SERIES ATAF POLICY BRIEF

ENVIRONMENTAL TAXES DEFINED

AFRICAN TAX ADMINISTRATION FORUM

FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

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ABOUT ATAF

The African Tax Administration Forum is an organization that was established by African revenue authorities in 2009 to improve the performance of tax administrations in Africa. Now in its 11th year of existence, ATAF has positioned itself as Africa's homegrown solution to improving revenue collection, advancing the role of taxation in governance and state-building and providing a voice for the continent on international tax issues. The tax administrations of 40 countries in Africa are members of ATAF, i.e., 74% of tax administrations on the continent, making it the premier body on tax matters on the continent. Two countries, Mali and Somalia, were the latest to join the organization in 2020. ATAF believes that better tax administration will enhance economic growth, increase its citizens' accountability, and more effectively mobilize domestic resources.

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Executive Summary

The scenario of recession brought about by the COVID-19 pandemic has put pressure on governments across the world to venture into new and alternative sources of revenue, to recover from the resulting economic downturn. The introduction of environmental taxes has been identified by major intergovernmental organizations as a suitable approach for reviving growth. This solution can fulfill the dual objective of raising revenues, while encouraging an economic growth scenario that is sustainable and lives up to the international commitments assumed by countries under the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development and the Paris Agreement.

Understanding what environmental taxes entail, and how the design of such taxes can help achieve the double dividend both of raising revenues and of yielding a positive environmental result, such as the reduction of carbon emissions, is therefore of the utmost importance for those countries interested in implementing such policies.

The fact that there is, as of yet, no international consensus on the exact definition of the terms "carbon pricing" and "environmental taxation" reflects the novelty of the topic. Nevertheless, it is already possible to discern international best practices that single out taxes levied on carbon, energy, fossil fuels, pollution, transport and natural resources. Design will play a role in establishing which taxes are considered to be environmental and which will be regarded as environmentally related. Ultimately, national practices in countries interested in implementing such policies will help to shape an international consensus.

The present policy brief aims to bring awareness of the topic of environmental taxation to the larger ATAF membership.

The use of environmental tax instruments is particularly relevant for ATAF member states, (i) in raising the additional revenues needed to recover from the recessionary environment brought about by the pandemic, (ii) in helping transition into a path of sustainable economic growth and low-carbon energy sources; and (iii) in achieving important environmental gains with the potential for economic as well as social benefits, such as better health, better air quality and more efficient forms of transport.

The objective of this policy note is to provide guidance on the different tax instruments that can influence the design of environmental taxes, and to assist in the technical qualification and policy design of these instruments so that they can (i) fulfill the double objective of raising revenues and benefiting the environment; and (ii) provide uniformity in the classification adopted in the African continent.

It is expected that adopting a systematic classification of environmental taxes at the intergovernmental level will allow African countries to follow suit. This will allow them (i) to implement effective policies geared toward environmental protection and pollution reduction; and (ii) to compile statistical information on the environmental measures they employ in a consistent manner, so they can align their policies with the existing environmental agreements.

Introducing environmental taxes and compiling statistical data at the national level will provide African states the expertise that will allow them to participate in the international debate and in the development of such instruments over time.