

Green and Progressive Taxes for the Socio-Ecological Transition

Perspectives from Latin America and the Caribbean



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Main authors and coordinators: Alejandra Lozano (GI-ESCR) y Vicente Silva (GI-ESCR)

Co-authors: Pedro Cisternas (Nuestra América Verde), Magdalena Sepúlveda (GI-ESCR), Sergio Chaparro (DeJusticia), Sandra Guzmán (Grupo de Financiamiento Climático para América Latina y el Caribe - GFLAC), Felipe Pino (FIMA), Liliana Avila (AIDA).

Pedro Glatz (Nuestro América Verde), Alejandro Rodríguez Llach (experto independiente), y Magdalena Rochi (GI-ESCR).

We appreciate the contributions and research of María Dolores Almeida as an independent consultant in the preparation of this report.

Design by Mikmac Estudio: Miguel Torres Carlomagno, Nahuel Condino and Martín Squiciarini

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Introduction



Introduction

The scientific data is unequivocal. Latin America and the Caribbean (LAC) face a triple planetary crisis that threatens to reverse decades of development. According to the latest IPCC report, our region will be disproportionately impacted by extreme weather events, water stress and accelerated loss of biodiversity if urgent adaptation and mitigation measures are not implemented.¹

In the midst of a world in constant transformation, the region faces the imperative of carrying out a socio-ecological transition that allows the reconciliation of social and economic well-being with environmental protection. Achieving this paradigm shift requires profound structural transformations, including the transition to decarbonised and diversified energy matrices, restoration of vital ecosystems, and democratisation of agri-food systems to guarantee food sovereignty.

Transition is not only a necessary aspiration, but an unavoidable political challenge to build alternatives that allow us to move towards a sustainable and fair future. It is necessary to act now. Numerous studies agree that this decade represents our last opportunity to guide our economies within environmentally safe and socially just limits.²

It is imperative that those actors who were historically responsible for the triple planetary crisis contribute as a priority to addressing this emergency. Developed countries, having based their growth on fossil fuels and extractive practices, have the obligation to provide the financing in tens of trillions of dollars to the global south. While these funds are indispensable, the magnitude of the challenge we face requires exploring green and progressive tax reforms simultaneously at the domestic level and through international cooperation.

After decades of systematic tax evasion, the time has come for large polluting corporations and economic elites to contribute fairly and progressively, reforming the global tax system to make it more effective and inclusive.

This report uses the human rights framework and environmental law principles to build a common roadmap with fiscal policy proposals for the LAC region. In this regard, this report proposes a regional package of progressive taxes on poorly distributed wealth, fighting tax abuse, taxes on extractive industries, and green taxation, which can generate a constant flow of income to increase climate ambition in time, while discouraging environmentally harmful behaviours.

Change cannot wait. Fiscal policy is an essential component of the socio-ecological transformation. The evidence shows that with political will, multi-level coordination mechanisms and citizen participation it is possible to build consensus around progressive taxation that is favourable to sustainability. Leadership in this area is increasingly demanded by global citizens. The planet and the most vulnerable populations cannot continue waiting for transformative fiscal actions.



Section I:

*A fair socio-ecological transition
as a comprehensive objective*



Section I: A fair socio-ecological transition as a comprehensive objective

The idea of a socio-ecological transition has gained ground in academic and public policy matters, as a comprehensive framework for guiding policies designed to confront the ecological crisis. Complementary to the ideas of justice and climate action, the concept of just socio-ecological transition invites us to focus on the process and not only on the result, so that both decision makers and actors involved consider the implementation of principles and actions that protect the rights of people and the health of ecosystems.³

In that sense, the just socio-ecological transition framework has been very useful to think about the essential change of our socio-technical systems (energy, transportation, natural resources, waste management, provision of drinking water, health and education, security social, etc.) towards sustainability, which help us meet global and national goals against pollution, biodiversity loss and climate change. Additionally, its use has also been expanded to the socio-cultural change in the relationship of our societies with nature, recognising their close interdependence and, therefore, the need to incorporate its protection in the most intensive production and consumption systems to the environment.

The acceleration of the climate crisis and the need for a socio-ecological transition are generating strong economic and social tensions at a global level. LAC countries face particular challenges in this context. On the one hand, their economies remain largely dependent on the extraction and export of fossil fuels and other raw materials, making it difficult to move away from those sectors. At the same time, they suffer disproportionate impacts from global warming due to their geographic location and lower capacity to adapt. This is creating strong fiscal tensions. Governments need to invest in climate adaptation, renewable energy and public services, but they depend on income from sectors that must be progressively dismantled.

In turn, States face growing social demands in a context of interconnected global crises. In this sense, maintaining the status quo is becoming unsustainable given the magnitude of the climate emergency and citizen demands for transformation. A new approach to fiscal policies is required, one that strikes a balance between environmental sustainability and the material well-being of the population. Fiscal policy must address multiple needs and demands simultaneously in an integrated manner, promoting new social and economic pacts capable of leading an equitable socio-ecological transformation.



Section II:
*The inequality of the triple
planetary crisis*



Section II: The inequality of the triple planetary crisis

The triple planetary crisis that combines the climate emergency, the increase in pollution and the rapid loss of biodiversity is a global phenomenon that generates economic, social, environmental and cultural impacts on communities and ecosystems, with its causes and effects being unequal both on the interstate as well as on the domestic level. Likewise, the triple planetary crisis multiplies inequalities, aggravating pre-existing conditions of inequality and disproportionately increasing the impacts on vulnerable populations.⁴

The Intergovernmental Panel on Climate Change (IPCC) recognised that vulnerability to climate change is multidimensional and a product of non-climatic factors (such as poverty, social constructions of gender roles, structural inequality gaps and marginalisation).⁵ The consequences of climate change particularly affect people living in poverty, those who face conditions of structural discrimination and limited access to participate in decision-making. These disadvantaged groups include women, children and adolescents, indigenous peoples, people with disabilities and rural populations, among others.⁶ The same happens with the interrelated phenomena of loss of biodiversity and increase in pollution, their impacts aggravate the historical structural conditions of marginalisation and discrimination these populations have faced.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that there will be between 2 and 16.7 million people living in poverty due to climate change and between 1.1 and 9.6 million people living in extreme poverty.⁷ In 2021, around 50% of global greenhouse gas (GHG) emissions come from just 3 countries that are large emitters (China, the United States of America and the European Union), while the group of least developed countries only generated 0.56% of these emissions.⁸ In 2021, the LAC region contributed less than 5% of global emissions, with Brazil, Mexico and Argentina being the countries with the highest emissions.⁹

On the other hand, LAC registers the greatest population decline of animal species in the period between 1970 and 2018.¹⁰ During this period, the average global decline in animals (e.g. fish, amphibians, reptiles, birds, mammals, etc.) across the entire region was 94%, making it the region with the greatest loss of biodiversity in the world.¹¹ This is largely due to changes in land use, deforestation and the loss of habitats due to the advancement of development projects, the exploitation of natural resources and the expansion of agribusiness.¹² The well-being of our societies depends decisively on the health of our ecosystems, their biodiversity and natural systems, so their degradation directly affects and exacerbates the pre-existing conditions of precariousness, insecurity and inequality in the region.



