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Carbon Tax: political economy and administration in Colombia

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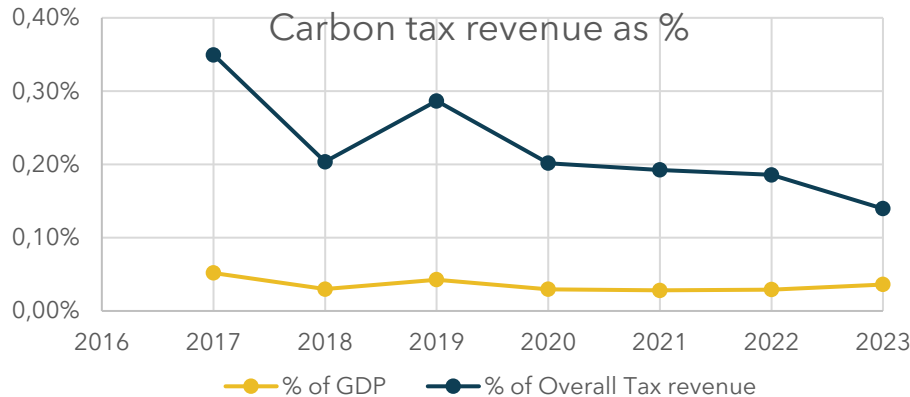
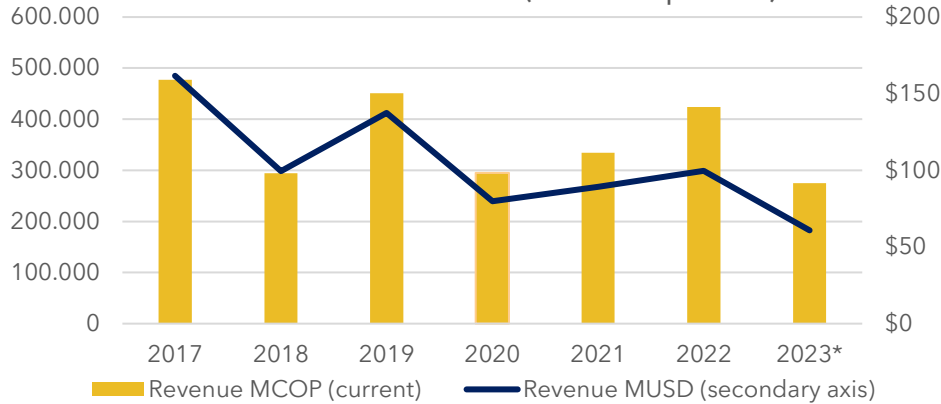
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Carbon Tax Revenue

Carbon tax revenue (current prices)



Source: Own elaboration.

2023*: From January to June

Revenue MUSD: Using average exchange rate of the year

- Carbon tax revenue (2022): \$99,61 MUSD
- Carbon tax revenue (until July 2023): 82,57 MUSD
- + 29% in the same period of 2022.
- Carbon tax revenue as % of GDP: 0.04%
- Carbon tax revenue as % of tax revenue: 0.14%

