

European
environmental taxes and
green tax incentives

July 2021



Scope

This document provides insights on environmental taxes and green tax incentives applied by the European Union (EU) Member States. This is **a high-level overview of the rules** provided for general information only. Users should not rely on it as being complete or comprehensive and should undertake their own research and analysis taking into account the facts and circumstances of their particular case.

The questionnaire used to gather the information was framed in the context of the choices individual EU Member States have already announced or are widely expected to make. The information reflects the views of Deloitte tax professionals to the extent they are aware of relevant legislation and developments in their jurisdictions as at July 2021.

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Introduction

European Green Deal, Climate Law and 'Fit for 55' package

Background

- In its strategic agenda for 2019-2024, the European Council called, amongst other things, for a climate-neutral and green Europe. In this regard, the European Commission was asked to advance work towards a climate-neutral EU in line with the EU's international commitments under the Paris Agreement (i.e., the first universal, legally binding global climate change agreement that was adopted at the Paris climate conference in December 2015).
- Following the renewed focus on the transition to a climate-neutral EU, the European Commission presented a set of policy initiatives to combat climate change, called the **European Green Deal**, on 11 December 2019. The overarching aim of the Green Deal is climate neutrality within the EU by 2050 and, to support this, reduce greenhouse gas emissions by 55% by 2030 compared to 1990 levels.
- More specifically, the EU Green Deal sets out a detailed vision to make Europe the first climate-neutral continent by 2050, safeguard biodiversity, establish a circular economy and eliminate pollution, while boosting the competitiveness of European industry and ensuring a just transition for the regions and workers affected. At the same time, the Green Deal and the environmental and climate policies included therein should contribute to a green recovery of Europe's economy from the COVID-19 pandemic.
- The Green Deal's goal of climate neutrality by 2050 has been enshrined in the **European Climate Law**, which makes it a legally binding target and at the same time sets the framework towards achieving it. After reaching political agreement between the European Parliament and the European Council in April 2021, this first-ever European Climate Law has been adopted by the Council on 28 June 2021. It has been published in the Official Journal of the European Union on 9 July 2021 and therefore enters into force twenty days after that publication date.
- On 14 July 2021, the European Commission has given further substance to the European Climate Law and the Green Deal. As a key component towards achieving the goals of the EU Green Deal, on this date the European Commission presented a major package of legislative proposals: the **'Fit for 55' package**. This package is intended to reinforce the EU's position as a global climate leader and aims to revise and update existing legislation in line with the EU's 2030 climate target and introduce new policy measures to help deliver the transformational change needed across the economy, society, and industry to reach the objectives of the EU Green Deal. In summary, the package aims to bring the EU's climate and energy legislation in line with the 2030 goal of a gas emission reduction of at least 55%.

The 'Fit for 55' package

Proposals and timing

- As mentioned, the Fit for 55 package is a package of interconnected legislative proposals within the framework of the EU Green Deal and the EU Climate Law, intended to align European climate, energy, land use, transport and taxation policies with the EU's climate targets. The package contains thirteen legislative proposals and policy initiatives, which include eight revisions of existing legislation and five new proposals.
 - Two of the thirteen proposals and initiatives relate to tax:
 - The alignment of tax policies with the European Green Deal objectives, including the revision of the Energy Taxation Directive to promote clean technologies and remove exemptions and reduced rates relating to fossil fuels; and
 - Measures to prevent carbon leakage via a new Carbon Border Adjustment Mechanism (CBAM) Regulation, which assigns a carbon 'price' to imports of certain products into the EU Customs Union.
- More information on both proposals can be find [here](#).
- Both the European Parliament and the Council of the EU need to adopt the various legislative proposals of the Fit for 55 package before they become final legislation. Therefore, each of these proposals has its own timeline for implementation and entry into force and to some extent it remains uncertain which proposals will make it. However, it is to be expected that most of the proposals will enter into force by 2023.