Likewise, the region registers numerous “sacrifice zones” whose communities are exposed to extreme levels of pollution and the presence of toxic substances.¹³ In fact, one out of every six deaths in the world is associated to pollution diseases.¹⁴ At least, seven millions early deaths are caused by pollution atmospheric effects.¹⁵ Furthermore, toxic substances contributes to intensify biodiversity wastage’s problems and climate change, affecting adversely to insects, marine ecosystems and birds’ population.¹⁶ Such pollution charge falls on people, groups and communities who’s already suffering conditions of poverty and systemic discrimination. For example, waste management without adequate safeguards, in particular dumping, open burning and informal processing of e-waste, plastics and lead, increases the risk of millions of people in the LAC region being exposed to chemical cocktails that have severe health effects.¹⁷

The abovementioned displays a reality that international environmental law has recognised: the climate emergency is an unequal phenomenon. Developed countries have a higher responsibility related to the climate crisis by their high emissions’ levels meanwhile poorest countries suffer worst impacts despite of their lower contribution to the problem. The recognition and inclusion of the equity principle on the United Nations Framework Convention on Climate Change (UNFCCC) in 1992,¹⁸ seeks to respond in view of such structural inequality. Different dimensions of the principle of equity consider intergenerational features of environmental law. In that sense, the principle of common but differentiated responsibilities (CBDR) admits all countries may have common responsibility to address climate change, but those developed countries must lead mitigation efforts because of their greater historical contribution to emissions and greater economic capacity.

Both principles, equity and CBDR, are contained in article 3 of UNFCCC Rio Declaration and have been included in the most relevant agreements reached at the Conference of the Parties (COP) such as the Kyoto protocol¹⁹ and the Paris agreement.²⁰



Section III:
*The role of fiscal policy for
socio-ecological transformation*



Section III: The role of fiscal policy for socio-ecological transformation

Compliance with LAC's Nationally Determined Contributions (NDC) requires an annual investment between 3.41% and 4.55% GDP to 2030, equivalent to an annual average flow from 215 to 287 billion USD.²¹ The annual mitigation investment requirement is between 2.28% and 3.01% GDP; and for adaptation is between 1.13% to 1.54% GDP to 2030.²² The accumulated amount of resources required between 2022 to 2030 is around 1.9 and 2.6 billion USD.²³ At the same time, climate funding in LAC came to 0.5% PIB in 2020, evidencing the necessity of moving between 7 and 9 times more resources in relation to current levels for achieving NDC goals.²⁴ It is worth mentioning that 90% of resources have come from multilateral development banks and green bonds, with low funding from national resources.²⁵

Nevertheless, the challenge in LAC is that the investment to tackle the triple planetary crisis is much lesser than the investment that comes to countries from carbon intensive sources. According to Sustainable Finance Index (SFI) from the Climate Financing Group for Latin America and the Caribbean (GFLAC), the 20 highest polluters from the region received 15 times more income from carbon intensive activities than from sustainable funding for climate change in 2022.²⁶ The income dependency on carbon intensive activities is the reason why public investment rises on those activities. In light of that, those countries destined 31 times more budget to foster carbon intensive activities than actions to mitigate and adapt to climate change.

Despite this, the SFI shows that all those 20 countries have increased their sustainable budgets. In 2021, they gave 1.8 billion USD. In 2023, sustainable budgets reached 1.9 billion USD. At the same time, the intensive carbon budget went from 70.7 billion in 2021 to 62.4 billion in 2022.²⁷ However, international investment for climate change went down from 11.9 billion in 2021 to 11 billion in 2022. Meanwhile, income from carbon intensive activities rose up from 126.3 billion in 2021 to 160.1 billion in 2022.²⁸ These results evidence that, despite LAC's high vulnerability to climate change, the region's finances are still linked to carbon intensive activities and unsustainable patterns and production practices.

A fundamental measure to improve the response to disasters, adaptation capacity and the effects of mitigating of the triple planetary crisis in the most vulnerable countries is through funding cooperation. If countries with fewer resources do not have sufficient financial means to advance in such aspects, the effects of the environmental crisis can cause more damage and constitute a real threat to human rights and the conditions that sustain all forms of life on the planet. As the United Nations Working Group on the Right to Development has stated, international climate finance must be "informed by solidarity, equity and justice".²⁹



In this sense, it is also essential to consider article 2.1 (c) of the Paris Agreement, which calls for “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”³⁰ Given that such resource mobilisation requires changes to financial systems, it is also necessary to analyse whether global tax structures facilitate the resource mobilisation necessary to achieve a socio-ecological transition that allows for “low greenhouse gas emissions and climate-resilient development”.³¹

In addition, article 6 of the Paris Agreement foresees market-based and non-market based mechanisms to foster cooperation and promote climate action for mitigation in order to comply with the Agreement.³² Under this scheme, member States recognised means of cooperation beyond emissions transfer systems, which can have different objectives focusing on cooperation to formulate policies contributing to an effective climatic action.³³ Among such measures or mechanisms not related to the market and established in the Paris Agreement, fiscal policy can be found in the form of taxes on carbon or transportation to discourage the generation of greenhouse gases and reduce air contamination.³⁴ Fiscal policy is a tool for international cooperation needed to promote changes on the consumption and production patterns that contribute to the triple planetary crisis.

In that sense, under climate and environmental law, fiscal policy has a double objective in acting as the means to obtain financial resources, tackle inequalities and internalise the costs of environmental damage, while encouraging changes in production and consumption patterns.

In a more systematic way, fiscal policy is turning out to be essential for the transformation of the current economic model and to stimulate a correct socio-ecological transition involving the complete lifecycle of products and materials that would outline deep changes in the way we produce and consume by optimising resources, favouring technological innovation, investment in quality public services, and through the transformation of the power grid, the development of a climate resiliency, and the empowering of business models creating value in a sustainable way.



Section IV:
Human Rights as a compass



Section IV. Human Rights as a compass

To attain a fair socio-ecological transition funded through fiscal policy, we must take into consideration the principles of human right laying underneath it. The bond between fiscal policy and human rights has been thoroughly developed in the region. Human Right Treaties ratified by countries in the region, are a legal framework to which the whole activity of the State must adapt itself to, this includes fiscal policy. This has been stressed by the InterAmerican Commission on Human Rights (IACHR), which stated that the principles of human rights are fully applicable to fiscal policies and that they have to be applied throughout the whole cycle of politics, starting from the elaboration of estimates and tax codes or the allocation of expenses to supervision and evaluation of consequences.³⁵

Together with human rights, fiscal policy is governed by more regulatory frameworks whose application is compulsory, just like domestic constitutional law. In this way, it is important to highlight that the constitutions of countries in the region include different norms that are directly related to taxation systems.³⁶

The Human Rights system has to guide fiscal policy priorities to tackle historical inequalities that characterise the region and the triple planetary crisis. Countries in the region also ratified the main international and regional environmental and human rights treaties. That is why States are legally bound to respect, protect, fulfil, and give effect to every human right and to adopt measures to protect the environment. This includes, among other things, preventing all foreseeable damage like the ones caused by the ecological crisis.³⁷ Not taking any active measures to prevent the human rights violations caused, for instance, by climate change, including foreseeable damage and long-term damage, could be considered a breach of international duties incumbent upon the States of the region.³⁸

The International Covenant on Economic, Social and Cultural Rights, as other instruments at the regional level, impose the obligation to mobilise and dedicate the maximum available resources to the progressive realisation of human rights.³⁹ The lack of necessary measures needed to deploy available resources to prevent foreseeable harm to human rights caused by the ecological crisis, could imply the violation of human rights obligations.