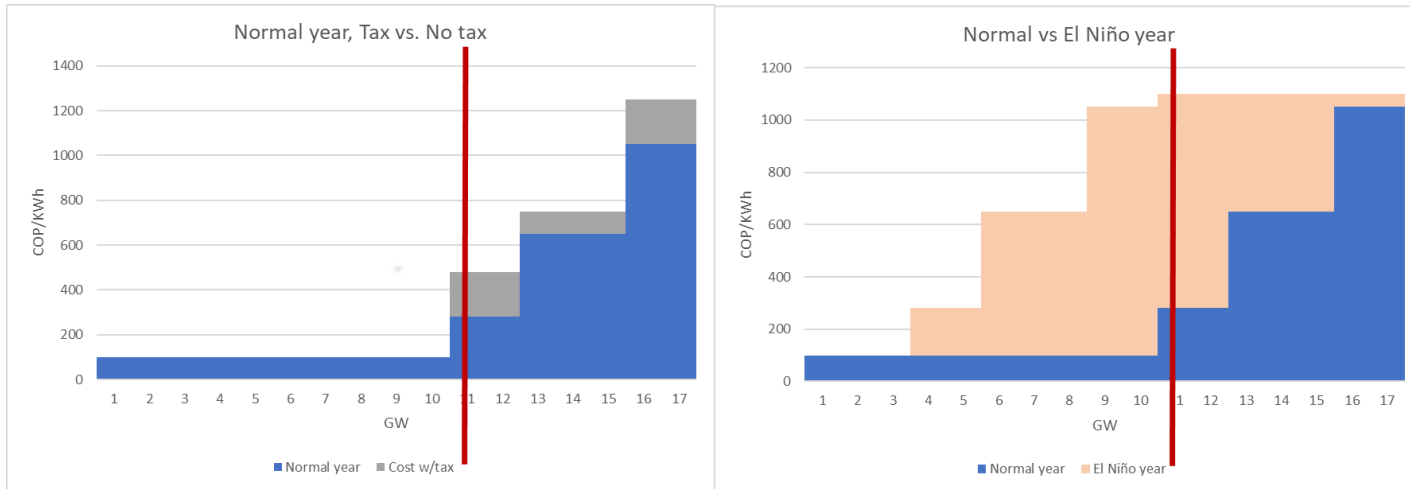


Carbon tax in Colombia

- The Carbon Tax is levied on the carbon content of all fossil fuels, including all petroleum derivatives and all types of fossil gas that are used for energy purposes, whenever they are used for combustion.
- The Colombian carbon tax was created by Act 1816 of 2016. “Cost-effective tool to contribute the reduction of GHG emissions from the burning of fossil fuels in the country, generating opportunities to improve efficiency and sector productivity, in addition positive impacts on air quality and environmental health.”
 - Initially it did no tax coal.
 - Carbon offsets up to 100% of tax.



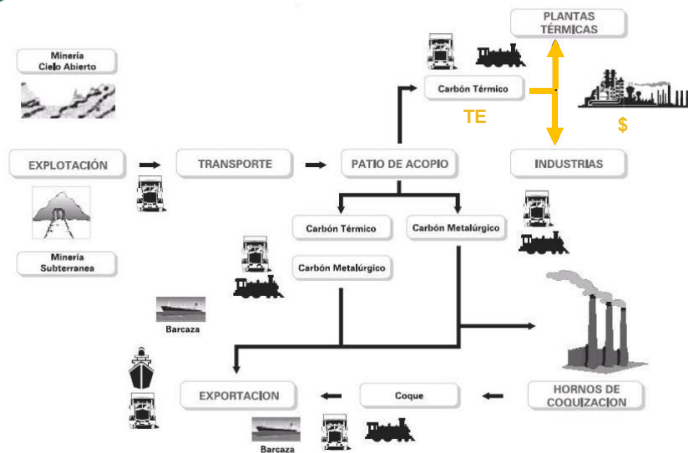
Why coal was exempt



- The Carbon Tax is levied on the carbon content of all fossil fuels, including all petroleum derivatives and all types of fossil gas that are used for energy purposes, whenever they are used for combustion.
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 - Initially it did no tax coal.
 - Carbon offsets up to 100%.
- Since its creation it has been modified six times. The most important modification was the Act 2277 of 2022.
 - USD 4.43/tCO₂e for all petroleum derivatives and all types of fossil gas used for combustion, starting 2023. Stepped hikes until 2028.
 - Local sale of coal for energy generation is now taxed.
 - Carbon offsets up to 50% of tax (previously exempt).



