

Green taxes from  
environmental  
protection to taxation  
restructuring  
economics ess...



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Research taxes in different countries which are aimed at making people greener. Determine which taxes work and which do not, justification is required. What could Canada learn from other countries?

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([http://en.wikipedia.org/wiki/carbon\\_tax](http://en.wikipedia.org/wiki/carbon_tax))

THESIS: Green taxes started to be implemented with the aim of preventing people from damaging the environment but now the green taxes are seen as a part of restructuring of taxation.

Outline: I) Introduction II) Background of green tax reforms III) Types of Green Taxes or other policies imposed to reduce CO<sub>2</sub> emission IV) Economic implications of green taxes in different countries: a) What kind of green taxes does the US impose? b) What kind of Green Taxes do OECD & EU Countries impose? V) Green Taxes as part of GDP VI) What are the effects of green taxes on Canadians? VII) What could Canada learn from other countries?

## INTRODUCTION

What is (Carbon) Green tax? Carbon or Green tax is an environmental tax implemented on the emission of Carbon Dioxide (CO<sub>2</sub>). By definition Carbon Dioxide is a heattrapping “greenhouse” gas. The primary aim of green/carbon/environmental taxes is to reduce the emission of carbon dioxide. A Carbon/Green tax can be implemented by taxing fuel, coal, and petroleum products according to their carbon content. Green/carbon taxes

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may increase competition between lowcarbon technologies and burning of fossil fuels.

Different economic instruments are playing an increasing role in the environmental policies of OECD countries including environmentally related (green/carbon) taxes. Nearly all OECD countries have introduced environmental taxes in order to make the parties causing pollution to pay for the damage they are causing to the environment.

Nearly total amount of the revenues from green taxes or environmentally related taxes generate from taxes on the purchase and/or use of motor vehicles and consumption of fuel. In most of the OECD countries the studies show that there is real and growing evidence on the positive effects of the environmental (green/carbon) taxes.

This is an evidence that implementation of green taxes can help reducing the consumption of energy and therefore help to improve the environment. There are evidences that increases or adjustments on taxes or tax rates on energy products like fuel, diesel may help people to switch from these energy sources to other energy sources. Green tax reforms should be implemented in such a way that would not create extra burden on tax payers. For example existing taxes can be restructured by fiscal provisions like exemptions, subsidies, etc.

## BACKGROUND OF GREEN TAX REFORMS

Green taxes started to be implemented with the aim of preventing or discouraging people from causing damage to the environment and creating

pollution by making or forcing them to pay extra amounts of money in return for using natural resources. This original aim of Green Tax Reforms is still valid but besides that green taxes are seen by politicians as another phase of tax restructuring process which is now referred to as “ ecotax reform”. The governments are trying to encourage not only positive environmentally development but also better economic performance.

Green taxes can only make sense if they tax “ bad” instead of “ good” from an economic, social and environmental perspective. According to some recent studies related to green tax reforms made in the UK, USA and European countries, if already existing taxes on employment, income and goods be replaced with taxes on energy use; this may have positive effects on economic performances, increased levels of employment and of course a more clean environment.

Most of the critics about green taxes concentrate on the idea that poorer people will be negatively affected more than the richer people since the increased tax on energy consumption related to household needs such as heating, cooking, lighting, etc. will create an extra burden on the household expenses. ([http://en.wikipedia.org/wiki/Carbon\\_tax](http://en.wikipedia.org/wiki/Carbon_tax))

#### TYPES OF GREEN TAXES OR OTHER POLICIES IMPOSED TO REDUCE CO2 EMISSION:

**Direct Taxes :** These are the taxes directly imposed on emission of CO2 and are more effective and efficient. The application of direct taxes gives an incentive to polluters to reduce the volume of pollution they cause. Direct

taxes are the most cost effective since the polluters have the option to minimize or cut their pollution and do not pay more taxes.

II) Indirect Taxes : Are the taxes imposed on goods such as gasoline tax. A green tax imposed on goods like gasoline doesn't give any incentive to car owners to maintain pollution control equipments on their cars. With gasoline taxes they do not have any other choice other than driving less.

III) Tradeable permit schemes (Cap and Trade): This is supposed to be an alternative government policy to green taxes and is a cap on greenhouse gas emission. Under this scheme gas emission levels are capped whereas auctioning permits has significant economic advantage. Through these permits are issued with regards to the quantity of allowable emission of CO<sub>2</sub>. Polluters who have to invest large amounts to implement the procedures to reduce their emission may buy permits which are cheaper than investing in new or better technologies to reduce the emission rates and continue to pollute. These permits may be bought from the producers those have already cut their emission at lower costs and that have unused permits.