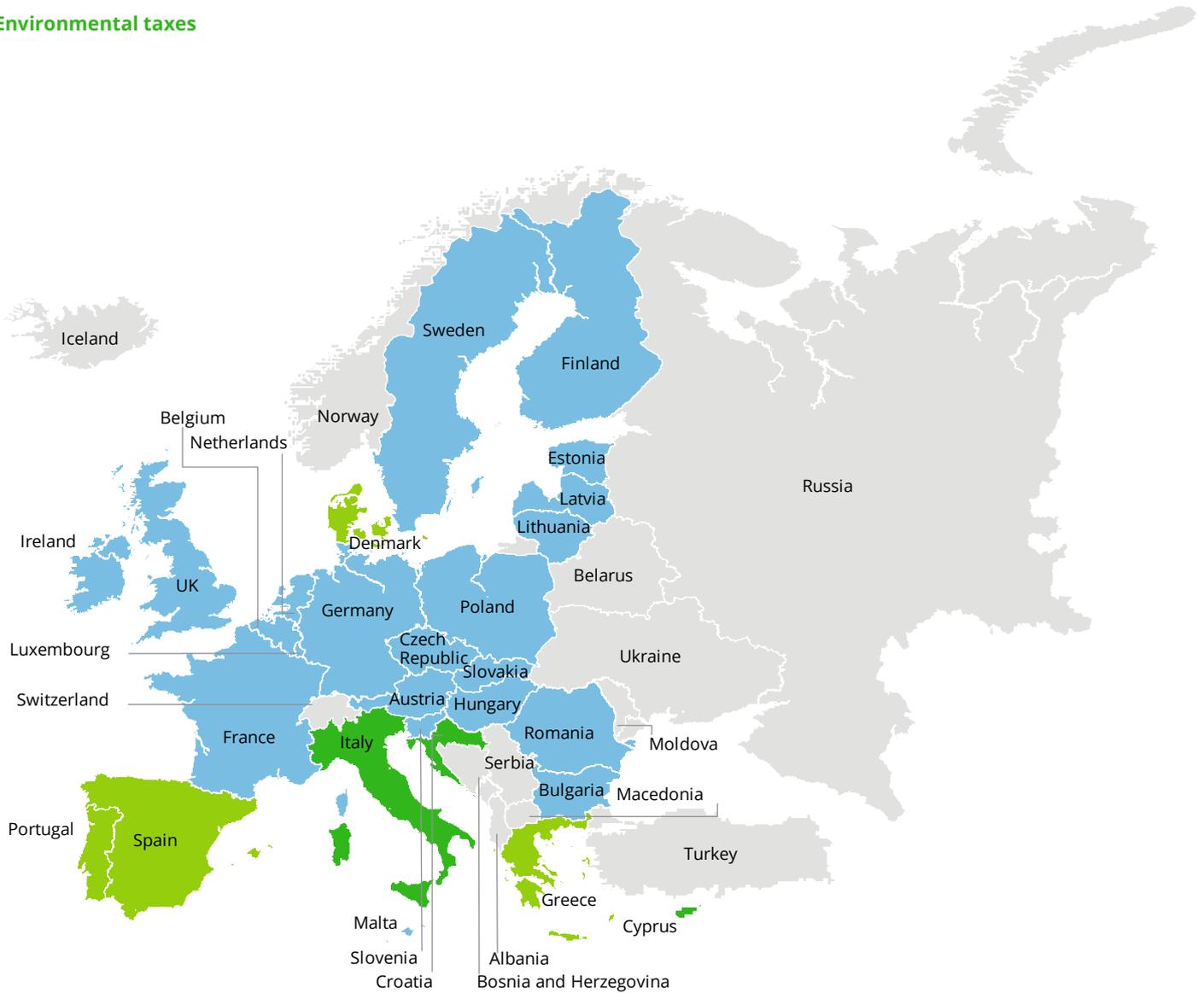
Environmental taxes and green tax incentives

Green initiatives on a Member State level

- The climate-focused developments at EU level and more specifically the Green Deal and the Fit for 55 package will inevitably impact the laws and policies of all Member States, including their tax legislation. In addition to the developments taking place at EU level, many Member States have already taken action at a national level by adopting environmental taxes and/or green tax incentives into their national tax legislation.
- A distinction can be made between environmental taxes and green tax incentives:
 - **Environmental taxes:** an environmental tax is a tax on goods or activities which have proven negative impacts on the environment. Examples of environmental taxes are taxes on energy (including carbon taxes), taxes on traffic and transport such as polluting motor vehicles and taxes on certain waste or polluting industries. For the purpose of this document, non-tax charges (i.e., fees) are included in the 'environmental taxes' category.
 - **Green tax incentives:** green tax incentives can make it attractive for companies to adopt sustainable business processes and for individuals to engage in sustainable behavior or investments. Tax incentives may include for example tax exemptions or reduced tax rates that aim to foster for example recycling, reducing energy consumption or the use of low emission modes of transport.
- As environmental taxes affect all sectors of the economy, as do green tax incentives affect many companies and individuals, it is relevant to know which exact environmental taxes and/or incentives are applied in each Member State. This document aims to provide a high-level overview of the choices member states made in this regard.
- The UK withdrew from the EU on 31 January 2020 and following the end of the EU-UK withdrawal agreement's transition period on 31 December 2020, EU law generally no longer applies to the UK. However, this document continues to comment on the status of environmental taxes and green tax incentives under UK domestic law.

