



Circular Economy

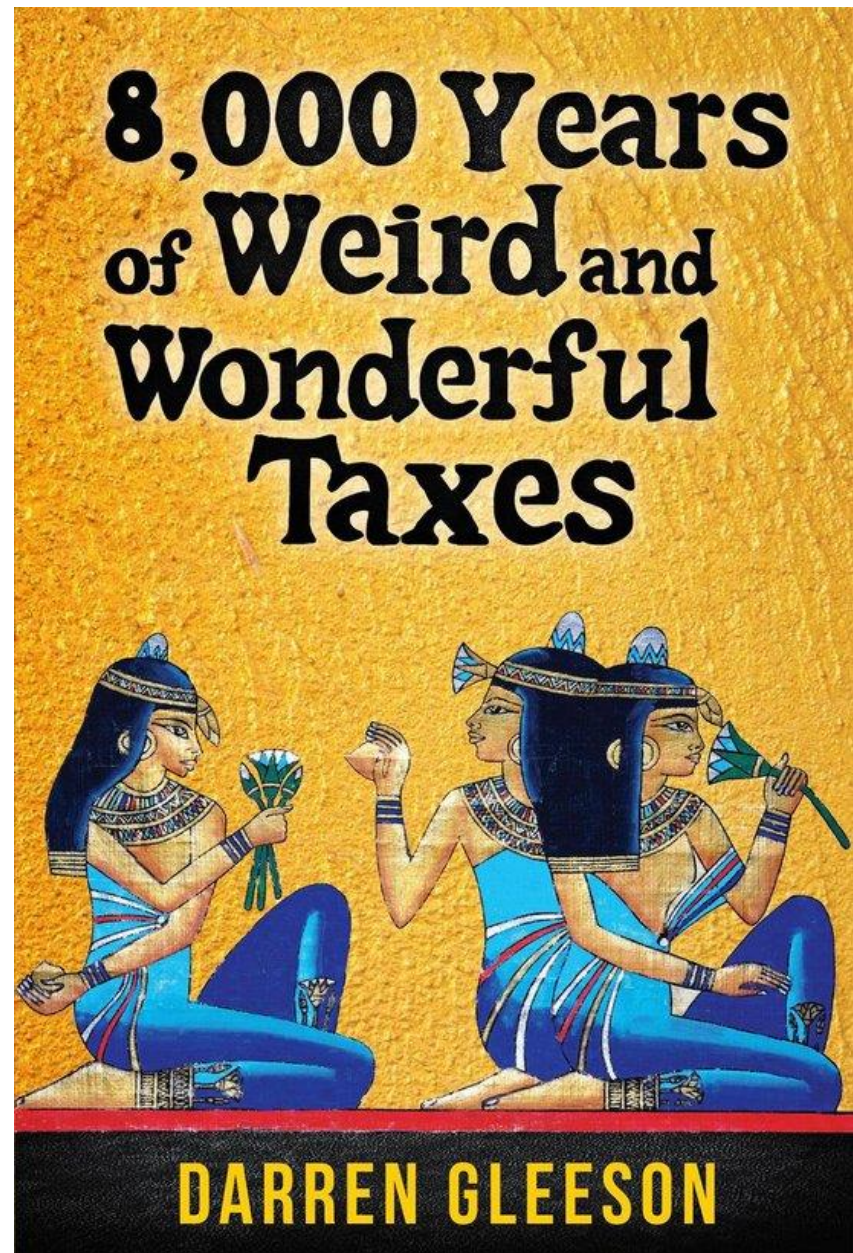
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How a tax shift can save the planet

Financing the circular economy



Inspiring taxes?

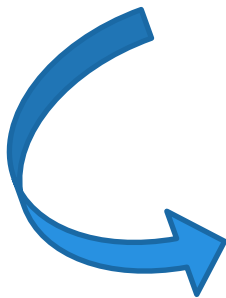


Ex'Tax: *Value Extracted Tax*

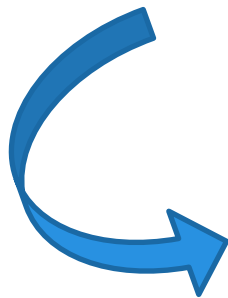


EX'TAX

It's a tax shift,
not a tax increase



EX'TAX



Business support Ex'Tax

Dutch construction sector supports Ex'tax principles

More than 400 companies and individuals active in the construction sector have signed a [manifesto calling for the Dutch government to shift the tax burden from labour to resource use](#).

