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How Tax Is Building a More Sustainable Working World



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Conversations around sustainability have intensified greatly in recent years.

Spurred by intensifying environmental disasters, a growing global population and an increasing carbon footprint, governments and businesses are examining their work practices and prioritizing long-term value and value-led sustainability.

While we have seen evidence of reduced carbon footprints throughout the Covid-19 pandemic, driven by industrial slowdowns and mobility restrictions that generated a substantive fall in international travel, the pandemic has served as an opportunity for organizations to reimagine—if not completely transform—their long-term business practices. The World Economic Forum (WEF) refers to this as the “Great Reset,” which is the basis of its agenda in 2021.

Existing environmental, social, and governance (ESG) metrics are already shifting investment and organizational practices, but tax—in particular, tax incentives—has played, and will continue to play, a key role in driving sustainability initiatives globally.

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Already, as part of U.S. President Joe Biden’s first day in office, his administration has re-joined the Paris Climate Agreement and issued executive orders to tackle the climate crisis. These initiatives complement Biden’s campaign pledge to drive \$2 trillion in green initiatives and investments. This trend toward green incentives is also seen globally and on a considerable financial scale, with the [European Green Deal](#) seeking to make the EU climate neutral by 2050, while also helping to mobilize at least 100 billion euros (\$121 billion) over the period 2021-2027.

A significant element of the global sustainability conversation revolves around the ambitious targets, set by businesses and governments in accordance with the Paris Agreement, to limit global warming to 1.5C above pre-industrial levels. In support of these goals, EY has [recently announced](#) its our new carbon ambition—to be carbon negative in 2021 and net zero in 2025.

Tax, tax transparency, and tax reporting are also part of the sustainability narrative. When organizations are transparent with their tax contributions, they can build trust with their stakeholders, particularly when consumers have become increasingly vocal and conscious of how organizations are contributing to government services and initiatives that are largely dependent on tax income. In September 2020, in collaboration with the WEF and leading organizations globally, EY signed a universal set of stakeholder capitalism metrics, which includes tax contribution reporting.

There is no vaccine for climate change, but there are steps organizations can take to help ensure they have the capacity to build trust with their stakeholders and drive long-term value for all stakeholders.

All the while, tax departments must be at the table because they play a key role in managing the obligations, the risks and the impact that increased environmental regulations will introduce. By having a direct

line of sight into its company's policies, the tax department will also be well-equipped to identify opportunities associated with sustainable practices.

Looking ahead, conversations around sustainability will continue to gain focus. Organizations and governments are appointing dedicated sustainability leaders, and both the G7 and G20 have set climate and sustainability into their 2021 discussion priorities and themes.

As we conclude the Davos Dialogues, we share how tax is shaping sustainability efforts in the Americas, EMEA, and Asia-Pacific.

The global drive to a low carbon future

Steve Varley, EY Global Vice Chair – Sustainability

Increasing numbers of organizations have begun ambitious decarbonization journeys. This is in response to changing expectations from their people, clients, and communities, who want to see more done to tackle the climate crisis. However, some will need go further, faster, and do more to reach the climate targets set by the Paris Agreement. This week, EY announced its new carbon ambition which will see it become carbon negative in 2021 and net zero in 2025, building on its achievement of carbon neutrality in 2020. It has set out seven actions to reach these targets, including reducing business travel emissions, reducing overall office electricity usage, switching to 100% renewable energy, and investing in EY services and solutions that help clients protect and create value through decarbonizing their business. EY emissions are just one small part of a much larger climate challenge that business faces—but through collaboration with others it will expand its impact and realize its purpose of building a better—and more sustainable—working world.

The global push for sustainability efforts

Cathy Koch, EY Global Tax Policy Network Leader and EY Global Sustainability Tax Leader

The climate remains a key focus, both in terms of growing public interest and attention from policymakers. Risks identified in an often-cited 2018 study by the Intergovernmental Panel on Climate Change continue to draw interest today: “climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C.” These risks are ones that the business community needs to understand and do its part to help mitigate.

