

# UN Handbook on Carbon Taxation for Developing Countries

Session III: The Administrative Aspects of a Carbon Tax  
Joint Indonesia-Sweden-ADB-CFMCA Workshop  
Jakarta, Indonesia  
4 October 2023



# Background

Putting an explicit price on carbon  
via a carbon tax



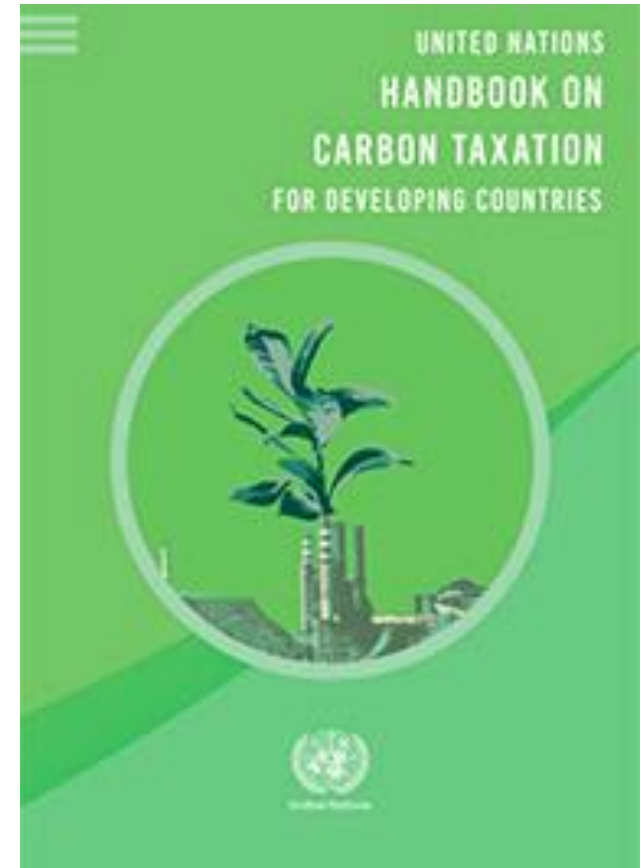
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# UN Tax Committee

## Subcommittee on Environmental Tax Issues 2017-2021

- Subcommittee established in 2017 (chaired by Natalia Aristizabal Mora, Columbia; range of experts from government, academia and business)
- 2017-2021 => Handbook on Carbon Taxation
  - [UN Handbook on Carbon Taxation for Developing Countries \(2021\) | Financing for Sustainable Development Office](#)
  - A practical, hands-on guide for policy makers
  - Properly designed, a carbon tax is easy to administer and gives results in a cost-efficient way



# UN Tax Committee

## Subcommittee on Environmental Tax Issues 2021-2025

- Subcommittee current mandate:
  - *“Produce practical guidelines on targeted, additional, and emerging issues in the area of carbon taxation, which are not covered or fully developed in the Handbook on Carbon Taxation for Developing Countries. .... Work on any additional relevant environmental taxation issues as requested by the Committee”*
- Co-coordinators: Muhammad Ashfaq Ashmed (Pakistan) and Susanne Åkerfeldt (Sweden)
- About 25 experts from across the globe
- Five specific workstreams:
  1. Interaction of carbon taxation with other national measures (lead drafter Stefan Weishaar)
  2. Role of carbon taxation in supporting energy transition (lead drafters An Theeuwes and Jim Robertson)
  3. Interaction between carbon taxation and carbon offset programs (lead drafter Amparo Grau Ruiz)
  4. Border Carbon Adjustment Mechanisms (lead drafter Christopher Morgan)
  5. Other environmental taxes than carbon taxation (lead drafters Hira Nazir and Armin Monostori Hartmann)



# UN Handbook on Carbon Taxation for Developing Countries

In more detail



# The Handbook – main elements .....

- Why introduce a carbon tax?
  - How to generate public acceptance?
  - Design – in general and in more detail
  - Setting the tax rate
  - How to address undesired effects
  - Practical administration
  - Revenue use
  - Interaction with other instruments
  - About 200 pages
  - Hands-on guide
  - Overview of main elements to consider
  - Focus on '*how to do it*' rather than '*academic theory*'
  - Take account of local context
- =>=> Let's look into a bit more of the content!



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- Global climate problem
- Motives for a carbon tax
  - Reduce carbon emissions
  - Generates revenues
  - Promote investment in green technology
- Main policy considerations
  - Predictability for operators
  - Cost-efficient design and administration
  - Distributional effects
  - Competitiveness of domestic industries



# Public Acceptability

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- Importance of acceptability
  - Not a 'tax grab'
- Perceived fairness
- Involve stakeholders in consultations
- Political trust
- Windows of opportunity
  - Part of more general reforms?
- Step-by-step approach
- Policy packages
  - Make sure that feasible options are available





# General Design Features

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- Who faces the cost of a carbon tax?
  - Who pays the tax vs who faces the cost
- Taxing power boundaries
  - Federal and subnational taxes
  - Other institutional and constitutional frameworks to consider
- Scope of the carbon tax
  - Carbon emissions or also other greenhouse gas emissions?
  - Fuel Approach or Direct Emissions Approach?