Furthermore, due to the triple planetary crisis' nature, it is fundamental to deliver solutions based on solidarity and international cooperation. In that sense, the obligations of international assistance and cooperation are the legal basis showing that "available resources" as not limited to just one country but include those the international community can attain through cooperation.⁴⁰ The job of human rights treaty bodies (HRTB) like the Committee on Economic, Social and Cultural Rights, the Committee on the Rights of the Child, and other special bodies within the framework of the UN, have confirmed it too.⁴¹ Moreover, international cooperation has to be established through non discriminative and participative processes, including those people and groups most affected by the ecological crisis in order to attain a fair and just socio-ecological transition.

Based on these standards, the norms and guidelines on human rights are "fully applicable to fiscal policy" which must be based on international cooperation and incorporated into the entire cycle of tax policies "from the preparation of budgets and codes or the allocation of expenses to the monitoring and evaluation of the results" of tax systems.⁴²



Section V:
*A fiscal roadmap for a
socio-ecological transition*



Section V: A fiscal roadmap for a socio-ecological transition

KEY CONCEPTS ON FISCAL REGIME

Tax base:

The quantity or magnitude upon which taxes are calculated.

Tax rate:

The percentage that is applied to the tax base.



For instance, the tax rate of the tax on rent in Brazil is 27.5% and the tax base is the total amount of net profit obtained by the company during the corresponding year.

It is fundamental to know such key concepts in order to be able to compare between fiscal regime's different tools or between countries. This means we need to ask what the tax is, but also what such tax is based on. A kind of tax that is applied in different countries, even though it has the same tax rate, can have different tax bases, and that is why they imply different tax burdens to the company or to the individual. For instance, in Colombia, royalties are paid on the value of the ore at its extraction point (in the cave), while in other countries like Brazil they are paid according on the sale value (during the sale transaction). Thus, the two kinds of royalties don't involve equal charge to the company or the individual.

Traditionally, the main function of tax policies has been to generate income for the provision of public goods and services. However, fiscal policy has great potential to contribute to a fair socio-ecological transition through: (i) encouraging/discouraging changes in consumption and production patterns that allow the transition to a low-carbon and resilient economy; (ii) contribute to expanding the fiscal space of the countries by generating greater public income; and, (iii) raise resources that can be focused to address negative externalities of the decarbonisation process and invest in climate resilient infrastructure.

LAC countries face major challenges in meeting fiscal policy objectives. The average tax collection in the region in 2021 was 21.7 % of GDP, while in the Organisation for Economic Co-operation and Development (OECD) countries it averaged 34.1 % of GDP.⁴³ In most of the region's countries, tax income is around 20 % of GDP or less.⁴⁴ The situation is particularly serious in countries such as Guatemala, Panama, Paraguay and the Dominican Republic, where tax collection is less than 15 % of GDP.⁴⁵ ECLAC reports that income losses from tax abuses in the region accounted for US\$325 billion in 2018, which is equivalent to 6.1 % of GDP at the regional level.⁴⁶ Such conditions mean that the tax systems of some countries in the region collect less than half of the public revenues that could be used to invest in a socio-ecological transition.

In this context, a series of complementary and mutually reinforcing fiscal policy principles and measures are required to establish a new regulatory framework in the region. To this extent, fiscal policies cannot be seen as isolated tools but as a package of measures that must be understood and implemented simultaneously. Each of these tools has a fundamental role to play in moving away from coal dependence and protecting the environment, while generating public revenues to invest in the realisation of economic, social, cultural and environmental rights.

The following is a brief description of the main fiscal policies that contribute to advancing the agenda for a socio-ecological transition. To this end, a series of cross-cutting principles are first enunciated, followed by proposals for specific fiscal measures for a fair socio-ecological transition.

I. Cross-cutting principles for a socio-ecological transition

A. Tax progressivity

The principle of tax progressivity establishes that the greater the economic capacity of a taxpayer, the greater the tax burden should be. The implementation of the principle of tax progressivity implies the redistribution of resources so that those who have more contribute proportionally more to public expenditure than those who have less. This principle should permeate the entire fiscal policy framework for the socio-ecological transition in order to prevent tax policy from disproportionately affecting low-income populations facing conditions of marginalisation. Fiscal policy should seek to ensure that everyone complies with their tax obligations according to their ability to contribute, starting from a fair taxation base and refraining from imposing burdens that exacerbate the precarious situation of those lacking the necessary resources to cover their essential needs.⁴⁷

B. International cooperation in tax matters

In order to address challenges in tax matters and enhance revenue-raising capacity, states must join forces and collaborate to achieve an effective implementation of fiscal policy both domestically and internationally. International cooperation in tax matters is essential to prevent abuses, build and enhance the technical capacities of tax authorities, harmonise procedures and mandates, and exchange knowledge and tools in order to overcome the profound asymmetries among countries in the formulation and effective implementation of tax policies.

To this end, it is crucial to establish spaces for dialogue among states and other actors at the regional level so that LAC can adopt common positions, speak with its own voice and not solely adhere to adopting the regulations defined mainly by developed countries or large multinational companies. In this regard, regional tax cooperation should aim to involve all states within the region and prevent certain states from operating opaquely or under different rules that promote competition instead of fiscal cooperation.

C. Non-discrimination and gender equality

Tax systems are not gender neutral.⁴⁸ They are designed in a context of social standards that impose different gender roles on individuals and have an impact on the areas in which they are employed, their consumption patterns and the decisions they make in their daily lives. Normative frameworks rarely acknowledge the differentiated impacts on individuals based on their gender concerning their participation in the labour market, domestic and caregiving responsibilities at home, access to economic assets, and decisions regarding the consumption of goods and services. To this extent, depending on who bears the tax burden and in what proportion, it may have a differentiated impact on individuals of different genders.⁴⁹ Regressive taxes on essential goods, for example, tend to have disproportionate impacts on women as they are often overrepresented in low-income sectors or among the poorest quintiles of the population.

This is often the case, for example, with taxes on carbon. Although these taxes contribute to curbing the climate emergency, they can also increase the costs of goods and services, such as public transportation, without considering, among other things, their potential impact on women. Women have different mobility patterns compared to men due to the gendered division of labour, where women often have greater responsibilities for caregiving and domestic work. This leads them to undertake short-distance trips, often accompanied by dependents (children, elderly individuals, etc.), and with multiple destinations.

These gender-differentiated impacts should be a central consideration in the design of fiscal policy for a fair socio-ecological transition. Investing part of the funds raised in measures that promote substantive gender equity is crucial. For example, expanding public electric transportation systems designed with the safety and specific needs of women in mind can improve their economic and social participation. Addressing gender gaps and inequities in an intersectional manner must be at the core of any transition that aspires to leave no one behind.

The implementation of a non-discrimination and gender approach in various tax instruments, public financing and expenditure should aim to reverse gender inequities and ensure the rights of women. Likewise, it is necessary to establish exemptions or lower rates for products prioritised for women's consumption, eliminate negative gender biases or stereotypes by promoting a more equal treatment in tax policy for all individuals regardless of their gender, and avoid imposing tax measures that harm sources of income in which women tend to be overrepresented.⁵⁰ Eliminating discrimination in all its forms also involves adopting an intersectional approach to combat the structural inequalities faced simultaneously by individuals due to gender, ethnicity, race, social class, disability, sexual orientation, gender identity, religion, language, among others.

