FTM chapter on environmental taxation

General guidance on the researchers' activities

1- Understand the FTM framework

It is important that all persons involved in the FTM study (project leaders, coordinators, researchers and possible assistants), before anything else visit the homepage https://maketaxfair.net/ to acquire a general overview of the functions, structure and objectives of the FTM.

2 - Discuss with the broader team about purpose and background for report

To effectively tailor the research and subsequent policy recommendations, it is essential to understand the motivation of your organization as this will help in assessing the readiness and potential areas for the research to focus on given the background and the specific political context.

(1) What interest does your organization have in environmental taxation (ET)?
   - ➔ Are you already working with ET?
   - ➔ If yes, from what background?

(2) Why is it relevant and interesting to strengthen your engagement on ET at this current moment?
   - ➔ What is your objective with the research?

(3) Is there a debate interest on the ET topic in your country? If yes, is it rooted in:
   - ➔ a news media interest and/or
   - ➔ political agenda and/or
   - ➔ local/sub-national agenda, and/or
   - ➔ international pressure/interest/positioning?

3 - Write the FTM report

The researcher will then begin to write the country report utilizing the methodology presented below. It is important to make the report **political, normative and prescriptive –** not only descriptive.

4 - First draft

A first draft of the country report should be sent to the FTM team. If the researcher has encountered any issues or doubts about any question in the CRF, this should be communicated to the FTM team at that moment. The FTM team will review and provide feedback on the country report, which should be further developed by the researcher until a final version is reached.

5 - Final version and sign-off

After a final version of both the scoring questions and country report files is reached, the FTM products will undergo a sign-off process from the global Oxfam Tax Justice team. This might result in further work by the researcher until a final version is agreed.

6 - Launch event

Launch plans for the report should be considered as well as future development of advocacy work based on the FTM findings. The FTM launch guidelines document should be used as a starting point for this planning.

FTM chapter on environmental taxation[1]

Introduction

Questions for the FTM

Section 1. How regressive / progressive is the tax system currently?

The overall progressivity or regressivity of the fiscal system is important to inform understanding of the impacts of existing environmental taxes, as well as possible ETs in the future.

⇨ refer to FTM Chapter 1: Distribution of the tax contribution and progressivity.

Section 2. The current context of environmental fiscal policy (EFR)

2.A Environmental Taxes (revenue)

Overview of existing Environmental Taxes

1. Which ETs are already in place?
   Refer to the list of environmental tax bases in ATAF 2024, tables 1-1, 1-2, 1-3 and 1-4, pp.13-15.
2. For each ET identify the purpose and objectives of the tax in legislation: is an explicit environmental objective discernible?
3. Are ETs directly levied on pollutant, or levied on a proxy (e.g. older vehicles to reduce air pollution)?
4. Note the tax rate, and trends in the development of the tax rate over time.

Trends in environmental taxation

5. Provide a trend analysis of:
   - The share of ETs in total tax revenue up to the last year for which data is available and reaching back at least 10 years (preferably longer).
   - The share of ETs in GDP up to the last year for which data is available and reaching back at least 10 years (preferably longer).
   - Revenue raised from each ET for the past 10 years (or the year it was introduced), up to the last year for which data is available.

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6. Are any trends in revenue raised discernible? Might these be linked to changing behaviour, changes in the tax rate, price fluctuations, or any other domestic or international developments?[3]

Tax design

7. Is each ET levied upstream, midstream or downstream?
8. Which taxpayers are liable to pay ETs? Are they in the formal or informal sectors, industry or households?
9. Do some taxpayers pay a reduced rate of tax? Which categories of taxpayers pay the full rate, which receive a reduction? What are the implications of these reduced rates of ET for social equity?
10. Are there specific design features which increase the progressivity of ET, e.g. progressive tax rates, earmarked revenues, minimum thresholds, lifeline tariffs, etc.?
11. Can the ET rate be easily adjusted, e.g. through a tax rate escalator, or within a specific range of possible tax rates?
12. How is the ET collected and administrated? Can you identify any obvious shortcomings in the administration of the tax, e.g. poor rates of collection?