IV) Subsidies: Subsidies on the other hand will not necessarily result in reduced emission rate. On the contrary through subsidies the number of the polluters may increase.

**ECONOMIC IMPLICATIONS OF GREEN TAXES IN DIFFERENT COUNTRIES WHAT KIND OF GREEN TAXES DOES THE US IMPOSE?**

No green taxes are virtually imposed by the US. In 1993 President Clinton proposed a BTU tax which would tax all kinds of fuel sources according to

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their heat content except for solar, geothermal and wind based sources. This proposal was never adopted. To reduce pollution two important standards imposed in US are:

1) (NSPS)Clean Air ActNew Source Performance Standards and

2) (CAFE)Corporate Average Fuel Economy. These are the standards for automobiles. Besides these some green taxes are imposed at federal level such as taxes on ozone depleting substances, fertilizers, pesticides, etc. At local levels some waste disposal charges are applied by the municipalities.

These taxes are either indirect or too low to affect the individual behaviors. Most of the economists don't consider the current gas tax in the US as green tax since more than 80 % of the revenue generated through gasoline tax is used to subsidize road construction which in return causes more pollution.

Also the current federal gasoline tax imposed is considered to be so low that it doesn't justify a green tax. (See Figure 1)\* \*(The Tax Policy Briefing BookTaxes and the Environment/Tax Policy CenterUrban Institute and Brookings Institution)

As also it can be seen below (Figure 2)\* taxes on gasoline in the US make up much less of the total cost of fuel than in other countries. \*(The Tax Policy Briefing BookTaxes and the Environment/Tax Policy CenterUrban Institute and Brookings Institution)

WHAT GREEN TAXES DO OECD & EUROPEAN UNION COUNTRIES IMPOSE?

In the OECD countries, since the beginning of 1990's quite a number of new economic instruments were introduced to protect the environment. Mostly those instruments were the introduction of new taxes under the concept of "green tax reforms"; imposing taxes on energy, transportation, emission of CO<sub>2</sub>, etc.

Such fiscal instruments were/are believed to provide the necessary and appropriate signals into the market thus decreasing the CO<sub>2</sub> emission. In EU countries at the beginning of 1990's carbon/energy taxes were proposed but had problems with the industrial lobbies and failed to be implemented. Finland was the very first country to introduce carbon taxes in 1990. Finland followed by the Netherlands and Norway.

In 1991 Sweden imposed carbon tax on the use of oil, coal, natural gas, LPG, petroleum, fuel and on industries using those energy sources. These taxes were increased in 1997 and 2007. In Italy carbon tax was introduced in 1998 according to Kyoto Principles. The UK government started to implement carbon taxes by introducing fuel duty escalator (FDE) which is an environmental tax on retail petroleum products.

The aim of FDE was to reduce the carbon emission caused by the transport sector. The FDE which was the only real carbon tax implemented in the UK was cancelled in 1999 due to political issues. New Zealand proposed a carbon tax in 2005 which was planned and scheduled to be effective in April 2007. This tax was applied nearly all economic sectors. Methane emission from farming was exempted.

Also some carbon intensive industries were exempted from carbon taxes if they adopted the best standards of practice regarding emission. Following the elections in 2005, the tax was abandoned in December 2005. Later, in 2008 emission trading scheme (capandtrade) passed as a law.

## GREEN TAXES AS PART OF GDP

As discussed earlier, Green tax reform has become a major policy issue in the OECD countries. A number of countries such as Sweden, Denmark, the Netherlands, the United Kingdom, Finland, Norway, Germany and Italy all have implemented explicit environmental tax reforms. Green taxes were seen as one of the ways of keeping pollution down by pricing it.

Governments; starting from 1990's established a direct link between pollution and those who cause pollution, therefore implementing green taxes.

The green taxes are exercised either on fossil fuels to discourage the use or on waste disposal. Some of the countries increased VAT on petroleum and it's by products, which increase is believed to have a revenue increase rather than environmental effect. Since a 10% increase in energy prices would only decrease energy consumption by 5 %. \*

During the early stages of green tax applications in OECD countries between 1994-1998 green tax levels as part of GDP increased in most of the country's GDP. Denmark's green taxes increased to 5 % of GDP whereas Turkey has doubled its green tax level during the same period. ([http://www.oecdobserver.org/news/printpage.php/aid/497/green\\_taxes](http://www.oecdobserver.org/news/printpage.php/aid/497/green_taxes)) \*numbers



taken from ([http://www.oecdobserver.org/news/printpage.php/aid/497/green\\_taxes](http://www.oecdobserver.org/news/printpage.php/aid/497/green_taxes))

Nearly all governments in every country believe that carbon emissions and other pollutants should be taxed. While imposing green taxes some economic incentives should also be introduced to create attractive markets for environmentally sound products and process technologies. Many European countries have a long tradition with environmental taxes but the share of green tax revenues in the EU GDP is slightly declining. This is surprising since several governments had declared they would gradually shift the fiscal burden from labour to pollution.