D. Participation

Ensuring the participation of society, particularly historically marginalised groups, in the design, implementation, and monitoring of fiscal policy is necessary to democratise decision-making processes and the exercise of political power. As one of the cross-cutting principles of fiscal policy for socio-ecological transition, promoting broad and active participation should be emphasised by making fiscal decisions based on democratic deliberation processes, grounded in evidence, and providing accessible information for the entire population.

For these purposes, particularly in LAC, the Escazú Agreement offers particularly clear and ambitious standards on how to move towards substantial improvements in citizen participation and access to information. Complementarily, discussions on socio-ecological transition have tended to include not only participatory processes in the form of public consultation or expository workshops, but also other innovative deliberation methodologies and, mainly, the creation of multi-stakeholder governance bodies or instances. This not only improves support during the design and implementation of policies, but also promotes additional instances of more direct and timely access to information, as well as more democratic and comprehensive tools for monitoring the established goals and indicators.

II. Fiscal measures for a socio-ecological transition

A. Taxation of wealth and capital

Globally, low-income and poor people face a higher risk of suffering the negative impacts caused by the climate emergency, while their contribution to GHG emissions is lower than that of higher-income population groups. This is explained by consumption patterns differentiated by income levels that are especially marked in relation to fossil fuel consumption. As the population's income increases, fuel consumption (vehicles, private airplanes, yachts, etc.) grows proportionally and, therefore, so does the environmental footprint.⁵¹ It is estimated that between 50% and 70% of total emissions are the result of the activities and investments of the world's richest people.⁵² Likewise, in its 2023 report, OXFAM indicates that the carbon emissions of the richest 1% of people on the planet are equivalent to those of the poorest 66%.⁵³ Furthermore, the investments of 125 of the world's 1,000 richest billionaires reveal that, on average, they emit nearly 3 million tons of carbon per year, more than a million times more than the average person among the poorest 90% of the world's population.⁵⁴

In this context, taxing the ultra-rich and their luxury consumption and investments is a progressive and effective measure to reduce emissions, while generating funds for the ecological transition and supporting those most vulnerable to climate impacts.

There are good examples and experiences to follow. Countries such as Switzerland, Spain, Norway, Argentina, Uruguay and Colombia already have an effective wealth tax.⁵⁵

For example, Spain has had a wealth tax since 1977, which applies to individuals with assets over 700,000 euros at fees of up to 3.75%. It has proven to be highly progressive, as in 2019 80% of the revenue came from the richest 0.3% of taxpayers. In total, it represents about 1.2% of the Spanish government's tax revenue.⁵⁶ Norway also has one of the highest wealth taxes in the world, with a top rate of 0.85% that applies to fortunes of more than 1.7 million euros.⁵⁷

In Latin America, Argentina implemented in 2020 an annual tax on large fortunes that will remain in place until 2025. It taxes assets over 200 million pesos (around US\$2.5 million) at fees of up to 3.75%, raising around US\$2.4 billion in its first application.⁵⁸ Colombia also recently established a wealth tax applicable as of 2022 for fortunes over 5 billion Colombian pesos (about US\$1.2 million) with fees between 0.5% and 1.5%. The tax is expected to generate around USD 650 million annually on average.⁵⁹

From the different countries that have successfully implemented annual wealth taxes on large fortunes, it can be seen that they have achieved substantial resources for the State with few negative effects on the economy. The available empirical evidence suggests that moderate wealth taxes do not substantially depress investment, but, on the contrary, increase productivity and boost economic growth.⁶⁰

The economist Thomas Piketty has proposed establishing an annual progressive wealth tax at the global level, applicable to individuals with net worth of more than 1 million. The rates would be 1% on wealth between 1 million and 5 million, and 2% on wealth over 5 million. The tax would be coordinated between countries and information on wealth and assets would be automatically exchanged between tax authorities to prevent evasion. Piketty estimates that this global tax on large fortunes could generate at least \$230 billion annually, representing about 2% of world GDP.⁶¹

Similarly, the EU Tax Observatory proposes to introduce a new global minimum tax for billionaires worldwide equivalent to 2% of their wealth, with an annual collection potential of \$204 billion (USD).⁶² Another proposal worth considering is that of Adrien Fabre, who proposes a voluntary global tax on the wealth of individuals with more than \$5 million (USD) in net assets, through a tiered marginal tax scale: 2% above \$5 million, 6% above \$100 million, 10% above \$1 billion.⁶³ According to estimates, such an annual taxation of wealth could raise 2% of global GDP in annual income, with half of the allocated revenue (1%) going to low-income countries to finance public services and overcome inequality.⁶⁴

The above proposals could encourage LAC countries to adopt a wealth tax at the national level, targeting the country's ultra-rich, or collaborate with other countries for the adoption of a global or regional wealth tax. For example, the region could agree to establish an annual regional net wealth tax on individuals owning more than \$1 billion (USD) at a fee of 2%, which could raise \$7.3 billion (USD) annually.⁶⁵

For its implementation, the recently created PTLAC could promote a regional consensus agreement that establishes the basic guidelines of the tax and obliges countries to implement it in their legislation, as well as an agreement for the automatic exchange of information between tax authorities to prevent tax evasion (see proposals subsection B). At the domestic level, efforts to implement a wealth tax could benefit from the work currently being carried out by the United Nations Committee of Experts on International Cooperation in Tax Matters (subcommittee on taxation of wealth and solidarity taxes), which is working on a legislative model to implement the tax at the national level.⁶⁶

It should be noted that proposals of this nature attract broad public support. In a survey of 20 countries between 72% and 96% of the population support a global wealth tax to finance middle- and low-income countries.⁶⁷

Finally, a fiscal policy that allows advancing a socio-ecological transition requires redistributing resources within countries in order to simultaneously reduce inequality and GHG emissions. Countries in the region are recommended to further adopt the following measures:

- **Creating an extraordinary tax on large fortunes linked to highly polluting activities.** For example, a 10% tax on the annual profits of individuals with fortunes greater than 1,000 (USD) million from fossil fuel companies. In order to prevent people from modifying the beneficiary structure (the wealth holding structure) in a way that fails to indicate the origins of their wealth and thus from paying taxes absolute transparency of beneficiary ownership information and an automatic exchange of this information among tax administrations (as is already the case with banking information) is needed.
- **Setting higher taxes on high-end vehicles with high fuel consumption.** For example, increasing import taxes on luxury cars and yachts that consume fossil fuels by 100%.
- **Implementing a regional tax on private jet flights.** This could be implemented, for instance, with a rate per km travelled that would levy the largest and most polluting aircrafts with a higher tax. In particular, the proposal is made to establish a "frequent flyer tax" with in order to implement a tax per flight, which will increase as people make more flights in a year. Studies estimate that these measures could concentrate \$121 billion (USD) globally to decarbonise the aviation sector.⁶⁸
- **Setting a tax on extraordinary profits for companies or industries (windfall profits tax).** When the financial conditions give place to large and unexpected profits, the tax could be levied on a single surcharge. For instance, a temporary 50% windfall tax could be levied on the windfall profits from fossil fuel companies in periods of high international prices.
- **Establishing regional carbon footprint transparency and reporting standards and requirements for multinational companies.** This tax could be levied, for instance, on multinational companies with revenues higher than 750 million USD in line with the proposals set forth by the State of California⁶⁹ and the European Union.⁷⁰
- **Setting a regional wealth tax on fortunes higher than \$1 billion (USD) at a rate of 2%.**

B. Fight against tax evasion, tax avoidance and illicit financial flows

Limitations in the OECD's Inclusive Framework and the historical opportunity at the United Nations

Every year, LAC countries lose 325 USD billion (equivalent to 6.1% of GDP) owing to tax evasion and avoidance and illicit financial flows (IFFs).⁷¹ These lost resources are key to promoting measures and actions to move towards a socio-ecological transition. Moreover, these losses impair fiscal policy redistribution and stabilisation function.