Revenue use

13. Are ET revenues earmarked? If so, what for?
14. Which income groups, socio-economic categories and/or entities benefit from earmarked revenues, and to what extent?
15. Is any revenue earmarked for welfare or social compensation mechanisms?
16. Is earmarking a transparent process, e.g. are earmarked revenues transferred to funds disbursed transparently?
17. Have efforts been made to 'symbolically' earmark revenue, i.e. to commit to specific spending on a political level without a legal obligation? Does this spending take place?

[3] Note: falling tax revenue over time, ceteris paribus, is an indication of behavioural change and a drop in consumption – although this might be due to unwanted substitutions, e.g. increased use of biomass for cooking rather than LPG, rather than positive environmental outcomes.

2.B Environmentally harmful subsidies (expenditure and revenue foregone)

Environmentally Harmful Subsidies (EHS) tend to be highly politically sensitive in LMICs and governments approach rationalization or repurposing with extreme caution, for two primary reasons:

1. Subsidies are often a form of social welfare. Price regulations for fossil energy products keep prices stable and below the world market price, thus protecting domestic consumers from price fluctuations and high energy prices. Similarly, subsidies for fertilizers and pesticides are used to support smallholder farmers, who rely on such subsidies to guarantee their yield and meet food security needs. If these subsidies are reformed or repurposed, alternative welfare mechanisms must be introduced to mitigate negative equity impacts and prevent policy reversals.
2. Key industries may also benefit from subsidies, incentives, tax expenditures and other fiscal measures which keep the cost of doing business low. Removing such subsidies is often met with strong resistance from powerful interest groups as such steps are considered a threat to competitiveness. It may be necessary for governments to make compromises to obtain the buy-in of the industry lobby.

Even if it is considered too politically sensitive to propose subsidy reform or repurposing, a comprehensive analysis of the environmental implications of the fiscal system requires the identification of (the most significant) environmentally harmful subsidies.

Preliminary inventory of fossil fuel and environmentally harmful subsidies

18. Check whether reports on fossil fuel subsidies have been published for your country – typical institutions include IMF, OECD, and the IEA, as well as the IISD Global Subsidies Initiative and ODI. Alternatively, referring to the ADB (2023) Carbon Pricing and Fossil Fuel Subsidy Rationalization Toolkit[4] and the OECD policy matrix of support measures, draw up a list (an inventory) of the most significant FFS, in relation to subsidy volume (the value of the subsidy), potential environmental damage, and relevance for social equity.
19. Check whether reports on Environmentally Harmful Subsidies (EHS) or Biodiversity Harmful Subsidies (BHS) have been published for your country. This could include government inventories, research reports, media articles or civil society campaigns related to EHS or BHS, e.g. in the agricultural, fisheries or water sectors. If not, you can draw up a list of the most significant EHS / BHS. Refer to the 2018 BIOFIN Workbook pp.61ff on biodiversity-harmful subsidies and the UNDP, FAO and UNEP report (2021) on repurposing agricultural subsidies for additional information.

[4] The ADB publication can be referred to for the design of a strategy to rationalize fossil fuel subsidies.

20. Does your country publish a tax expenditure (TE) report? If so, make a list of tax expenditures which are likely to be harmful to the environment, climate and/or biodiversity.[5] Examples of elements to consider are listed below:
    - TEs which incentivize fossil fuel consumption, such as reduced tax rates for transport fuels, or reduced VAT rates for internal combustion engine vehicles
    - TEs which encourage increased use of environmentally harmful products, such as pesticides, fertilisers, other harmful chemicals, single-use plastics, etc.
    - TEs in favour of environmentally harmful industries without environmental conditionalities, e.g. reduced tax rates for installations with effluent treatment plants.

Section 3: Impacts of ETs

Evidence of impacts

21. Is any evidence for ET impacts – economic, fiscal, social, environmental – available in the public domain? E.g. modelling, policy impact assessments, research reports, academic articles, etc.
22. Has the government, civil society, a research institute, or any other entity reviewed the ET? What were the findings?
23. Do any press articles or other opinion pieces exist on the ET and if yes, what is the content?