Globally, governments and organizations are already working together to address these climate-related risks, and tax is a critical component of that effort. Historically, tax has always been a powerful government tool to drive behavior. By using tax, in particular incentives, to reflect true environmental costs and benefits, businesses and individuals will be motivated to make more environmentally informed decisions about operations and consumption.

Taxes and incentives will be a part of the network of policies that leads to more environmentally informed choices. And these choices will lead to a better world.

The Americas—significant investment in sustainability funded by tax changes

Marna Ricker, EY Americas Vice Chair – Tax

In the U.S., sustainability has become an increasing part of the national conversation under U.S. President Joe Biden, with the administration seeking to achieve net-zero carbon emissions by 2050. In addition to re-joining the Paris Climate Agreement, President Biden spent part of his first day in office restoring critical environmental protections and pledged to promote job creation in a clean energy economy, with a goal to eliminate carbon pollution from power plants by 2035. As part of his Build Back Better platform, Biden has proposed significant spending for infrastructure and clean energy, which includes money for energy retrofitting, financing to upgrade appliances, windows and to buy electric vehicles, and to expand and extend clean energy tax incentives. President Biden has proposed tax changes to pay for these investments in clean tech infrastructure.

EMEA—the European Green Deal

Bridget Walsh, EY EMEA Tax Managing Partner

The European Green Deal (EGD) aims to make the EU climate neutral by 2050 while decoupling growth tied to resource consumption. The EGD is not yet a legislative text, but a detailed roadmap of the key policies and measures necessary to decarbonize and achieve other environmental goals. As part of the deal, 30% of the funds will be dedicated to green and sustainable investments. While the details of the roadmap will be ironed out over the next two years, the deal has been called “Europe’s man on the moon moment” by the European Commission President, Ursula von der Leyen. It is expected the impact of the deal will be formidable: almost every global business operates in the EU, so all firms will have to develop technologies and practices consistent with the EGD, in addition to looking at their tax structures and supply chains.

The financial scope is also substantial. The EU is providing financial support and technical assistance to help regions and sectors most affected through their Just Transition Mechanism, which will mobilize at least 100 billion euros (\$121 billion) over the period 2021-2027. As part of the EGD, the EU is planning to impose a carbon adjustment measure (the CBAM) from 2023. It will also provide funding to the EU’s Covid-19 recovery, adding several billions of dollars in revenue. The EGD is ambitious in its scope and will have significant structural implications for the EU economy in the years ahead, but there are also opportunities for industries and companies to capitalize on being early movers in the transition.

Asia-Pacific—a growth in incentives

Eng Ping Yeo, EY Asia-Pacific Tax Leader

Asia is taking visible steps towards carbon neutrality with significant commitments made over the past few months by North Asian countries to achieve carbon neutrality or net-zero greenhouse gas emissions—Japan and South Korea by 2050, while China by 2060. We can expect follow-on announcements regarding policies

and measures on how this will be achieved, and interim goals.

It is likely that more tax incentives and other fiscal measures will be introduced to support adoption of green and carbon-neutral programs, with consideration to introducing a carbon pricing scheme or a carbon tax as well. South Korea for example, prior to making its pledge, had already launched its Green New Deal in July 2020 involving approximately \$62 billion of investments in green and digital technology. In 2019, New Zealand passed the Climate Change Response (Zero Carbon) Act to seal its commitment to decarbonize by 2050. Furthermore, New Zealand's new Climate Commission is set to shortly release the first Budget plan setting out necessary steps, for the short term, to achieve the Government's longer term goals, including a carbon neutral public service by 2025 with the aid of a \$200 million fund to encourage clean energy and electric vehicle use.

While Australia has not yet made a net-zero emissions target, they have set interim targets and have set up the Emissions Reduction Fund that has committed over A\$2.5 billion (US\$1.92 billion) to support removing greenhouse gas emissions. Also, all eight of the states/territories in Australia have made the pledge to

reach carbon neutrality by 2050. Most countries in Asia are already committed to reducing their carbon footprint, and among the South East Asian countries, Singapore has stepped forward to announce their intention to become net-zero emission in the second half of this century, while India aims to reduce its carbon footprint by up to 35% by 2030.

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