This shows that consumers either started to reduce taxes they pay either switching to fuels that are less carbon intensive or by taking measures to increase energy efficiency. But still on the other hand, in most instances, companies pass the cost of carbon price onto end user: consumer. Studies, show that poor consumers spend a larger portion of their income on energy intensive goods and fuel.

Therefore cost increases in energy impact the poor worse than the rich. In this case, government rebates for use of energy efficient products becomes very important.

#### WHAT ARE THE EFFECTS OF GREEN TAXES ON CANADIANS?

The effects of green taxes on Canadians are not much different than the effects of green taxes on other people in different countries. If the government policies are implemented as part of a wider restructuring of

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taxation this may not only create an environmentally development but also better economic performance. If the existing taxes on employment, incomes and profits are replaced with taxes on energy use this may lead to a better overall national economic performance.

A balance between the use of over employed natural resources and under employed human resources has to be created. Green taxes have already been levied in Canada for many years by individual provinces on some items like tires, used oil, bottles. Recently number of the items taxed started to increase and seems to increase in the coming years ahead.

Ontario & Quebec are the two provinces that had implemented blue box recycling with waste fees over an accepted limit. British Columbia, Alberta, Quebec and Ontario have already established programs regarding hazardous household items such as single use batteries, pesticides, fertilizers, antifreeze, paint. British Columbia, Nova Scotia, Alberta and Saskatchewan impose a fee on electronic waste. Quebec and British Columbia introduced carbon taxes on the emission of CO<sub>2</sub>. Quebec was the first province to implement carbon taxes.

British Columbia carbon tax became effective in July 2008, this is a consumer tax for the purchase of fossil fuels, heat or energy sources. Although such taxes have not yet been imposed in other provinces, they are being considered. It seems that the move towards green taxes in Canada does not seem to be a shift from the current tax regime but rather seem to be additional taxes to be paid by individuals and companies.

When we look at green taxes at an environmental perspective we can talk about a lot of benefits for Canadians such as: a) Significant reduction of Green House Gas emission b) Development of clean industrial production + new job creation in related industries; development of new green technologies c) Substantial revenues generated by the federal government to further subsidize or finance the reduction of CO2 emission and protect Canadians from the impacts of increased prices due to green taxes by potentially reducing other taxes d) Subsidies and advantages for environmentally producing businesses in all sectors e) Provide financial benefits and rebates to individuals, companies, organizations to help them reduce their pollutant activities f) Improve air quality to reduce risks to health

#### WHAT COULD CANADA LEARN FROM OTHER COUNTRIES?

It is obvious that the green taxes are not a shift from the current tax applications in Canada. Although carbon emission and other pollutants should have to be taxed a new tax regime to compensate the burden of the new green taxes should be implemented. On individual basis, through education provided to consumer regarding the importance of the environment, a general acceptance for the green taxes can be generated.

On the other hand, with businesses this will not be as easy as with the individuals. As soon as green taxes and fees are introduced the cost of doing business and the cost of compliance with the new green rules will increase which in return be reflected in the consumer prices. All over the world carbon

taxes have been criticized for being unfair on certain social groups, like those with low income levels and living in rural areas and the elderly people.

In Canada, public transportation is not well developed compared to European countries and Canada is a very large country. People living in the suburbs need to commute long distances every day. Therefore the implementation of carbon taxes will definitely put an extra burden on the individuals who are obliged to consume gasoline.

In that case both the provincial governments and the federal government have to find alternative ways to help the reduction of CO<sub>2</sub> emission not only through imposing new taxes but also through investing in more on public transportation. Also new incentives should be introduced to businesses to enable them to more concentrate on and invest in environmentally friendly technologies.

As a conclusion we can say that, if the green taxes are successfully implemented, they will definitely reduce the destruction of natural resources which in return decrease the revenues generated from green taxes.

Governments when implementing green taxes should not see and calculate it as an extra income. Individuals and companies have to pay the cost of their activities but with the condition that the green taxes imposed be at realistic levels to reflect the true cost.