Environmental effectiveness

24. What is the trend in tax revenue over time? Have revenues fallen? Is this attributable to tax rate changes or fluctuations in the price of the tax base (if the tax is ad valorem, i.e. a proportion of the value).
25. Roughly what proportion of the total price of the good or service is accounted for by the application of the ET? Can the tax rate reasonably be expected to incentivize a change in behaviour?[6]
26. Are alternative, affordable goods and services available to facilitate behavioural change, e.g. less polluting technologies, energy efficient appliances, or access to alternative services?

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[5] The EU Taxonomy for Sustainable Finance recognises six objectives of environmental policy – climate change mitigation and adaptation, circular economy, pollution prevention and control, marine ecosystems and water management, and biodiversity conservation.

6 Low tax rates in LMICs tend to reduce the environmental effectiveness of ETs. See European Commission (2023) for more information and examples.

27. Drawing on the above analysis and evidence available in the public domain, assess whether the tax appears to have been environmentally effective.

Distributional impacts

28. What are the most significant dimensions of deprivation in your country, taking into account intersectional factors, such as gender, age, origin, ethnicity, disability, sexual orientation, class, and religion?
29. Direct impacts: Which income deciles and socio-economic groups typically consume the goods and services that are subject of the ET in question?[7]
30. Indirect impacts: Is there any evidence that the ETs have led to increases in basic commodity prices or inflation since they were implemented? Are any trends discernible?[8]
31. Are subsidies or supports in place to enable lower income groups to change their behaviour or to mitigate against the impact of higher prices? Is any information available on the extent to which they are effective and reach the most vulnerable?
32. Which socio-economic groups suffer most from environmental degradation associated with the ET and are therefore most likely to benefit from environmental improvements associated with it?
33. Based on your answers above, evaluate which socio-economic groups are likely to suffer negative equity impacts stemming from ETs in the country?[9]

Impacts on gender

Useful publications on taxation and gender include:

- ATAF (2023) Are tax policies developed to reduce gender inequality in ATAF member countries?
- Coelho et al. (2022) Gendered taxes: the interaction of tax policy with gender equality
- OECD (2022) Tax policy and gender equality: A stocktake of country approaches.

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7 Note: If more vulnerable socio-economic groups consume or depend on the goods or services taxed, it can be assumed that the ET will have a negative equity impact in the absence of effective compensation measures.

8 ETs in the energy or transport sectors are most likely to have indirect impacts on other essential goods and services, such as food prices or domestic energy, as these tend to be closely linked to commodity prices.

9 You can also draw on literature reviews, household surveys, interviews, stakeholder engagement and mapping, input-output tables, and existing evidence and reports to inform your analysis.

All three useful publications when seeking to understand the interactions between gender and taxation.

In these publications, the analysis differentiates between implicit and explicit gender bias[10] in the tax system. Today, explicit bias in taxation is increasingly rare, and leading academics are instead seeking to connect taxation with government expenditure and longer-term fiscal planning and in so-doing, embed gender and tax in a feminist agenda for fiscal policy and politics, therefore implying that corrective measures are of equal importance to the measure itself.[11] For more information see e.g. Grown and Mascagni (2024) Towards gender equality in tax and fiscal systems: moving beyond the implicit-explicit bias framework.

More information on gender and taxation in LMICs can be found in Joshi et al. (2020) Gender and tax policies in the global South.

A handbook on how to conduct a gender impact assessment are available from EIGE (2016) Gender Mainstreaming Toolkit.

34. Is gender-disaggregated data available in your country? Check National Statistics Agencies, ministries for women's affairs, UN Women, and the World Bank Gender Data Portal.

35. Are publications available in your country on the gender implications of taxation and budgetary policy, such as reports by national statistical agencies, gender budgeting reports, reports by gender commissions?[12]

36. Using this data, reports, and other resources/interviews as appropriate, make a list of the most significant gender disparities in the country, considering income levels, labour-force participation, consumption behaviours, ownership, entrepreneurship, savings, tax morale and compliance societal roles, and unpaid care.

37. How are these gender disparities relevant to the ETs in your country?
    For example: are the goods / services subject to ETs primarily consumed by women or by men? Is women's access to and control of resources impacted by existing ETs? Are women subject to a disproportionate ET burden?

