

Reforming the tax system to support a green and fair transition

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The UK needs to carry out transformative action to deal with the urgent climate and other environmental crises the country faces and help steer our economy to a net zero carbon future. The tax system can incentivise environmental goods, reduce emissions intensive and other environmentally destructive activities, encourage people and businesses to make the most of emerging low carbon opportunities and raise funds to support government action. Tax reform needs to be done in a way that is fair, popular and effective.

However, tax reform alone will not be enough. A range of policy measures will be essential for the UK to deliver its share of actions to limit global temperature rises. This includes furthering public and private investment in new technologies and zero-carbon infrastructure, as well as government regulation. In addition to taxes, the government should use different financing mechanisms, including borrowing.

These principles set out how the UK should redesign the tax system to achieve its climate, social and wider environmental goals.

Aligning taxes to support climate and other environmental goals

Tax 'bads': The government should disincentivise carbon emissions, and other environmentally destructive behaviour, using pricing mechanisms including through the tax system. It must simultaneously compensate low income groups.

Reduce the price of green alternatives: The government should use tax reliefs, rebates and other types of funding to incentivise the green transition.

Remove carbon subsidies: The government should remove existing tax subsidies on the production and use of carbon and fossil fuels, including investment reliefs for these activities.

Align tax policy with the green transition: The government should ensure that its tax policies align effectively with its climate and other environmental goals, including its obligations to meet carbon budgets.

Taxing fairly

Tax progressively: The tax system should be progressive overall, focusing on those with the greatest ability to pay and with the greatest responsibility for climate and other environmental damage.

Ensure any regressive outcomes are balanced by government action: Any tax reforms that would increase the costs for lower income households need to be offset with compensating financial and other support. Government and private sector investment is needed to ensure that everyone has access to more environmentally friendly alternatives.

Build public support: Public acceptance must be considered at an early stage in the design of taxes, including the impact on lower income households.

Tax responsibly in a global context: Climate change is a global problem requiring global action. The government must ensure that the UK tax system supports the efforts of other countries to raise funds to support a green and fair transition. The UK should work to bolster the tax bases of

countries around the world by clamping down on international tax avoidance through the UK and support global efforts to fix the taxation of multinational corporations.

Ensuring effectiveness

Create clear incentives: The purpose of a tax should be clear when designing it. It should create the correct incentives to achieve desired outcomes and it should target the right actors. Any incentives created by the tax system should be in alignment with wider policies.

Coordinate introduction of taxes with measures to support the deployment of alternatives: It may be the case that investment is needed to create zero-carbon alternatives before taxes are introduced to enable them to be effective. At the same time, taxes can prompt the development of alternatives.

Take into account unintended impacts: Any measures should be complementary to efforts to address other environmental impacts, such as resource use and biodiversity loss, and avoid unintended consequences. Tax changes should be made taking into account broader macroeconomic conditions.

Avoiding carbon leakage: The government should consider appropriate mechanisms to prevent carbon emissions simply shifting offshore. Furthermore, any carbon border adjustment must be carefully calibrated so as not to unfairly disadvantage lower income countries, and should be supplementary to effective measures to help these countries achieve a green economy. Any such measures must recognise the freedom of other countries to pursue policies for sustainable low-carbon development appropriate to their national contexts.

Communicate clearly: It should always be made clear why carbon pricing, or other environmental taxes, are being used and how they are being tailored to make them appropriate. It should be clear that tax changes are part of a holistic strategy which sets a clear direction of travel. There should be some lead up time to allow people and businesses to adjust their behaviour.

Recognising limitations to the use of the tax system

Use taxes as part of a broader strategy: Tax reform will not be a complete solution and must be accompanied by other policies, such as regulation and increased public and private investment.

Acknowledge the limited revenue-raising potential: Given that the aim of carbon and other environmental taxes are to reduce emissions and promote nature restoration, they should not be primarily seen as a way to raise revenue.

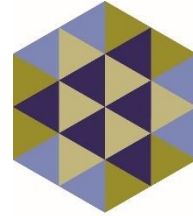
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