The aggravation of globalisation and the digitalisation of the economy have made it easier for many large multinational companies—including carbon-intensive ones—to avoid paying taxes in the countries where they perform their economic activities and produce GHGs, and to pay them instead in countries with low or no taxation where they establish their tax residence. Multinational companies benefit from the loopholes in the system to engage in profit shifting practices by taking their profit to low or no-tax jurisdictions, which makes it difficult to effectively control and collect taxes and aggravates cross-border tax evasion and avoidance. These harmful practices indirectly impose a regressive and unfair tax burden on lower-income individuals and businesses that comply with all their tax obligations.⁷²

To address these global challenges, the OECD/G20 established the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) a decade ago. In October 2021, a two-pillar agreement was announced to reform international rules and ensure that multinational companies pay taxes wherever they operate.⁷³

In general terms, the agreement establishes a global minimum tax (Pillar II) and makes provision for the reallocation of a small portion of the taxes collected from the largest and most profitable companies into other countries (Pillar I). This agreement constituted a step in the right direction, but its design is inadequate and its scope insufficient.

The first pillar seeks a fairer distribution of the profits generated by multinational companies with a global turnover of more than 20 billion EUR and a profitability higher than 10% in favour of the coun-

tries where goods or services are used or consumed. The problem is that this measure prioritises “tax residence” rather than “place of origin”, which in many cases ultimately benefits the developed economies where large multinationals are headquartered and excludes many middle- and low-income countries.⁷⁴ Another weakness is that they exclude extractive industries, which limits their internalisation of negative externalities related to climate change, as well as their ability to mobilise domestic resources to finance sustainable development.

The second pillar establishes a global minimum tax of 15% for multinational companies with a worldwide turnover of more than 750 million euros to prevent them from relocating to low-tax jurisdictions. This tax rate, however, is below the Latin American average of 24% and the 21% profit tax rate,⁷⁵ and does not discourage seeking refuge in tax havens. Currently, it is estimated that the Second Pillar could generate an additional 150 USD billion globally per year, while ICRI estimates that a 25% tariff could raise around 500 USD billion,⁷⁶ which would contribute significantly to financing measures and actions for a socio-ecological transition.

The OECD/G20 tax agreement has also been widely criticised for its insufficient scope and ambition. In particular, this agreement is seen as insufficiently inclusive and indifferent to the needs of the countries of the Global South.⁷⁷ The negotiations lacked transparency regarding the potential impacts on developing countries. Independent estimates suggest that low- and middle-income countries do not realise significant fiscal gains, whereas they are the most in need to expand their fiscal space to meet climate commitments.⁷⁸

In summary, although the agreement represents a step forward in the global recognition of the need to confront the race to the bottom, it lacks ambition and inclusiveness in its current state. Continuous efforts are required at the United Nations forum to actually reform the system towards one in line with the human rights and climate duties of States. The UN has a more comprehensive view of global issues than the OECD. Its intergovernmental processes are more transparent and inclusive and allow an improved accountability.

Tax information exchange and regional cooperation

Tax information coordination and exchange between countries are key to expanding fiscal space to fight climate change, reducing poverty and inequality by enhancing control over tax evasion and avoidance as well as illicit financial flows.

Coordination and exchange of information on carbon-intensive multinational companies with offshore production can help improve countries' tax policies by accounting for the adverse effects occurring in other territories. By the same token, there is a need to strengthen this coordination and flow of information with respect to the wealthiest individuals or those whose income is derived from corrupt practices and who set up their tax residence in tax havens to hide their wealth.⁷⁹

Some countries in the LAC region committed to the fight against tax evasion, avoidance and illicit financial flows are taking part in initiatives to enhance coordination and tax information exchange. Argentina, Panama, Paraguay and Uruguay signed the Punta del Este Declaration in 2018. It now comprises 15 members following the subsequent adhesion by other countries.

In a similar vein, 16 countries of the region participate in the Global Forum on Transparency and Exchange of Information for Tax Purposes,⁸⁰ which comprises 163 member States as of May 2023. The member States have agreed to enhance transparency and information exchange to tackle offshore tax evasion and other illicit financial flows.

Countries of the region are recommended to adopt the following measures to fight tax abuse:

- **Acting in coordination to pursue an increase in the global minimum tax, for instance, from 15% to 25%**, in line with the suggestions from the Independent Commission on International Corporate Tax Reform (ICCTR) and thus increase tax collection and prevent capital flights to fiscal havens. In order to ensure that the global minimum tax contributes to enhancing climate ambition in LAC, the recommendation is made to implement a "Regional Fund for Socio-Ecological Transition" financed exclusively with a portion of the revenues generated with this tax. This fund could finance, among other measures, (i) projects and programs promoting the transition to renewable energy sources, (ii) energy efficiency and greenhouse gas emission reduction, (iii) support sustainable development initiatives promoting social inclusion, gender equity and job creation in green sectors, and (iv) the promotion of research and innovation in clean technologies and sustainable practices.
- **Creating a Regional Asset Register to identify who owns wealth and where wealth is actually located.** This proposal came from several global organisations and academics that pointed to the need for information on asset ownership to refer to the owner effectively holding ownership, controlling or benefiting from these assets instead of legal owners.⁸¹ This registry could build on the progress made by the Extractive Industries Transparency Initiative (EITI) in identifying the true owners of extractive companies; it could also provide information on company payments and government revenues from the extractive sector.
- **Moving towards a tax nexus based on meaningful economic presence with an allocation formula:** This measure could help overcome several limitations and defeat the implementation crisis impairing the agenda agreed within the OECD framework.⁸²
- **Supporting a United Nations Tax Convention as a bloc.** LAC countries should become actively involved in opening UN negotiations on international taxation and adopt common positions with other blocs in the Global South.

Under the leadership of the African Group call, ⁸³ two resolutions have been filed (in 2022 and 2023), seeking to initiate intergovernmental discussions at the United Nations on ways to strengthen the inclusiveness and effectiveness of tax cooperation and move towards the design of a legally binding framework convention. The process seeks to correct the current democratic deficit, where international tax rules are elaborated within the OECD framework without an adequate representation for the countries of the Global South and their economic and social development needs. The active participation of the countries of the region in the creation of a new global framework for fiscal cooperation under the umbrella of the UN will ensure its alignment with commitments in the areas of human rights, reduction of inequalities, gender equity and environmental sustainability.