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10 Implicit bias arises when a gender-neutral tax system interacts with differences in underlying economic characteristics or behaviours between men and women – such as income levels, labour-force participation, consumption, ownership, entrepreneurship, savings, tax morale and compliance societal roles, unpaid care, etc. – in ways that reinforce these gender biases.

11 This approach is in line with the more holistic approaches to Environmental Taxation proposed in Falcão and Cottrell (2024), which considers compensation mechanisms an essential element in tax policymaking to safeguard justice within a progressive tax system.

12 For example: in Zimbabwe, the Gender Commission publishes an Annual Report. With the support of the World Bank in Zambia, a Gender Assessment (2023) is available online.

38. In view of these answers, do the ETs already in place in the country strengthen, maintain or reduce gender inequalities?

Social welfare

39. In general, what measures are in place to provide for social welfare? Are these measures targeted to specific social groups? Are they effective in protecting the vulnerable?
40. If you identified any environmentally harmful subsidies (EHS) in Section 2B above which are intended to have a social welfare function, are these measures effective?
41. Have any specific measures been put in place to mitigate the negative equity impacts of ETs on vulnerable households / groups?[13]
42. Are the measures you have identified sufficient to mitigate the negative equity impacts of existing ETs? When answering this question, consider differences in consumption behaviour and ability to access sustainable alternatives.

Section 4: Identifying opportunities for changes to existing ETs and EHS

Enhancing effectiveness of ETs

43. In your analysis above, particularly Questions 717 and Question 27, did you identify ETs which are environmentally ineffective, administratively weak, or otherwise poorly designed? Can you pinpoint reasons for these policy failures?[14]
44. What is necessary to tackle these failures? A higher tax rate, enhancements to tax design, or something else?[15]

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[13] This might include a wide range of welfare measures such as (conditional) cash transfers, benefits in kind, reduction of other regressive taxes, subsidies and supports, reduced tax rates or tax breaks13, or investment in services used by lower income households, such as public transport or small scale renewable electricity.

[14] Local knowledge brokers – government officials, think tanks, international organisations, development partners, civil society and the media – may all have insights into the answer to this question. A useful summary of tax design principles can be found e.g. in OECD (2010) Taxation, Innovation and the Environment – especially Chapter 5: A Guide to Environmentally Related Taxation for Policymakers.

[15] A common cause of environmental ineffectiveness is poor ET design. Typical examples include:
- if an ET is only imposed on domestically manufactured single-use packaging, but not on imports, this may fail to reduce consumption as cheap packaging imports flood the market. Broadening the coverage of the tax can address this problem.
- if a specific ET – i.e. an ad quantum tax, such as a tax of US$ 0.50 per litre of fuel – remains at the same rate for many years, without adjustment to inflation, then its nominal value depreciates, and its impact is reduced over time. See e.g. European Commission (2023) Green Taxes in non-OECD Countries for examples.

45. Are you able to define possible improvements to existing ETs e.g. by improving environmental effectiveness by broadening of the tax base?[16] If yes, include these in your Shortlist developed in Question 73.

Improving social equity outcomes of ETs

46. Based on your answers to Questions 3942, make a list of ETs which may have regressive social equity impacts.
47. Considering social welfare mechanisms in your country, can you identify measures which have the potential to compensate negatively affected socio-economic groups?[17] If yes, include these on your Shortlist developed in Question 73.
48. If possible, estimate the cost of your proposals (estimated recipients x per capita cost) and calculate the proportion of ET revenue required for this purpose.

Reforming environmentally harmful subsidies (EHS)

For the subsidies identified (see Questions 1820), consider the following questions:

49. How high are EHS in comparison to similar countries?[18]
50. Which products are subsidized most?
51. Who are the primary consumers of those products? Are some fossil fuels consumed primarily by poorer or wealthier income groups?
52. Drawing on household survey data on household expenditure and consumption patterns, can you estimate the current equity impacts of the subsidies identified? Which income groups are benefitting most, and which are benefitting least, from EHS?
53. Do any subsidies have negative equity impacts? How are subsidy benefits distributed?
54. Can you identify subsidies which could be reformed without severe equity impacts, or subsidies where it seems feasible to replace the subsidy with an alternative form of welfare? Is there any political appetite for such reform?

