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'Green' taxation in a recession

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As governments face up to the challenge of moving towards a low-carbon economy in the midst of a recession, the tax system "can be a powerful device for changing behaviour," argues the Association of Chartered Certified Accountants (ACCA) in an August policy paper.

Environmental taxation is now "being widely used to assist in the fight against climate change, with taxes around the world on everything from plastic bags to energy consumption," observes the paper.

European countries feature strongly among those cited as already using environmental taxation as a policy instrument. In Denmark, environmental taxes represent 5.9% of total tax revenue, which is, according to ACCA, "by far the highest proportion in the EU and arguably the highest in the world".

The report stresses that "politicians should not see environmental taxation as a panacea," as it "cannot both solve the environmental crisis and raise significant income via taxation in the long term". An environmental tax's "fatal flaw" is that if successful it will "destroy its own tax base" by encouraging pollution reductions and hence lower emissions.

Environmental taxation nevertheless represents an efficient way for governments to achieve environmental goals, ACCA believes. It is crucial that such taxes are coordinated on a global basis "so as to avoid producers shifting production away from countries with these taxes to countries without them or at lower levels".

One lesson that ACCA offers governments is that environmental taxation is "only successful if the government in question is fully committed to creating beneficial environmental results with at least a large proportion of the revenue gained from it".
Otherwise, it may be hard to convince business and the general public that the government is not simply raising revenue for other purposes, via a "stealth tax".

Another important task for government is to monitor the impact of environmental taxation on compliance and the market, allowing undesirable and unintended consequences to be identified and moderated early, recommends ACCA.

Amid the global recession and corresponding "sharp rises in public deficits and debt," governments may be tempted to raise environmental taxes, admits the association. It warns against taking such steps "rashly" though, as tax increases may prove "difficult to sell to electorates during a recession".

Other solutions to environmental problems should also be considered, ACCA argues, as "there often appears to be little cost-benefit analysis to support the use of tax over other possible measures". Such measures include regulation, voluntary agreements, carbon-trading and tax incentives.

"The global business community understands that 'business as usual' is no longer an option," the ACCA paper declares, concluding that the "range and scope" for environmental taxes will increase in the future.

It calls on governments to use tax policy for positive change by "incentivising investment in new cleaner technologies," and to promote environmental taxes as "part of the solution of tackling climate change".

- Association of Chartered Certified Accountants: 'Green' Taxation in a Recession (August 2009)
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