C. Green taxes

Green taxes, also called environmental taxes, increase the cost of activities that harm the environment by internalising the adverse social effects called “negative externalities” in accordance with the “polluter pays” environmental law principle.⁸⁴ In other words, environmental taxes impose a cost on activities that are scientifically proven to be harmful to the environment.⁸⁵ These taxes have a twofold benefit: they contribute to the change of consumption and production patterns, depending on price and income elasticities and at the same time they contribute to fiscal consolidation by increasing tax revenues.⁸⁶

Environmental taxes can be applied to all aspects of environmental protection, such as combating climate change, pollution and the pressure exerted on ecosystems through the consumption of natural resources and the loss of biodiversity. In addition, environmental taxes, by their very nature, alter the circumstances of taxpayers, who may be individuals or corporations, by affecting their income (taxpayer purchase power) and the interactions between companies in terms of competitiveness.⁸⁷ Environmental taxes therefore have impacts that must be taken into account when designing and implementing tax policy. It is particularly important to bear in mind the distribution effects of environmental taxes as not all population groups necessarily have equal access to more sustainable alternative activities or products. It is acknowledged that it is essential to implement compensatory measures to address the social effects of environmental taxes and to attain social acceptance for these tax policies. In this sense, tax policy needs to be fair, transparent and contribute to energy transition and to the reduction of polluting emissions.

Green or environmental taxes comprise general or sectoral taxes and can be implemented in different sectors at the same time, such as taxes in the energy sector, transportation, waste management, or agriculture. Similarly, green taxes can be targeted at specific pollutants, such as sulphur, methane, or plastics. Environmental taxes hence address different causes of environmental harm, various types of pollutants, as well as factors that may cause environmental harm.



In this report, green taxes are classified into four main categories: (i) energy taxes, (ii) transportation taxes, (iii) natural resource extraction taxes and (iv) pollution taxes.

The main environmental taxes applied in the region that contribute the most to climate emergency are related to energy (carbon and fuels) and transportation taxes.



Pollution

Taxes on air emissions (measured or estimated) and on the generation of solid waste (e.g. plastics, chemicals, fertilizers).

Energy and carbon

Taxes the taxable base of which is related to the consumption of energy products (e.g. gasoline, gas, electricity, among others), as well as to greenhouse gas emissions (e.g. carbon taxes).



Natural resources

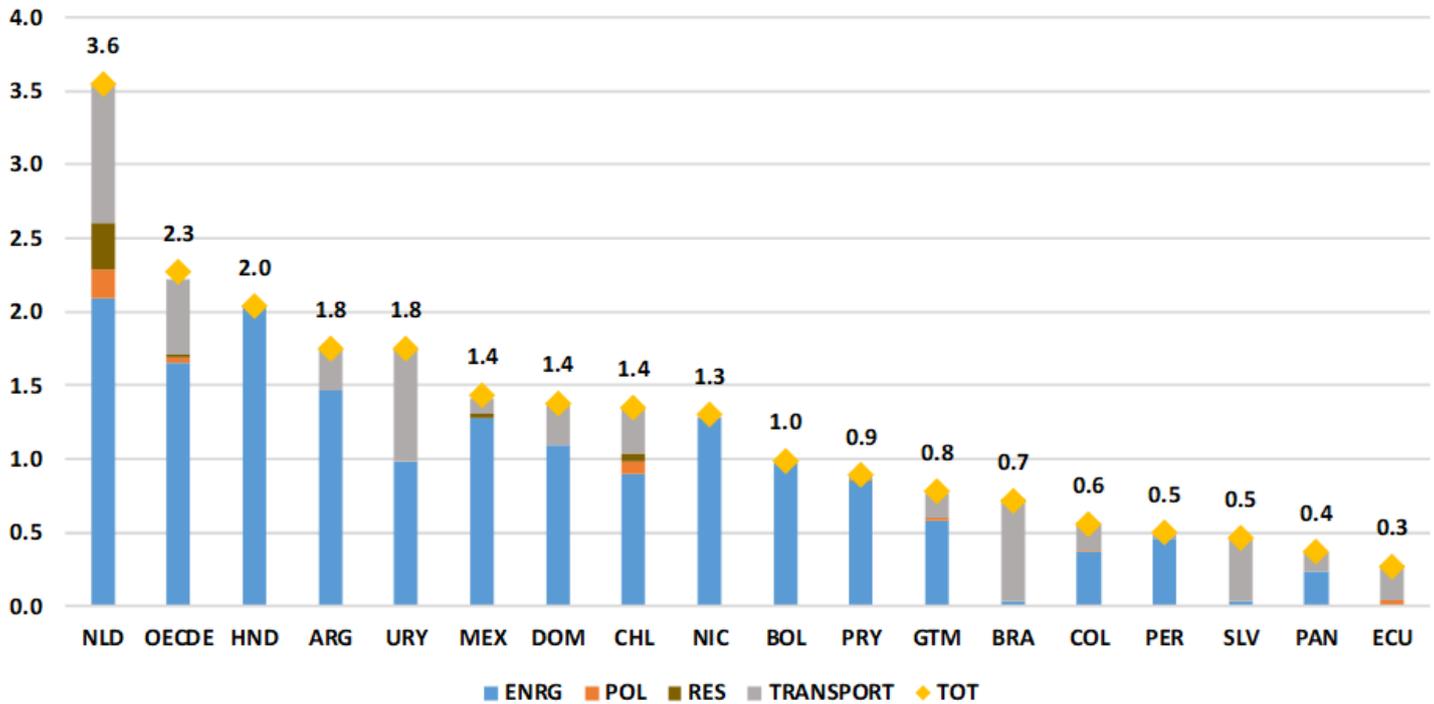
Taxes on the extraction of natural resources (e.g. minerals, water, timber, etc.).

Transportation

Taxes on the ownership and use of motor vehicles for air, land, and marine transportation, as well as for related services (e.g. road use).



Environmental tax collection in selected LAC countries in 2020, as a percentage of GDP



Source: Prepared by the author on the basis of OECD data.

I. Energy and carbon taxes

The tax base for energy and carbon taxes is the consumption of energy products as gasoline, diesel, gas, and electricity, among others, as well as those related to greenhouse gas emissions, such as the carbon dioxide (CO₂) tax.⁸⁸ These mechanisms are set by the government in order to internalise the burdens that energy products and their derivatives impose on society and the environment.⁸⁹

As far as regulation is concerned, there are three regulation points to impose taxes on energy. These can be classified as follows:⁹⁰

- **Downstream:** taxes are levied on fuels or GHG emissions generated at either the points where the emissions are produced or those where energy products and their derivatives from production processes are consumed (for example, carbon taxes based on the consumption of oil and gas derivatives);
- **Upstream:** taxes are levied on fossil fuels at the points where they enter the economy, during either extraction, production or import (e.g. taxes on gas imports); and
- **Midstream:** taxes are levied at the intermediate point in the supply chain between the generation and consumption of fossil fuels (e.g. during refining or transportation).

With respect to carbon taxes, in recent years, five countries in the region have implemented carbon dioxide (CO₂) taxes at the national level, including Argentina, Colombia, Chile, Mexico and the Dominican Republic. At the sub-national level, the first experiences have taken place in some Mexican states. With the exception of the carbon tax in Chile and Mexico, the rest of the countries have designed their taxes at the point of downstream regulation and their tax rates are associated with the CO₂ content of fuels.⁹¹

Regarding the use of resources collected from carbon taxes, only in Colombia did the law establish specific destinations linked to climate change mitigation and resilience efforts, but in the practice the subaccounts for their implementation were never created and, therefore, they have not been used in their three years of implementation.⁹² In general, carbon tax rates implemented in the region are below what could be considered a “price that is consistent” with the achievement of the targets set out in the Paris Agreement ranging between 40 to 80 USD per ton of CO₂ by 2020 and between 50 to 100 USD by 2030.⁹³ There is hence still considerable room for carbon taxation in Latin America and the Caribbean.