Environmental taxes

Environmental taxes

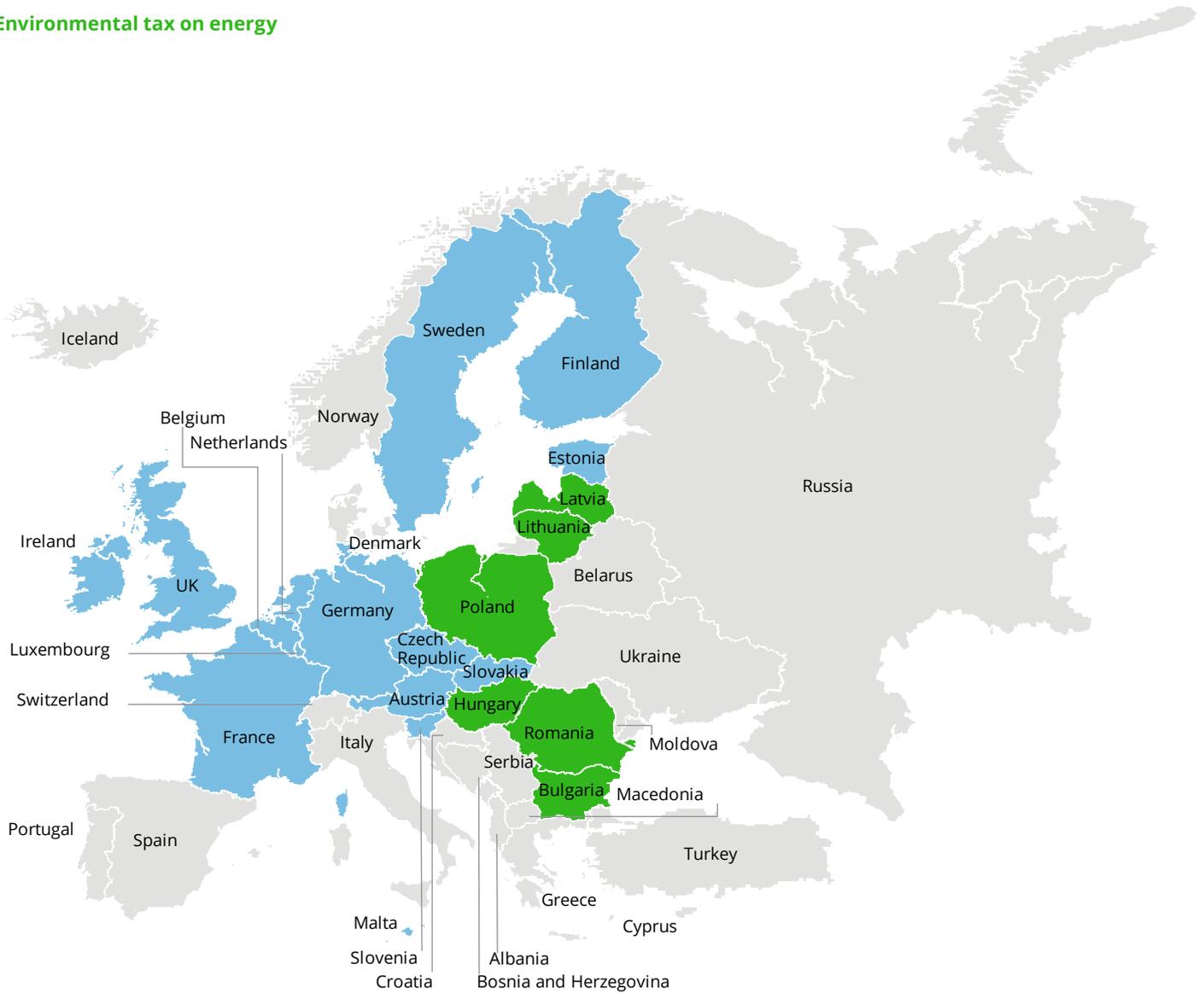


Does your country apply environmental taxes?