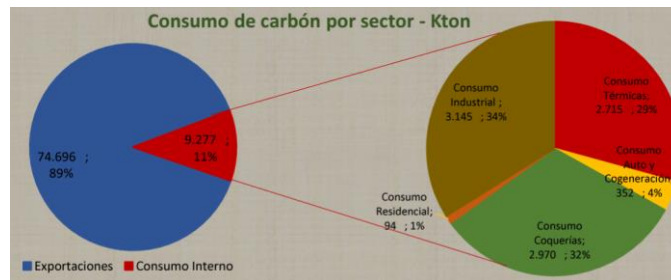
Carbon Tax on coal (today)



The taxable event is the acquisition or use for self consumption of coal.
 The purchaser/user is the passive (taxed) subject.
 Passive subject is responsible for payment (self-assessment).

The 95% of the coal production is exported → not taxed.
 Coal for coke (metallurgical) → not taxed.

Only 3.5% of coal production is being taxed → electricity generation.



Source: ANDI-2021

**Coal is not the only fuel with a
convoluted story**

**Nor has been the tax base
the only source of controversy**



Reforms: cui bono?



2016

Taxable event:

Sales, import for self consumption or for sale of fossil fuels.

Passive subject:

Final user

Tax rate:

\$15.000/ton CO₂

Specific allocation:

100% environmental sector: coast erosion, ecosystem protection, water sources conservation



2018

Specific allocation:

5% for National System of Protected Areas

25% environmental sector
70% Peace

Implementation to be agreed



2019

Tax rate: 0 for

Departments:

Amazonas, Caquetá, Guainía, Guaviare, Putumayo, Vaupés, Vichada

Municipalities:

Sipí, Río Sucio, Alto Baudó, Bajo Baudó, Acandí, Unguía, Litoral de San Juan, Bojayá, Medio Atrato, Iró, Bahía Solano, Juradó y Carmen del Darién



2021

Specific allocation:

Act 2155: 100% environmental sector (for 1 year)

Act 2159: During the fiscal year 2022:

85% environmental sector

15% Sustainable Development Corporations in Amazonas, Caquetá, Putumayo, Guainía, Guaviare, Vaupés and Macarena

Act 2169: During the fiscal year of 2023:

50% environmental sector

50% Illicit Crop Sustitution Program



2023

Taxable event:

Includes coal sale and import

Passive subject:

Includes coal

Tax rate:

20.500/ton CO₂

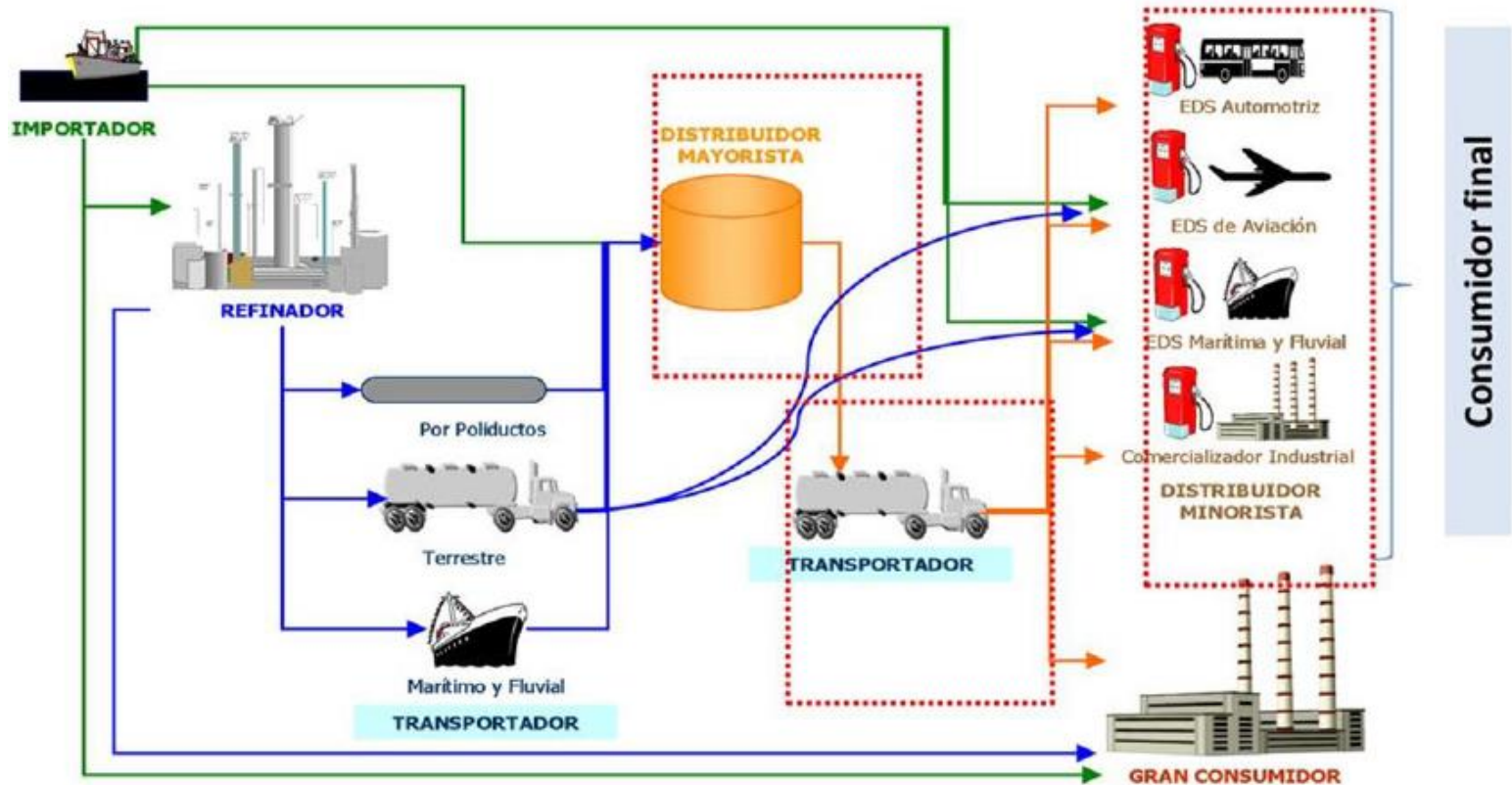
Limited offsets

Specific allocation:

80% environmental sector
20% Illicit Crop Sustitution Program

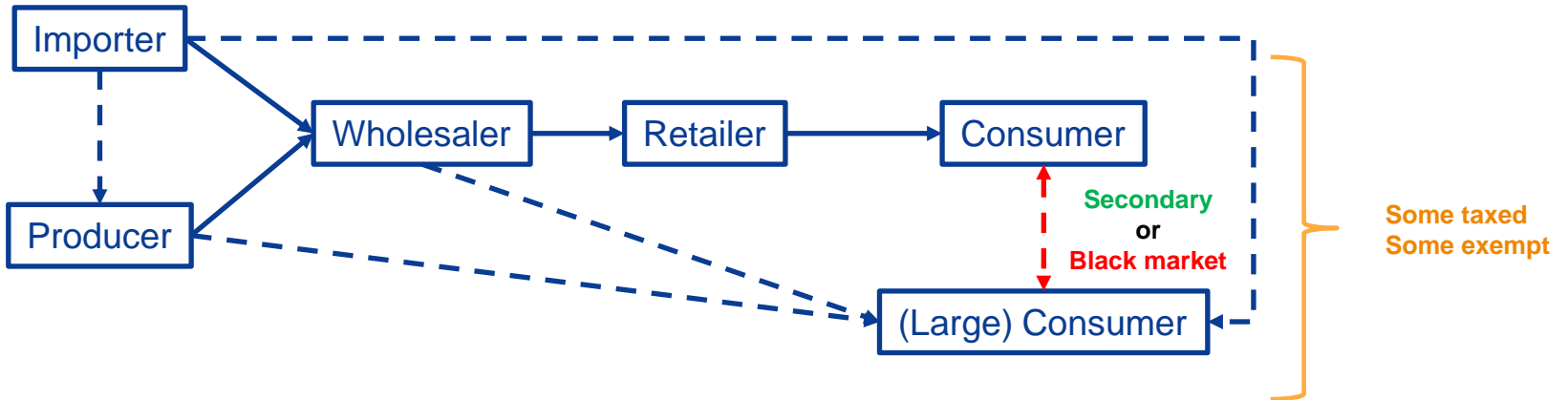
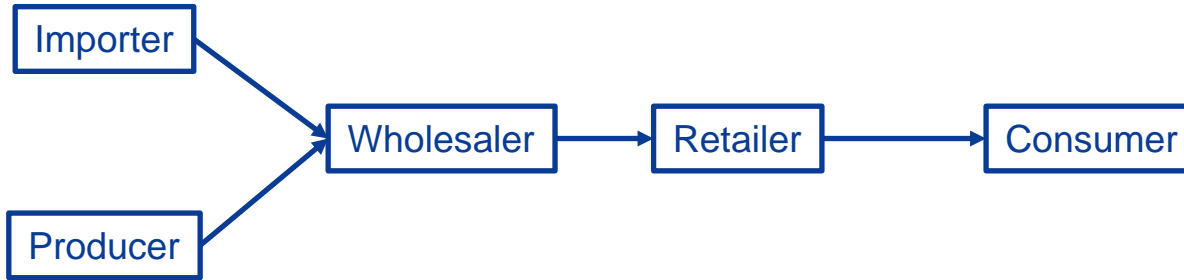


On.Point Boots on the ground: the liquid fuels chain





Prototypical fuel chain (liquids, gas)

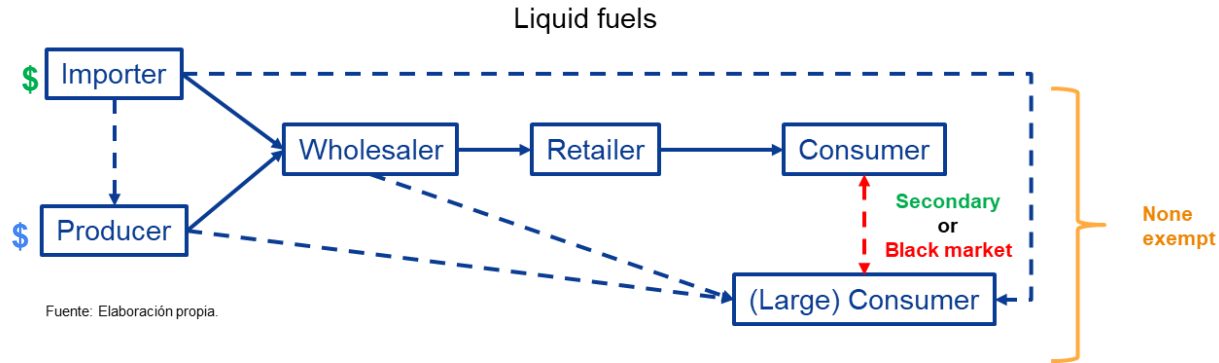


Congress vs. tax administration: Who decides what about the tax

- Legal reserve: tax base, tax rate, taxable event, active and **passive subjects**.
- Legal reserve: faculty to impose tax penalties.
- Tax administrator's parameters.
 - **Responsibility for revenue collection along the chain** (e.g. withholding).
 - Withholding agents
 - Withholding rates
 - Self-withholding agents
 - Procedures for tax assessment and declaration
 - Timing of all obligations
 - Audits
 - Large taxpayers...
- However, if the legislator explicitly sets an administrative parameter, it becomes legally binding.