On the other hand, taxes on energy products or their derivatives, which are also part of energy taxes, are implemented in almost all countries in the region, where the triggering event is the sale or marketing of fuels. The collection of these taxes can become an important source to finance socio-ecological transition, such as taxes destined to renewable energies, energy efficiency and clean mass transportation; to adapt to climate change; and to invest the proceeds in social protection programs for sectors and people in situations of vulnerability to climate events.

It should be noted that, if these types of taxes are effective and succeed in achieving their objectives of decarbonising production and consumption, they will ultimately erode the tax base and reduce tax revenues over time. The creation or strengthening of other tax revenues to reduce this potential fiscal impact in the future should thus be envisaged. A fundamental aspect is that these taxes should not only be for general collection purposes, but that the income generated should be used for activities that contribute to effectively fighting climate change and producing a change in the energy model.

In addition to their effectiveness in reducing CO₂ emissions, these taxes can have potential economic and social impacts. These taxes are associated with progression or digression as a function of the type of tax implemented and the likely indirect impacts resulting from changes in the relative prices of taxed goods and services (e.g., electricity, fuels for mobility or cooking and heating) that may disproportionately affect poorer families or women because of their socially-assigned care responsibilities.

For example, taxes related to electricity from non-renewable sources affect the access, use and consumption of energy resources, especially for people living in marginalised rural communities in the region who face energy poverty conditions, understood as the inability of households to consume an adequate level of energy to meet their basic needs through modern technologies.⁹⁴ Furthermore, energy poverty is worsened by the gender divide at the workplace, where women are socially assigned family care responsibilities (such as cooking and child and elderly care). In the region, normally the chores that are socially assigned to women are related to cooking, finding firewood and water, agricultural chores, raising small animals, and trading in local markets, among others. In the urban area, women are also responsible for household care. Women that have incorporated into the employment sector do so in the informal or small or medium enterprise sectors. This is worsened when combined with other conditions, such as social class, ethnicity, age, sexual choice, or disability.⁹⁵ Not having access to energy or having to make recourse to other types of energy, such as firewood or kerosene due to the increase in fuel or electricity prices limits their production capacity, increases their unpaid work and entails health issues.

States in the region are recommended to move forward in the implementation of energy taxes by adopting the following measures:

- **Introduction of carbon taxes in different modalities.** In the region of LAC, only Argentina, Chile, Colombia, Mexico and Uruguay have implemented this tax type. The rest of the countries in the region must hence be required to include this tax type in their fiscal policies.
- **Ensuring that the collection of returns from green taxes on energy go beyond mere collection. There should be schemes to reallocate these resources to activities allowing to change the energy matrix and model of these countries.**
- **Introduction of taxes on fossil fuels.** These taxes can be levied at the sale and commodification points. The collection of these resources could be used in investments to transition into renewable energy systems, social security systems, health and education, among other essential services for socio-ecological transition.
- **Adopting compensatory measures and avoiding gender bias.** Positive measures must be adopted to avoid exacerbating structural conditions of discrimination and marginalisation against historically disadvantaged populations.

II. Taxes levied on natural resource extraction

Natural resource taxes are generally applicable in the exploration and exploitation phases.⁹⁶ In LAC, in many cases, taxes are levied on the exploitation of non-renewable natural resources, particularly in the hydrocarbon and mining industry. Regarding hydrocarbons, revenue received from taxes related to oil and gas exploration and production reached an average of 4.2% of the GDP in 2022 due to high oil prices and the sharp increase in production in Guyana and Trinidad and Tobago, where the income tax saw an increase.⁹⁷ If these countries are excluded, the region income collected from these type of taxes reaches a mean of 2.7% of GDP.⁹⁸

Meanwhile, tax revenues from mining in LAC reach around 0.7% of GDP, mainly from minerals as copper, iron, lithium, among others.⁹⁹ It should be noted that mining has become relevant in the context of global energy

transition and the fight against climate change, given that minerals as lithium, nickel, copper, zinc and rare earths, among others, are key inputs for electrification, electric mobility and digitalisation.¹⁰⁰ For instance, the energy transition towards renewable energies will increase the demand for lithium, which is estimated to multiply by 40 in the next two decades. Around 60% of the lithium identified comes from Latin America, where Bolivia, Argentina and Chile form the "lithium triangle." However, the benefits will not stay in these countries due to the long value chain that will ultimately favour battery manufacturers located mainly in Asia. Likewise, lithium brings new concerns about the environmental sustainability of its extraction due to its intensive use of water (2.2 million litres per ton of lithium) and the impacts on indigenous communities that depend on the supply of this vital resource.¹⁰¹

In terms of environmental impact, the exploration and extraction of natural resources generate air, water and biodiversity pollution, among others, impairing the lives of the people that inhabit the territories where these resources are exploited. Frequently, furthermore, when these companies take measures to compensate people that are negatively impacted by their actions, they do so through voluntary mechanisms, such as corporate social responsibility policies, which are insufficient to address the scale of their environmental impacts.

In addition, the profits generated by extractive industries, which pollute heavily and are responsible for a large part of greenhouse gas emissions, frequently end up in developed countries or in tax havens where they evade taxes by abusing transfer pricing. It is imperative that these companies take responsibility for their actions and contribute more to the economies in which they operate. These contributions should be invested in the diversification of productive activities to reduce dependence on extractive industries, mitigate their severe social and environmental impacts and finance a fair socio-ecological transition.

It is recommended that States consider the following fiscal instruments applicable to natural resources and extractive industries:¹⁰²

- **Imposition of flexible royalties** for the owner of the reserves (which is normally the State) on the production value that could fluctuate between 5% in normal times and reach 25% in periods of exceptionally high prices.¹⁰³ These royalties should be partially used to compensate for the negative externalities derived from extractive activities.
- **Tax on net income from extractive industries** with a progressive scale. This tax is levied after deducting all costs and expenses. For example, with a progressive scale between 25% and 65%,¹⁰⁴ the largest and most profitable companies in the extractive sector, which have the highest net profits, would be levied higher taxes, collecting in this way a fair share of their profits. It is also proposed that countries coordinate these net profit taxes regionally to avoid a race to the bottom in taxation, which would only benefit large extractive corporations. Tax harmonisation is key to recovering the fiscal space lost to multinationals.
- **Windfall profits tax with tiered rates that capture between 50% and 75% of profits above a reasonable threshold of profitability.** This would allow excessive profits to be taxed in periods of high international prices.¹⁰⁵

III. Pollution taxes

Fiscal policy is potentially one of the most effective measures to control and combat air and solid waste pollution. This type of taxes is levied on the emissions or disposal of polluting materials with impacts on soil, water or air. The tax rate generally corresponds to the value of the marginal harm caused by the negative externality. Examples of this type of taxes include methane and sulphur emissions into the atmosphere and the production and consumption of single-use plastics.

In Chile, for instance, there is a tax on emissions of polluting compounds from stationary sources, which is levied on emissions of particulate matter (PM), nitrogen oxides, sulphur dioxide and carbon dioxide produced by premises with stationary sources consisting of boilers or turbines.¹⁰⁶ This tax seeks to levy air pollution derived from productive activities that have an adverse impact on air quality.

