

# FUTURE CITIES SERIES: GREEN TAXES VS CLIMATE CHANGE

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Legal Briefings - By **Casey Dalton, Steffen Hoerner, Bruno Knadjian, Ryan Leslie and Marta Esteban**

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As Covid-19 savages tax receipts, will green levies help governments pursue their green agendas or choke off growth?

This article is part of our Future Cities Series where our experts explore the pressures facing our cities in the post-Covid era and map out the key issues and industry themes in re-thinking urban life.

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The reduction in consumption and depressed economies resulting from the pandemic will necessarily lead to reduced tax revenue this year and in subsequent years. Against this backdrop, how will governments balance a desire to pursue a green agenda with the need to address budget deficits and encourage economic growth more generally?

## HOW IS THE PANDEMIC AFFECTING THE GREEN AGENDA?

Early indications are mixed. In the UK, there have been signs that environmental concerns will continue to be a focus. In Summer 2020, alongside pandemic support packages, chancellor Rishi Sunak declared a desire for a “green recovery with concern for our environment at its heart”, announcing tax incentives to encourage investment in building insulation to cut carbon emissions, and proceeding with plans for the previously announced plastic packaging tax (legislation is expected in 2021, with the tax expected to take effect from 1 April 2022).

However, for some countries, the pursuit of sustainable goals and use of green taxes as a means to achieve them may be less of a priority, particularly in the short to medium term as, post pandemic, governments feel a more pressing need to focus on economic growth and protection of the tax base. For example, in Spain, planned “green taxes” on air transport and plastic use have been paused due to the pandemic, and it is unclear whether green objectives will remain a focus at a time when key industries (such as tourism) are in crisis. This is also true in the case of Australia, where recent changes have focussed on driving economic growth more generally, rather than in pursuit of a green agenda. We expect this trend to continue.

## **WHAT ARE GREEN TAXES?**

Green taxes, at their simplest, are tax charges which place a higher taxation burden on those who wish to carry out less sustainable/environmentally friendly activities. Sometimes, the main or only goal is to shift behaviour as opposed to raising tax revenues. However, it can also be the case that the a government is trying to do both: raise tax revenue and drive behavioural change. There is a natural tension between these goals, if one is too successful, then the other stops working.

## **GREEN TAXES VS TAX INCENTIVES**

An alternative to imposing higher taxes on non-sustainable activities is to offer tax incentives to invest in more sustainable activities. For example, a number of countries already offer tax incentives and subsidies to encourage the use of electric vehicles and to invest in “green” buildings, and this seems likely to continue. Again the cost of such incentives (in terms of reduced tax revenue) needs to be taken into account alongside the benefits.

## **A SHIFT IN TAX BASE?**

Recent figures have shown a significant increase in the number of electric vehicles being purchased in the UK, and demand in Europe is also growing significantly. If this continues, then even without further changes to the tax regimes, tax revenues from the production of oil and gas and fuel duties will fall. There may be some compensation in the form of additional tax revenues resulting from increased electricity production and economic growth as new products and services are created. However, for countries which collect substantial tax revenues from the production and use of carbon based fuels, such as Australia, a significant shift towards electric power may have a bigger impact. This will require a more intentional shift in the tax base, an example of which is the proposed annual levy on owners of electric vehicles announced on 11 November 2020 in the South Australian State Budget, essentially to make up the shortfall from fuel taxes which are used in part to fund road maintenance. It has been reported that South Australia would be the only jurisdiction in the world to impose a levy on electric vehicles, though other Australian states may follow suit..

## **CONCLUSION**

There is no doubt that the pandemic has caused certain environmental step-backs (eg increased used of plastic). However, in other areas there have been significant improvements (eg air pollution). Green taxes have an important role to play in driving change but current indications are that when faced with a choice many governments seem unlikely to prioritise the environment over the economy. As a result, we expect to see an increase in the use of tax incentives which encourage green investment as opposed to increasing green taxes. Hopefully this will still provide the stimulus required to drive significant change for our cities of the future.

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