Carbon Tax on liquid fuels (today)



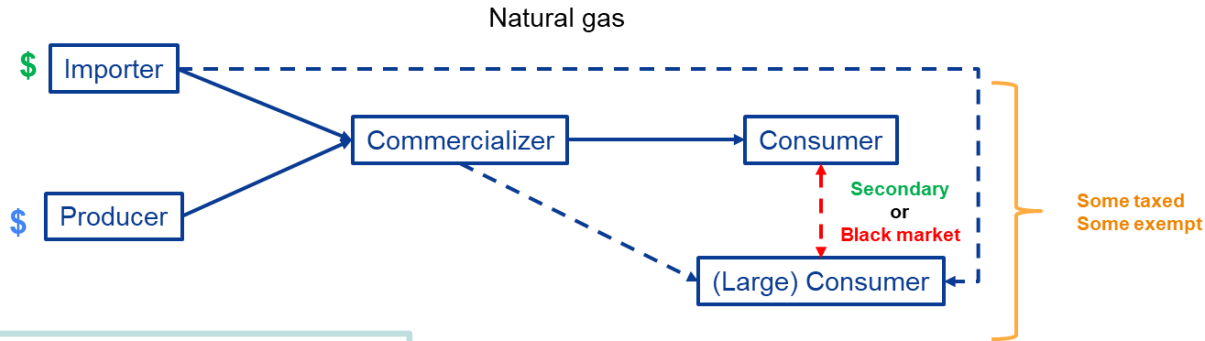
On local production

Taxable event: Sale from producer (refiner) to large scale consumer or wholesaler.
 Passive subject: Large scale consumer or wholesaler.
 → Responsible: Producer

On imports

Taxable event: Import (to producer, large scale consumer or wholesaler).
 Passive subject: producer, large scale consumer or wholesaler.
 → Responsible: Importer

Carbon Tax on natural gas (today)



On local production

Taxable event: Sale from producer (refiner) to large scale consumer or wholesaler.
 Passive subject: Refineries & Petrochemical
 → Responsible: Producer

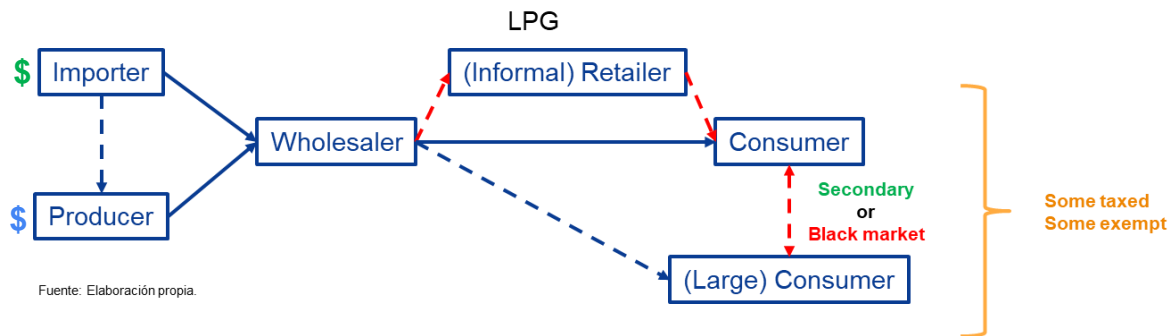
On imports

Taxable event: Import (to large scale consumer or wholesaler).
 Passive subject: Refineries & Petrochemical.
 → Responsible: Importer

Tax base is not broad:

- For natural gas, the tax is levied only on the sale to refineries and petrochemical industry.
- Regulated users (households, small firms, tourism) and large-scale industry are exempt

Carbon Tax on LPG (today)



On local production

Taxable event: Sale from producer to wholesaler.
 Passive subject: Industrial user.
 → Responsible: Producer

On imports

Taxable event: Import (to producer or wholesaler).
 Passive subject: industrial user.
 → Responsible: Importer

Tax base is not broad:

- For liquified petroleum gas (LPG), the tax is levied only on the sale to industrial users.
- Households, commerce, tourism are exempt.



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