Legend:

- 21** Yes
- 3** No
- 4** Not yet clear

Environmental tax on energy



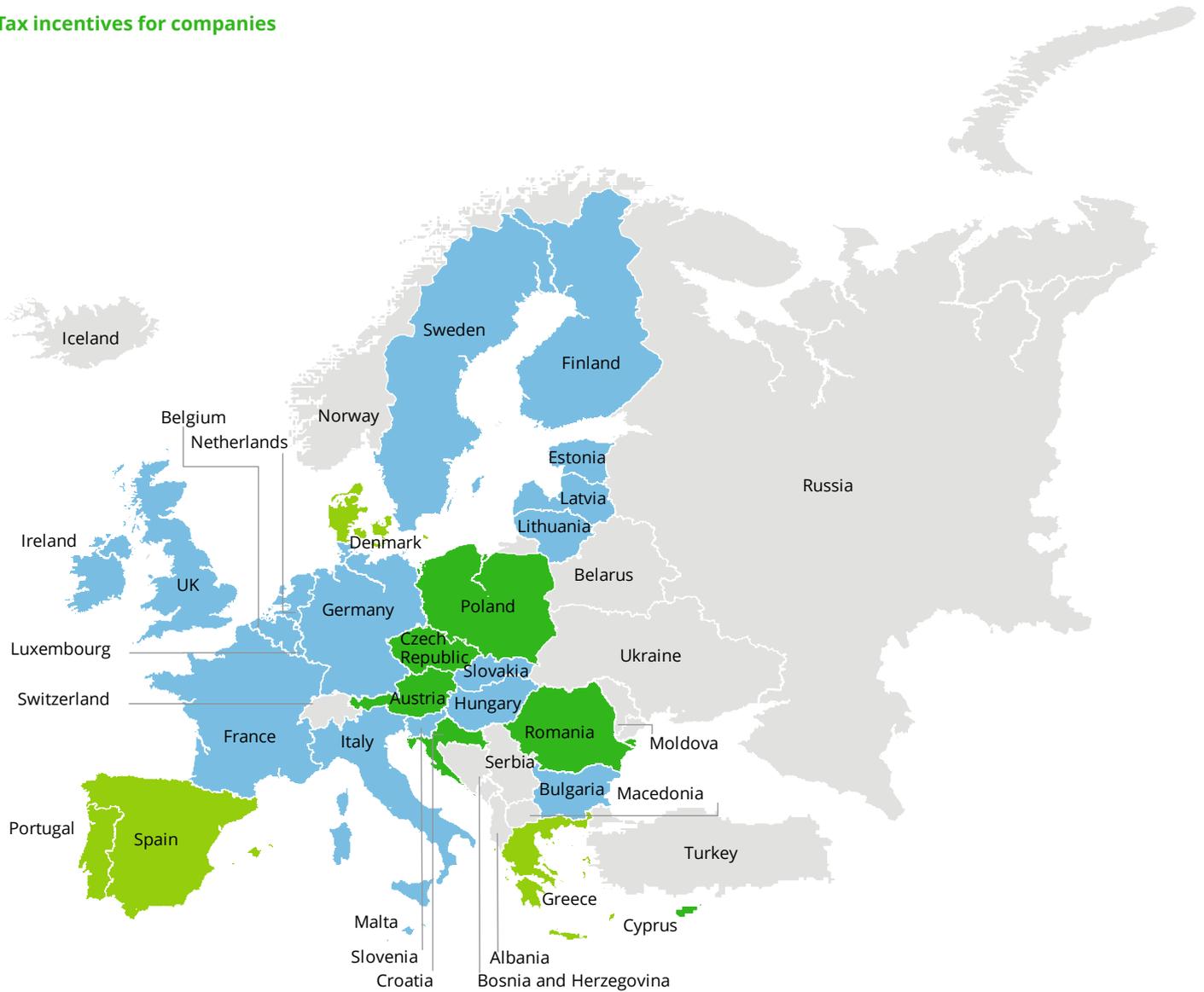
If your country has environmental taxes, does this involve taxes on energy (such as CO2 taxes)?

