencies.
- If tax raising measures are implemented, tax rates should increase gradually over time to provide a predictable tax trajectory. They should also be publicized well in advance so taxpayers can anticipate change.

10. Minimize administrative burden

- Where environmental taxes are determined environmentally effective and economically efficient (either alone or working together with voluntary approaches and/or regulations), we believe they should equally minimize the administrative burden on taxpayers and tax administrations, particularly considering that taxpayers could largely be responsible for remitting, as well as measuring, verifying, and reporting taxes due. Administrative burden on tax authorities and taxpayers should be incurred only where the tax due is likely to be substantial.
- In this respect, up-front cross-border alignment of approaches to measuring, verifying, and reporting taxes should be implemented to assist economy-wide alignment. Additionally, when evaluating environmental tax mechanisms, policymakers should consider whether taxes designed to be collected upstream in value chains could be simpler (fewer tax collection points) and easier to harmonize across national tax authorities with varying degrees of administrative capabilities.