



Greening taxes – applying *polluter pays principle* in practice

The flagship technical support request

This flagship technical support request is targeted at Member States wishing to embark on greening the revenue side of their budgets. This flagship will help to build capacity to design and implement green structural fiscal reforms that generate revenues and support implementation of environmental objectives. It will operationalise implementation of the of *'the polluter pays principle'* through a development of pricing instruments. The objective is to eliminate/reduce polluting behaviour or, if that is not fully achievable, to make sure that polluters pay for the damage they cause.

Benefits of greening taxes at a glance

Environment



- Boost the efficient use of resources.
- Protect and restore biodiversity and ecosystems.
- Reduce pollution.

Economic



- Increased environmental taxes, used to reduce labour taxes, will have positive impacts for growth, employment and real incomes.

Behavioural incentives



- If prices/taxes reflect the societal costs of pollution, a polluter will weigh its choice between paying the price/tax or changing behaviour.

Implementing green taxes and other economic instruments can have a **big positive impact for the world**:

Fact 1: An overall EU net positive GDP impact of 35 billion can be achieved by increasing environmental taxes and reducing income taxes.

Fact 2: Air pollution (exposure to fine particulate matter) caused about 739,000 deaths in the EU in 2018. Yet, the polluters pay less than half the cost of air pollution.

Fact 3: The polluters' contribution is a minor share of total government revenues in EU – 5.91% in 2019.

Opportunity addressed with this flagship project: Implementation of well-designed tax reforms, that send the **right price signals** and provide the **right incentives for sustainable behaviour** by producers, users and consumers – in line with objectives of the Green Deal.



IMPACT OBJECTIVES:

✓ **Boost economic growth and resilience to climate shocks** through broad-based tax reforms that shift the tax burden from labour to pollution.

✓ **Contribute to the objectives of the European Green Deal to become climate neutral by 2050** by applying the polluter pays principle in practice.

✓ **Accurate estimated and targeted** green tax reforms in EU's Member States.



HOW CAN WE GREEN TAXES and MAKE THE POLLUTER PAY?

This flagship identifies the **technical support measures** needed to advance greening of the revenue side of public budgets. It suggests two phases; 1) capacity development and awareness raising with peer-learning, 2) pave-the-way for implementation of pricing instruments and tailored policy recommendations:

Phase 1 – TRAINING AND PEER-PEER LEARNING IN 3 MODULES

Introduction to environmental taxation



BIODIVERSITY

Nature & land use management: Intensive agriculture tax; peat tax; biodiversity offsetting; forest felling charge



ZERO POLLUTION

NOx tax; indirect tax on PM2.5 through domestic biomass fuel and coal; congestion charging; pesticide tax; nitrogen-fertiliser levy; waste water pollution taxes



CIRCULAR ECONOMY

Waste & resources use: Pay-As-You-Throw (PAYT); landfill tax; incineration tax; beverage container tax

Phase 2

Tailored design of environmental taxation measures/reforms and estimate their impacts



SITUATIONAL ANALYSIS

Assessing state-of-play of the tax system and already implemented environmental measures



CAPACITY BUILDING

Developing enhanced skills in designing environmental measures and assessing their impacts



PRICING INSTRUMENT

Economic estimation tool/methods to forecast social, economic and environmental impacts



POLICY RECOMMENDATIONS

Tailored recommendations in the context of the Member State, incl. estimated impacts



ACTION PLAN

Sets out concrete initiatives on how to implement new reforms/measures

Air pollution

Water pollution

Water scarcity

Waste

Biodiversity

Instruments to internalise the externalities

- **Air pollution:** NOx tax, tax on domestic biomass burning, and tradeable livestock rights for NH3 emissions.
- **Water pollution:** Pesticides tax, nitrogen fertiliser levy, and waste water charge.
- **Water scarcity:** Externality pricing, and 'cap and trade'.
- **Waste:** Landfill and incineration tax, pay as you throw, and beverage container tax.
- **Biodiversity:** Market-based offsetting, forest felling charge, intensive livestock charge, and peat tax.

Main instruments

- **Taxes:** Raise revenue from polluters to compensate society.
- **Charges:** Behaviour change. Charges are set at the level needed to incentivise the change, (OBS: not the same as the cost of the avoided damage).
- **Trading schemes:** Use of an environmental asset under constraint using price.