Legend:

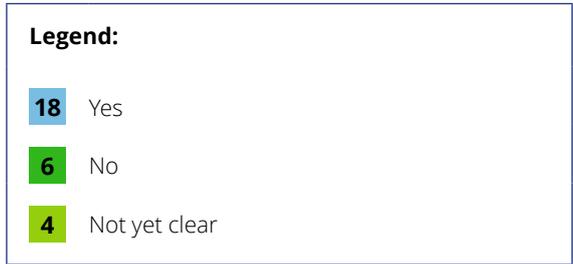
- 15** Yes
- 6** No

Green tax incentives

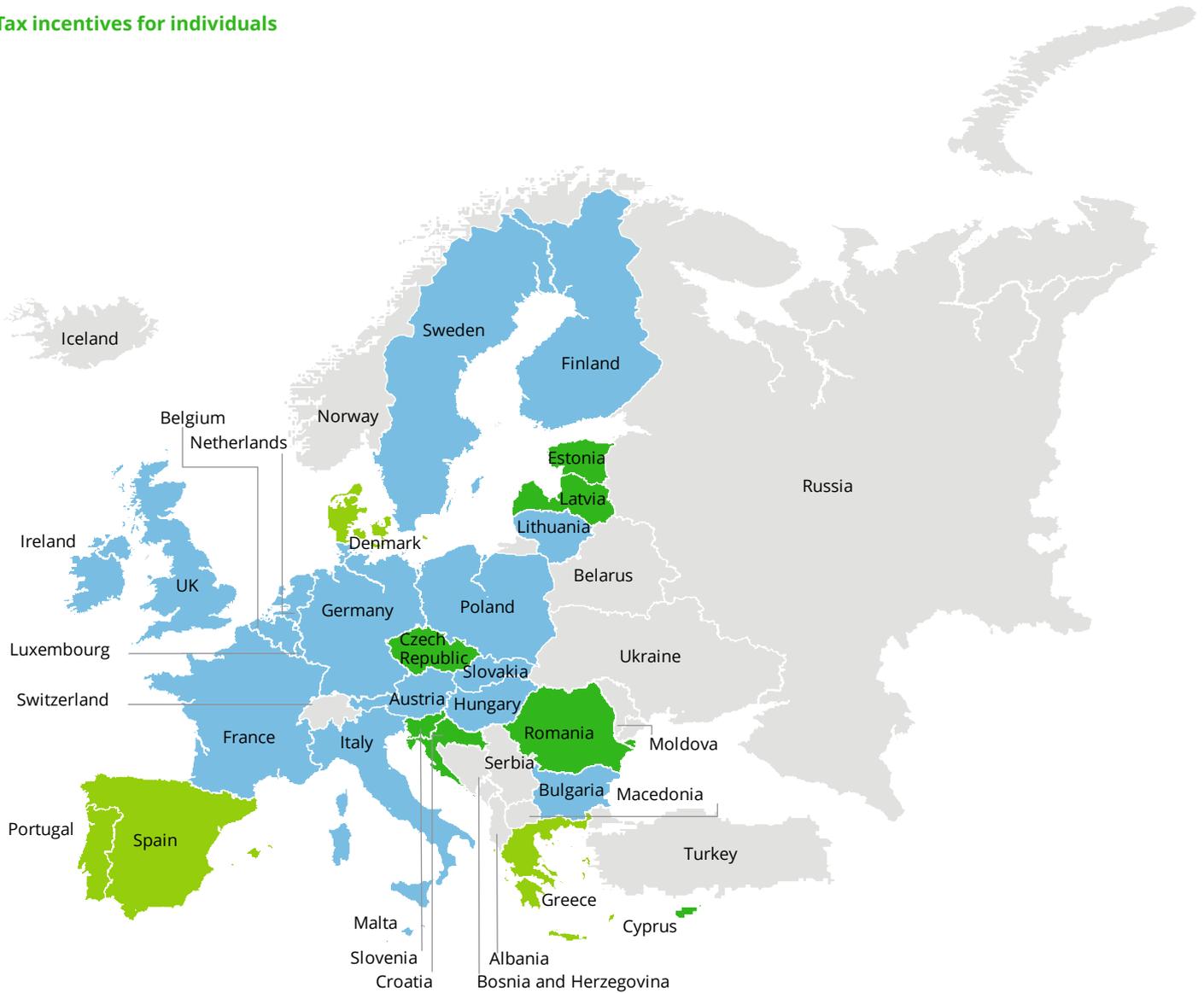
Tax incentives for companies



Does your country have tax incentives, tax exemptions and/or reduced tax rates for companies engaged in green transformation?



Tax incentives for individuals



Does your country have tax incentives, tax exemptions and/or reduced tax rates for individuals, including incentives for private entrepreneurs/sole traders?

Legend:	
17	Yes
7	No
4	Not yet clear



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