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[16] To answer these Questions, draw on the work of other knowledge brokers in the country (refer to footnote 14.

[17] Household surveys may provide useful data for the development of recommendations. For design principles, see Malerba (2023). The Role of Social Protection in Environmental Fiscal Reforms.

[18] For many countries, only data on fossil fuel subsidies might be available.

55. Drawing on household survey data on spending on transport fuels and domestic energy, can you predict the likely impacts of their repurposing and/or reform on low-income households and vulnerable groups?[19]

56. Who are the main beneficiaries and therefore probable opponents of subsidy repurposing and/or reform? Are they politically influential, e.g. large industries or high-income groups?

57. What recommendations can you make to enhance the progressivity of the fiscal system in relation to EHS? Include these on your Shortlist developed in Question 73.

Section 5: Exploring potentials for new ETs / EFR measures

The state of the environment

58. Which are the single most important environmental (and climate) policy priorities in the country? Are any significant environmental challenges missing and if yes, why might this be?

59. Which significant environmental challenges are NOT effectively addressed by the current regulatory and fiscal policy regime, including environmental challenges for which ET or other regulations are in place but ineffective?

60. Which of these challenges are likely to the most significant impacts on poverty and inequality?

61. Do some of these challenges have significant negative impacts on human health, e.g. air, soil or water pollution? If yes, consider prioritizing these policy options.

62. Draw up a priority list of environmental challenges based on this initial analysis. It might be useful to rank the challenges according to your policy priorities, e.g. severity of environmental degradation, impacts on biodiversity, air/water/soil quality, human health, poverty and inequality into consideration.

Is ET an appropriate instrument to tackle the environmental challenge?

For each environmental challenge in your priority list (see Question 62), answer the following questions:

63. What are the drivers of these environmental challenges? Do they stem from a failure to put an appropriate price on an environmental goods or service?[20]

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[19] Note: to do this, you can refer to the work in Granger et al. 2021.

[20] For example, the price of single-use plastics tends to be low: the price does not reflect the environmental harm single-use plastics cause. A likely driver of the high use of single-use plastics is their

64. Does the environmental challenge have a disproportionate impact on women, ethnic minorities, or other vulnerable groups, e.g. low-income households?[21]
65. Can the environmental tax base – i.e. the pollutant or environmentally harmful behaviour – be effectively monitored or otherwise measured? Are monitoring and/or measurement systems currently in place?[22]
66. Can taxpayers for potential ETs be easily identified?
67. Given the current tax administration context in the country – considering factors such as TADAT reports, information on tax evasion and the tax gap, and the informal sector – is it administratively feasible to impose an ET on the relevant tax base?
68. Are effective collection mechanisms already in place that could be used for the ET, or would new mechanisms be required?
69. Can the tax be levied upstream?[23]
70. Is it feasible to monitor or otherwise measure the potential tax base?
71. Are less environmentally harmful alternatives available and affordable? Will lower income groups be able to change their behaviour in response to the tax?
72. Could changes in the relative prices of cleaner technologies incentivize new investments?

Draw up a Shortlist of possible options

73. Using the priority list of environmental challenges developed under Question 62 and responses to Questions 6372, identify those environmental challenges for which an ET seems to be a practical and feasible policy response – this is your Shortlist. Also include options for reform of existing ETs and EHS identified above.

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low cost, and if the cost is increased, it will encourage use of alternatives. For more information on basic information on environmental taxes, please see the Introduction to the theory of environmental above.

21 Note: this is a key question. An environmentally effective ET will disproportionately benefit women in cases where women are disproportionately negatively affected by a specific environmental challenge. For example, if women are more negatively affected by mercury pollution because they are exposed to higher concentrations of mercury than men, they will benefit disproportionately from an ET which reduces mercury use.

[22] A carbon tax is levied on the carbon content of fossil fuels and is easy to calculate – actual emissions do not need to be measured. A tax on air or water pollution typically requires monitoring and good data.

[23] An upstream tax is levied at the top of the value chain, e.g. at the point of extraction or manufacture. A downstream tax is levied at the point of consumption. A tax on single use bottles can be levied on imports, or at the time of manufacture – therefore, there will only be a few potential taxpayers who can be easily identified and taxed, as they will be manufacturers or importers of plastics. A downstream tax will be more demanding in terms of tax administration.