# Carbon Tax Design .... two main approaches

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- Fuel Approach
  - Calculate tax rates based on average carbon content of fuels = tax rates expressed in litres, tons etc
  - Point of regulation – upstream or downstream?
  - Using existing fuel tax administration
- Direct Emissions Approach
  - Making use of MRV (measuring, reporting and verification) systems necessary for UNFCCC reporting
  - Focus on stationary installations



# How to Set the Tax Rate

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- In theory ....
- In practice ...



# Addressing Undesired Effects

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- Poor households
- Local industry
- Different options
  - Tax reductions
  - Support schemes
  - Thresholds
  - Limitations in scope
- Carbon leakage



# Tax Administration

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- Institutions and their responsibilities
- Tax-payers and tax returns
- Securing tax payment and control mechanisms
- Ex-post evaluations



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- Ear marking or into general budget?
- Compensation schemes for households and firms
- Environmental spending

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- A carbon tax is not introduced in a policy vacuum
- Need to consider existing and potential new instruments
  - Complementary => improve effectiveness
  - Overlapping => risk for create inefficiency
  - Countervailing => undermine the effectiveness



# Key Take-Aways

## Why a carbon tax is a good idea

- Reduced emissions can be combined with long-term economic development and prosperity
- Fine-tune policy design – what works in one country may not work well in another
- Public acceptability
  - Policy packages
  - Different options to address undesired effects
- Low administrative costs; ETS schemes more complicated and costly
- Raises revenues, can be used to make options available
- Discuss with stake holders and academia; cooperate within Government offices and with relevant authorities

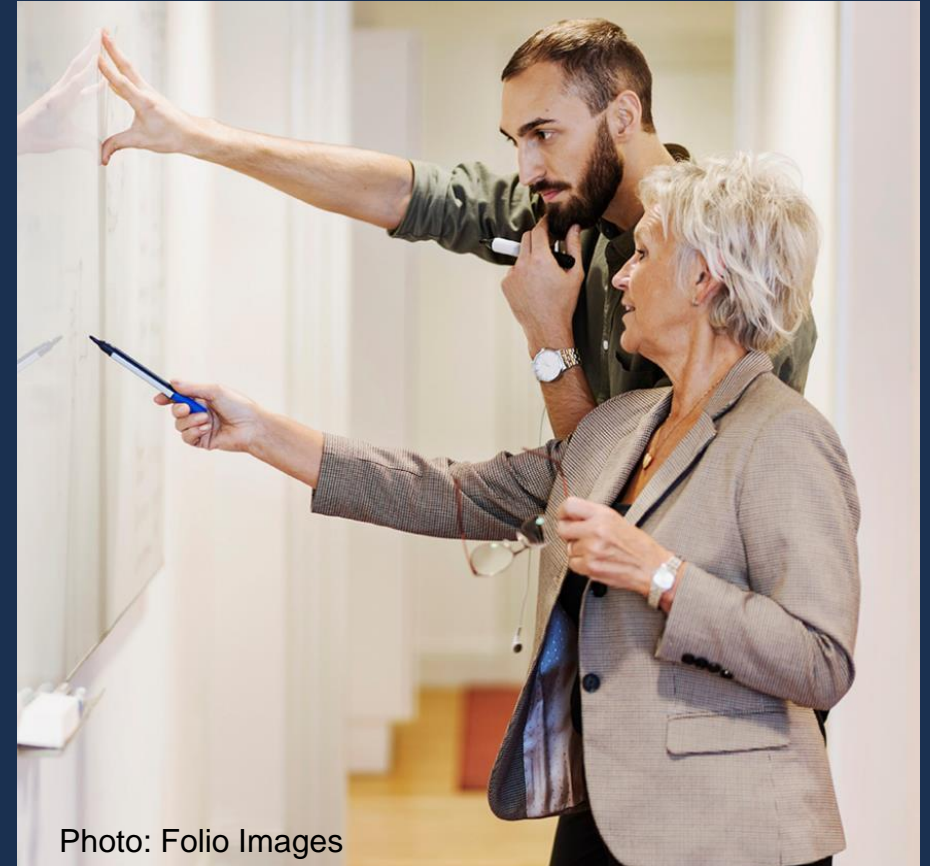


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# Questions?

Contact information:

Susanne Åkerfeldt

Senior Adviser

Tax and Customs Department

Ministry of Finance, Sweden

E-mail: [susanne.akerfeldt@gov.se](mailto:susanne.akerfeldt@gov.se)

Phone: +46 8 405 1382



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