The parties state they are committed to the Dutch government goals of cutting resource use and carbon emissions by half by 2030.

These goals, they say, are inhibited by the current tax system, which puts a relatively high tax burden on labour. In practice, making use of secondary materials rather than primary materials takes more time and effort, and is therefore more labour-intensive than traditional, linear construction processes.

At the same time, the external costs of primary materials (including carbon emissions) are not taken into account due a lack of pricing mechanisms. This is another disadvantage to circular businesses. To level the playing field, the tax burden needs to shift away from employment and onto resource use and pollution.

The signatories are willing to work together to redesign our tax system, to make it fit for the 21st century.

[Read more](#)





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Q&A's

Why does tax matter?

Currently, tax systems put a high or increasing tax burden on labour, while leaving natural resource use and pollution (eg the use of water, metals, and carbon emissions) relatively untaxed or even subsidised.

This means taxes are aligned with the linear 'take-make-waste' economic model, which is focused on maximising resource extraction and consumption and minimising the input of human capital.

The 17 Global Goals agreed by 193 countries of the United Nations are a clear 'todo' list for humanity. The most daunting tasks are to adapt the metabolism of our economies to match the carrying capacity of the earth and stay below 2 degrees Celsius global warming. We face equally important social challenges in our societies, including enabling a growing population to develop to their full potential and find decent work.

Since taxes have a fundamental impact on investment, employment and consumption decisions, they will need to evolve. They should now be aligned with the goals of the inclusive 'circular' economy; a regenerative, carbon neutral economy, aligned with the Global Goals

Q&A's

Has a tax shift been put in practice?

Yes, the tax shift has been put in practice in a number of countries:

In the 1990s and early 2000s, seven European countries took steps to shift the tax burden from labour to energy and transportation: Sweden (initial year of the reforms: 1991), Denmark (1993), the Netherlands (1996), Finland (1997), Slovenia (1997), Germany (1999) and the UK (2001). In total, these reforms increased green tax revenues by more than €25bn annually, for a corresponding decrease in labour taxes. The impacts have been analysed and the associated reductions of carbon emissions have been documented in several studies. The burden for specific energy-intensive industries remained modest (1%-2% increase in energy costs) and the tax shifts generally had a positive effect on economic activity, depending on how the revenues from the green taxes were recycled. Also, the reforms caused employment in some of the countries to increase by as much as 0.5% (Andersen 2007).

Q&A's

Is it fair to shift the tax burden?

An often-heard worry is that environmental taxes could increase income inequality: they hit low-income households more, as they pay higher shares of their incomes towards energy-intensive goods. The World Bank notes, however, that it is possible to prevent taxes from increasing income-inequality if the revenues are used to benefit the poorest population (World Bank 2017).

In practice, plenty of policy options are available to alleviate the impacts on specific households –compensating retired pensioners for the increase in heating costs, for example. Benefits can take the form of (means-tested) tax credits, exemptions, allowances or deductions. In some countries, cash transfers might ease the transition for the unemployed and those who live in poverty: the right solution will differ from one country to another. If desirable, green taxes can also be made more progressive by applying block tariffs (higher rates for higher use) or a tax-free threshold (eg leaving a certain amount of water or energy untaxed). In 60 out of the 87 countries reviewed by the World Bank, a US\$30/ tCO₂ domestic carbon tax would provide the resources to more than double current levels of social assistance in the country (Hallegatte et al. 2016).

Careful design and implementation can alleviate many, if not all of the concerns about discriminatory effects.

Q&A's

What does it mean for businesses?

Businesses – large and small, and in every sector – have started to explore innovative circular business opportunities. Such activities (including recycling, repair and maintenance services and the redesign of products) tend to require innovation, customisation, more personal attention and customer service than the 'business-as-usual' selling of mass-produced goods. When pollution and primary resources are tax-free (or even subsidised) and labour costs are high, entrepreneurs face a barrier to turn their inclusive circular activities into healthy businesses.

As most studies on the circular economy conclude, reducing labour taxes and increasing green taxes will be key to achieving the circular ambitions set by governments and businesses.

The risks and opportunities of a shift are not evenly distributed, but in the face of the environmental and social megatrends such as climate change, water scarcity and social unrest, 'business as usual' is no longer an option. Fortunately, innovation and adaptation are in the DNA of business and every sector has opportunities to develop business models that are fit for the future.

More information on all Q&A related questions can be found [here](#)