Section 6: Predicting impacts of ETs and developing mitigation measures

Predicting distributional impacts[24]

For each ET on your Shortlist, consider Questions 28-32 and answer them in the context of the introduction of a new ET. Then, work through the additional questions below:

74. What social changes and impacts are likely to result from the introduction of the ETs on your Shortlist? Include both direct and indirect impacts.
75. How are groups negatively impacted by the ET likely to respond? Can they access low-cost, green technologies to facilitate a change in behaviour, or are they likely e.g. to revert to less clean technologies?[25]

Predicting gender impacts

For each ET on your Shortlist, consider Questions 3438 and answer them in relation to the introduction of a new ET. Then, work through the additional questions below:

76. Will the unequal distribution of income between women and men change because of the new tax? If yes, what will the changes be?
77. Will the unequal use of time und unequal division of labour – considering paid and unpaid work, the employment rate, the informal and formal sector, etc. – between women and men change as a result of the ET? If yes, what will the changes be?
78. Will the representation of women in decision-making bodies change as a consequence of the proposed policy, e.g. if the ET is implemented at sub-national level and requires community buy-in and input to tax collection?[26] If yes, what will the changes be?

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[24] Vanclay et al. (2016) Social Impact Assessment: Guidance for assessing and managing the social impacts of projects is a useful and accessible resource on understanding distributional impacts.

[25] For example: if a tax is imposed on kerosene – often used for cooking and lighting in LMICs – low-income households might revert to using firewood and charcoal. This has undesirable consequences for biodiversity (deforestation) and human health, as harmful emissions from wood burning can lead to increases in household air pollution. This unwanted substitution will generally affect women and children more, due to greater exposure.

[26] For example: in Niger, a decentralised tax on wood resources is managed by local populations, with revenues flowing to local management structures, village communities and development funds. This localised system enabled investments in healthcare, education and water supply, reduced rural-urban migration, and enhanced food security (Montagne, P. and Amadou, O. (2012). Rural districts and community forest management and the fight against poverty in Niger).

Predicting impacts on international competitiveness.[27]

The impacts of ETs on competitiveness tend to be overstated. At the national level, impacts of ETs on competitiveness tend to be limited, although more energy-efficient and greener firms tend to gain a comparative advantage from the tax (a desired outcome). In terms of international competitiveness, the potential impact of price rises due to ETs is generally far lower than global price fluctuations in energy and commodity markets. If serious competitiveness impacts are expected, ET revenues can be used to mitigate negative them: mitigations should be targeted, time-limited, and subject to regular review.[28]

79. Take stock of existing sectoral studies and evaluations: is literature on the competitiveness impacts of similar measures available in the public domain?
80. Is it likely that the ET will affect the cost of business operations, and if so, how, and by what order of magnitude? Consider the cost of inputs, capital, labour and natural resources, the cost of production and distribution (including energy and transport fuels), and the price of natural resources. Which sectors seem likely to be affected?
81. Might the ET have an impact on sectors exposed to international competitiveness?[29] How significant are these sectors for the economy?
82. If helpful and necessary, complete the matrix below to summarize your predictions of the impacts of potential ET reforms on competitiveness.

Figure 1: Matrix for the assessment of impacts on competitiveness

Competitive impacts	Affected sectors		Sizing (timing) of impacts	Duration of impact	Risks and uncertainty
	Directly	Indirectly			
Cost and price competitiveness					
Capacity to innovate					
International competitiveness					

Source: European Commission (footnote 27)

[27] If an in-depth impact assessment is required, European Commission operational guidance for impact assessment is available here.

[28] More information on competitiveness and ET can be found in OECD (2017). Environmental Fiscal Reform; Progress, Prospects and Pitfalls.

[29] Government statistics and input-output tables can help to answer this question.