In addition, taxes related to the generation of waste from PET plastic containers have been implemented in Ecuador. In this case, the tax is levied on the packaging of beverages in non-returnable plastic bottles.¹⁰⁷ For each plastic bottle levied with this tax, a fee is applied and refunded in full to whoever collects, delivers and returns the bottles. In Colombia, a tax was also imposed on the use of plastic bags —either free of charge or for a fee— to carry goods sold. All these examples of pollution taxes seek to internalise the costs of environmental harm caused by the production and release of emissions and waste in order to make the latter onerous and discourage such polluting activities.

Depending on the context, it is recommended that States in the region impose the following minimum pollution taxes:

- **Taxes on plastics, especially single-use plastics.** In this case, the taxable base is generally the weight in grams of the non-reusable plastic container, packaging or packing in order to encourage the use of packaging produced with more sustainable materials.
- **Taxes on the generation of organic and inorganic urban waste with polluting materials, such as batteries, electronics, lead, tires, among others.** This tax seeks to encourage safe waste management practices that result in circular economies where waste is reused or recycled in order to reduce its environmental impact
- **Taxation on emissions derived from industrial processes releasing methane, sulphur, nitrogen oxide and other polluting gases which affect air quality.**

IV. Transport taxes

Transport is one of the factors which largely contributes to the environmental crisis due to its adverse impact on air quality, the space it occupies on public places and the noise pollution it may generate. Transport taxes seek to charge not only the acquisition or circulation of motor vehicles within air, maritime and ground transport, but also all related services (for example, the use of roads, ports and airports). The tax base is generally the purchase or disposal value and its rates

may vary according to the vehicle's years of circulation. In order to pursue environmental objectives, taxation is usually higher on older vehicles that tend to pollute more.

In countries like Ecuador and Peru, differentiated tax policies are also being implemented on transport to encourage the use of vehicles with more sustainable technologies, such as hybrid or electrical vehicles. To that end, import taxes or selective taxes, such as Value-Added Tax, have been reduced.

Resources produced by the collection of this type of taxes may be used as investments to expand the public transport service network to provide quality transport alternatives and to discourage the use of private vehicles, especially luxury ones, which do not serve primary needs and are reserved to high-income people. Among the fiscal policies related to transport which allow for a socio-ecological transition, the following policies are proposed:

- **Taxation on private motor vehicles, especially luxury ones.** This tax should include private yachts, aircrafts and automobiles which generally have a significant environmental impact and are reserved to small high-income population groups.
- **Introduction of taxes on the acquisition of private vehicles with technologies that tend to produce highly polluting emissions.** Taxes on highly polluting vehicles due to their age, type of fuel or motor capacity are proposed.

Transport tax collection should serve to invest on a clean, high-quality, safe and affordable public transport network which would provide practical alternatives to the use of private transport vehicles.

D. Tax preferences

Tax preferences, also called tax expenditures, are tax relief measures (concessions, exemptions, deductions or tax credits) that reduce the tax amount to be paid by an institutional unit with specific public policy objectives; and therefore, imply a reduction in the government's revenues and an indirect subsidy to that activity, individual or company.¹⁰⁹

In 2021, the foregone revenues in Latin America due to tax deductions averaged 3.7% of GDP, which amounts to 19% of the government's tax revenues as a whole. Given the magnitude of the tax relief that may be destined to public expenditures for the socio-ecological transition, it is essential to evaluate their cost-efficiency for the fulfilment of objectives for which they were created.¹¹⁰

While most tax expenditures have been created with objectives in relation to the encouragement of certain economical activities or for employment creation, just a few have been created for the purpose of pushing forward a socio-ecological transition or with the potential impact on this global phenomenon in mind. Tax expenditures with climatic impact are



incentives or tax preferences introduced to taxes with the explicit aim of encouraging low-carbon production and consumption practices, as well as those which, though not created for this purpose, may have positive or negative externalities in climate change.

The countries of the region which have granted a series of tax deductions that influence the climate change mitigation are as follows:

- Mexico, Guyana, Dominican Republic and Bolivia have introduced deductions with negative climatic impact on energy products to reduce the impact of rising fuel prices and to protect the poorest quintiles of the population.
- In countries that are making an energy transition, exemptions and deductions on income tax, provided that investments for the electrical creation of renewable sources are being made, as well as tariff and tax exemptions on sales for the acquisition or import of low-emission machinery are being implemented.
- Colombia, Ecuador, Costa Rica, Mexico and Dominican Republic have implemented tax incentives on VAT and selective taxes on consumption, circulation and tariffs so that consumers may change their consumption patterns towards less-polluting cars, such as electrical or hybrid cars, and the fossil fuel consumption is reduced.

The challenges for these incentives are their effectiveness to internalise the externalities, ensure their progressivity and the compatibility of the tax preference with the 'polluter pays' principle. In addition, there is concern that by lowering the relative prices of sustainable goods which is encouraged to move towards a socio-ecological transition, an excessive increase on demand for those goods would take place which would eventually affect the environment. Similarly, there is a risk that low-carbon investment projects would be encouraged and therefore incur in violations of the human rights of local populations.

This type of environmental tax preferences works provided that the tax savings of the productive sector or the individual are greater than the investments to be made on low-carbon consumption or activities. If this does not occur, the tax preference will not be used by the economic agent, and therefore a desired behaviour change towards a more sustainable consumption or production will not take place either. Additionally, the tax incentives may degenerate into evasion and avoidance mechanisms. For this reason, the environmental tax incentives should be temporary, targeted, measurable and economically viable.¹¹¹

While the region has made advances in making the fiscal cost of the implemented tax expenditures transparent, there are few cases in which the benefit to carbon-intensive activities and their potential impact on climate change are being evaluated. The results of these evaluations may initiate a social dialogue so that these expenditures are reformulated or removed, which in



turn would increase the fiscal space that could be destined to programs that reinforce the decarbonisation of the economy or allow for public infrastructure more adapted to the climate.

It is recommended to consider the following tax policy options in relation to tax breaks:

- **Generate a transparent and participatory evaluation process to determine the impact of tax breaks.** This evaluation would seek to ensure that the impact is progressive and encourages a socio-ecological transition.
- **Manage the public finance alignment with a socio-ecological transition that promotes the transformation of the economy towards a social and environmental welfare scheme based on justice and equity.**
- **Adopt tax preferences aimed at industries and people that would motivate the use of renewable energies.** For example, to encourage the installation of renewable energy technologies or green terraces on houses and companies in order to pursue energy sufficiency and the transition to low-carbon energies, as well as the creation of carbon sinks.
- To promote climate action, countries must **redirect the budgets linked to carbon-intensive activities towards areas related to climate change and sustainability.**



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Main authors and coordinators: Alejandra Lozano (GI-ESCR) (Global Initiative for Economic, Social and Cultural Rights) and Vicente Silva (GI-ESCR).

Co-authors: Pedro Cisternas (Nuestra América Verde), Magdalena Sepúlveda (GI-ESCR), Sergio Chaparro (DeJusticia), Sandra Guzmán (Climate Financing Group for Latin America and the Caribbean - GFLAC), Felipe Pino (FIMA), Liliana Avila (AIDA).

Pedro Glatz (Nuestra América Verde), Alejandro Rodríguez Llach (independent expert), y Magdalena Rochi (GI-ESCR).

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