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YIN session – The EU green tax agenda and non-EU country impact
Chair: Merijn Betjes (KPMG Meijburg & Co)

Report by: Timo Dolderman (Dutch Tax Authorities)

The last session of the scientific program on Thursday was organized by the Young IFA Network (YIN) branch in the Netherlands. YIN aims to increase the participation of tax professionals in IFA during the early stage of their careers and provide them with the opportunity to participate on the podium in order to contribute with a young and fresh note to the (tax) debate. The subject of the session differed from the earlier program today, green taxation. Also the setting of the session was slightly adjusted. By creating a more informal setting, the audience was actively participating in the various subjects which were discussed by the panel.

Before entering into the details, the secretary of the session made clear why green taxation is such an important topic, especially for the younger generation tax specialist. Beside the fact that younger generations will experience the long-term consequences of climate change more significantly than older generations, it may also have a significant impact on their work as a tax specialist. Do we only need green tax experts in the near future? Part of the audience was not convinced of this. These participants did not expect a significant change of their agenda due to green tax developments. However, most of the people agreed that green tax knowledge and experience is a must-have within the tax team.

The chair of the sessions, mr. Betjes started the session by setting the scene. He showed the wave of developments in the field of green taxation and spoke about the ambitious green tax agenda of the European Commission. With the 'Fit for 55' package, the Commission sets the EU's policies in line with its commitment to reduce its net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels and to achieve climate neutrality in 2050. The chair zoomed in on two parts of the package. Firstly, an essential element; the carbon border adjustment mechanism (CBAM). This is a s a climate measure that should prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation. The CBAM will equalise the price of carbon between domestic products and imports and ensure that the EU's climate objectives are not undermined by production relocating to countries with less ambitious policies. Secondly he highlighted the various developments in Europe with respect to plastic taxation. The EU's plastics tax is one of several tax reforms proposed as part of the Green Deal which aims to reduce consumption of raw materials and waste, promoting the move towards a circular economy. A few European countries have already implemented such a tax, for example, Italy. Other countries will follow shortly, such as Poland and Spain (expected 1 January 2024).

After this introduction, the chair invited the panel and the audience to reflect on various questions about the developments in the green tax landscape, the impact in their local countries, the impact of green taxation and ESG (environmental, social and governance) governance within their organization and/or their clients agenda's and the interaction with amongst others the OECD's work on Pillar One and Pillar Two.

Mr Glavey (Ireland) spoke amongst others about the Carbon Tax in Ireland, which was introduced in 2010. This carbon tax gradually increased its rate. The Irish government committed to progressively raise the carbon tax rate to reach EUR 100 per tonne of CO2 emissions by 2030. Mr. Willvonseder (Austria) reflected on the ambiguous position in Austria. At one hand, the government wants to be green and introduced for example a carbon tax. But at the other hand, they do not want to hurt tax payers too much. Looking at the carbon tax, the effect is minimized by the considerable credits which are available.

A participant from the audience explained the complex position in France, where the acceptance of (new) green taxes or increasing rates is difficult and may result in push back from the broader public. This seems to be one of the difficulties but inherent to a mechanism whereby the polluter pays. Therefore in France the government tries to look at opportunities to imposes these taxes on businesses rather than general initiatives which target individuals directly.

Another interesting topic - with some more connection to the general topic of the rest of the day - is the potential link of the green initiatives with Pillar Two. Mr. Glavey sets out that the link is minimal, although potential tax incentives to promote green behavior will have to be assessed for any potential impact on the calculation of the top-up tax under Pillar Two. One of the participants reflected on the comparable set-up of Pillar Two and CBAM. Both initiatives impose a levy stimulating the foreign country to levy a domestic tax, stimulating a domino effect. That may be an interesting method for potential future initiatives as well. In addition, the linkage with Pillar Two can also impact the future discussion on alternatives which would be available in order to encourage green behavior. Instead of new tax incentives, governments may consider subsidy (non-tax) based credits or the introduction of unfriendly taxes for non-green practices. Moreover, taxation may not always be the most preferable instrument. Relevant consideration in this respect is that we should first have a look at the currently available instrumentation before increasing the administrative burden by introducing new mechanisms.

The panel and chair agree that for some of their clients, it is difficult to assess how they should approach issues related to ESG and especially the orientational side may be a challenge. Who is responsible within the organization, who joins the discussions and who should take the lead? It affects departments throughout the organization, sustainability experts, tax specialist, procurement, the finance team, operations etc. The panel envisages that in practice that some companies may form specific project teams in which all these expertise are combined, together they may be responsible for the new ESG compliance of the business.

The key take away of the session was that due to the various developments in the field (locally, in Europe and in the rest of the world), companies need to be cognizant of green taxation issues and understand how they can and will impact the organization now and in the future as the area develops further in line with the EU's ambitious green agenda. This could include needing to provide for green taxation specialists within tax functions. The chair closed the interesting session by the prediction that within a couple of years we all are (at least a bit) green tax experts.

Panel members:

- Trevor Glavey (Matheson)
- Clemens Willvonseder (Binder Grösswang)