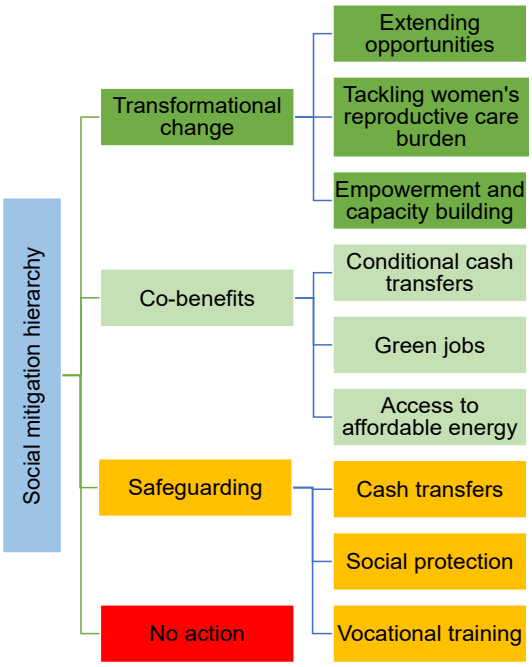
Section 7: Developing socially equitable recommendations

Mitigation measures

To ensure that ET are implemented within a progressive tax system, it is essential that ETs are not proposed without appropriate mitigation measures. This may relate to a specific element of policy design to avoid or reduce negative impacts on social equity. Alternatively, it may require the development of accompanying measures to limit negative impacts e.g. through transformative measures, compensate in kind e.g. through co-benefits policies such as free distribution of stoves for clean cooking, or compensate directly to safeguard the vulnerable, e.g. through cash handouts for low-income households. Such an approach is key to safeguarding justice within a progressive tax system.[30]

The mitigation hierarchy (Figure 2) should be followed when exploring social welfare measures to mitigate negative distributional impacts.

Figure 2: Hierarchy of social mitigation measures



Source Raworth, K., S. Wykes, and S. Bass. 2014. Securing social justice in green economies: a review and ten considerations for policymakers

[30] More on this approach can be found in Falcão and Cottrell (2024) A Climate of Equality. The central argument in this study is that ETs should be approached holistically, with compensation and mitigation measures considered an integral part of an ET package and that policymakers must aspire to the creation of a progressive tax system while introducing ETs commensurate to meeting the challenges of the climate and biodiversity crises.

Only if you can answer positively to one of the three questions below should you retain measures on your Shortlist.

83. With reference to your Shortlist (see Question 73), can you recommend ETs where you do not anticipate severe negative equity impacts, or which might be progressive in the context of your country, e.g. taxes on luxury goods, such as private vehicles?

84. Reflecting on the mitigation hierarchy and existing social welfare mechanisms in your country, can you recommend linkages to existing mechanisms to effectively address possible negative equity impacts resulting from the implementation of the ETs in your Shortlist?[31]

85. Reflecting on the mitigation hierarchy, can you come up with new social welfare mechanisms to address possible negative equity impacts?

Strategic considerations

Drawing on your Shortlist and your answers to Questions 83-85, this section will support you to develop recommendations for reform of existing ETs, EHS elimination or repurposing, and the introduction of new ETs.[32]

By answering the questions below, it will become clear what the pros and cons of each of the shortlisted ETs are. FTM users should use their judgement to choose which policies they wish to develop recommendations for, including new measures and reform of existing ET and EHS (refer to Section 4: Identifying opportunities for changes to existing ETs and EHS).

86. From your Shortlist and in view of your predictions for equity impacts, which ETs are likely to have a progressive impact on dimensions of inequality, including income, gender, ethnicity and age?[33]

87. For the ETs in your Shortlist expected to have socially regressive or negative impacts on income distribution, gender and other dimensions of inequality, does it seem feasible to avoid, reduce or compensate for them?[34]

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[31] Useful sources for this include the literature list in the introduction, particularly Malerba (2023) The Role of Social Protection in Environmental Fiscal Reforms and Falcão and Cottrell (2024) A Climate of Inequality.

[32] Publications from the literature review, as well as the United Nations (2021) Handbook on Carbon Taxation for Developing Countries are useful resources.

[33] An important first step for ET can be to introduce ETs on luxury goods or services, such as aviation.

[34] To maximise political buy-in for the ET, it can be helpful to propose mitigation measures which are targeted and efficient, so that while a proportion of revenue raised by the ET is recycled to protect vulnerable groups, the remainder can be used for other policy priorities.

88. From your Shortlist, which appear to be simple to administrate? Are collection measures and systems in place which could be used to administrate your shortlisted ETs?[35]
89. Will economic actors be able to respond to the ETs? Are less environmentally harmful behaviours or technologies available and affordable? If not, could changes in the relative prices of cleaner or low-carbon technologies incentivize new investments?[36]
90. Are some of the taxes on the Shortlist difficult to avoid, and have broad coverage of both formal and informal sectors?[37]
91. Are the ETs you shortlisted politically acceptable and does building a political consensus around their implementation seem feasible?
92. Can you identify national strategies relating to environmental policy which might boost political acceptance for your proposals?
93. Are they likely to be met with the support of (at least one) powerful stakeholder, e.g. the Ministry of Finance, or the renewable energy industry?

Refine your recommendations

This section describes the possible structure and content of recommendations.

Depending on the target audience, it is proposed to adjust the framing of the recommendations and focus on their most pertinent concerns.

In the initial stages of advocacy, an important target audiences will be CSOs working on environmental policy and campaigns, or CSOs concerned about the social dimensions of environmental degradation. Building civil society support for ET is a useful first step towards consensus building and can amplify campaign messages. Think tanks and other knowledge brokers working on economic and fiscal policies should also be targeted in the early stages. For all these stakeholders, this might imply interviews during the research process described above.

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[35] For example: upstream taxes tend to have fewer taxpayers and call for a relatively simple administrative framework, whereas downstream taxes tend to have more diverse and diffuse taxpayers, who may be harder to access.

[36] Example: If electric motorcycles cost far more than diesel motorcycles, reducing import taxes or introducing tax incentives can boost investment.

[37] It has been argued that in countries with higher rates of tax evasion, the benefits of introducing hard-to-evade carbon-energy taxes more than pay for themselves as a result of improvements in the efficiency of the tax system, whether or not they have a positive impact on climate change. See Liu (2013). Tax evasion and optimal environmental taxes.

Allies within government are likely to be found at the Ministry of Environment (MoE), although in many countries, the Ministry of Finance (MoF) has a strong interest in improving the tax-to-GDP ratio and therefore, an interest also in ETs.

For the MoF, a key advantage of ETs over e.g. environmental regulation from their perspective is the potential for ETs to raise revenue.[38] Therefore, advocacy targeting the MoF should focus on questions relating to revenue, administration of the tax, political economy benefits, and political feasibility. It is important to provide sufficient detail to lend proposals credibility for policymakers.

94. Write up your recommendations for improvements to existing ETs, repurposing of EHS, and proposals for new ETs. A possible structure for a policy brief making specific recommendations should take into consideration the following:

a. The environmental challenge and its impacts, i.e. why is am ET needed?
b. Existing policies to tackle the challenge and why they are not sufficient?
c. Social impacts of the environmental challenge, i.e. who is suffering as a result?
d. Include a graph on the fiscal situation in the country currently, and tax-to-GDP ratios (refer to Questions 3-4).
e. Possible solutions: introduce each proposal for ET or EHS repurposing. Touch on administrative/governance, predicted impacts of the proposals on social equity and how they might be mitigated. Present each proposal as a cost-effective and socially equitable solution to the environmental problem.
f. Describe the potential benefits of the measure – fiscal (revenue raised), social (reduced inequality, enhanced gender equity), and environmental – and develop clear and accessible arguments in favour.
g. List the advantages of implementing ET or EHS reform rather than e.g. regulation or 'soft' instruments, such as revenue raised, tax compliance, international recognition (esp. for carbon taxes).
h. Highlight potential national support for the measure, linking to political and strategic priorities in the country and ongoing policy processes.
i. Consider possible opposition and reflect on possible strategies to build consensus, reflect on challenges and how they might be strategically addressed, e.g. increase the appeal of ET by highlighting the use of revenues for pro-poor investment, or to finance adaptation measures, or education.

Please refer to Oxfam (2020) Influencing for Impact Guide for advice on advocacy and campaigning to promote your recommendations.

[38] The stability of revenue from ET depends on several factors, including the elasticity of demand and available of substitutions (alternative technologies). See e.g. Schlegelmilch and Joas, Fiscal Considerations in the Design of Green Tax Reforms.