



A Real Mosaic of Solutions to Respond to Loss and Damage from Climate Change

Tax Reform

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Introduction

This publication is part of a [series of briefs](#) unpacking the pieces of a fit for purpose “mosaic of solutions” to respond to loss and damage from climate change. This series expands on our earlier work, which presented a [five-year vision for Loss and Damage under the United Nations Framework Convention on Climate Change \(UNFCCC\)](#) to look beyond the international climate regime at catalysing a wider mosaic of solutions.

In the [flagship paper](#) of the series, we unpack the pieces of the mosaic. In these thematic briefs, we dive deeper into existing solutions and how they can be strengthened. We also consider any reforms needed and explore emerging solutions.

This brief unpacks the relationship between loss and damage responses and the international tax system. It provides a succinct overview of the problems developing countries face as a result of current tax rules and explains why past tax reforms have been inefficient. This brief also presents lessons learned from the implementation of a carbon tax in France and attempts to implement digital services taxes across the world. Lastly, it unpacks what a fit for purpose [United Nations \(UN\) Tax Convention](#) (UN Tax Convention) should look like and its relevance to loss and damage responses.

What is the problem?

Taxation involves the imposition of compulsory levies by governments on individuals, businesses, and organisations to fund public services such as healthcare and education. It is a fundamental mechanism for addressing inequality by redistributing wealth, raising money for climate action and sustainable development, and disincentivising environmentally destructive activities. Taxation can provide the basis for reparations.¹

However, tax-related illicit financial flows —including tax evasion and avoidance— are costing countries around the world an estimated 492 billion USD² every year. Of this, 347.6 billion USD is lost to multinational corporations shifting profits offshore to underpay tax while 144.8 billion USD is lost to wealthy individuals hiding their wealth in tax havens.³

Developing countries, which have historically had little to no say on global tax rules, are disproportionately affected by tax evasion and avoidance.^{4 5 6 7} Data from 2023 suggest that lower income countries’ tax losses were 47 billion USD —equivalent to 49 percent of their public health budgets.⁸ Developed countries’ dominance in setting international tax rules has led to a system that deepens inequalities between rich and poor nations.⁹ The [Organisation for Economic Co-operation and Development \(OECD\)](#), which has led tax reform to date, is highly criticised for heavily favouring developed countries and multinational corporations and for often leaving developing countries with minimal benefits and reduced tax sovereignty.¹⁰

What are the existing solutions?

Despite the enormous scale of the problem, the most significant reform to the international tax system to date, the OECD and G20’s [Inclusive Framework on Base Erosion and Profit Shifting \(BEPS\) 2.0](#), has been widely criticised.^{11 12 13} Meanwhile, initiatives intended to strengthen tax institutions in developing countries, such as the [World Bank’s Global Tax Program \(GTP\)](#), have had a tendency to entrench regressive tax systems that impact low income households. Table 1 highlights why these reforms have failed.

Table 1: Existing solutions entrenching regressive tax systems.

CURRENT SOLUTIONS	HOW DOES IT WORK?	WHAT ARE THE ISSUES?
OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) 2.0	The OECD and G20’s BEPS 2.0 tax reform initiative involves over 145 countries. It has two pillars. <u>Pillar One</u> aims to address tax challenges related to the digital economy and establishes a 15 percent global minimum tax for large multinationals. <u>Pillar Two</u> aims to ensure profits are taxed where economic activities occur.	BEPS 2.0 has been severely criticised for its extreme complexity and a continued reliance on the much condemned “ <u>arm’s length principle</u> ”, disproportionately low benefits for developing countries, and erosion of tax sovereignty. ¹⁴ Criticism of Pillar Two includes that the 15 percent rate is far too low. ¹⁵ The US’s veto power makes the implementation of Pillar One highly unlikely. With the adoption of the “ <u>side-by-side</u> ” package ¹⁶ that effectively exempts US-headquartered multinationals from key BEPS 2.0 Pillar Two rules, the coherence of pillar has been further eroded.
World Bank Global Tax Program (GTP)	The World Bank’s GTP, launched in 2018, is a multi-donor initiative providing technical assistance, training, and policy advice to help low- and middle-income countries strengthen their tax institutions and increase domestic revenue mobilisation.	GTP has a limited reach in low-income countries, relying on analytical work over direct investment. Alongside broader World Bank policies, GTP also has a tendency to favor regressive tax systems such as VAT that can burden low income households. ¹⁷

National efforts to increase taxation on corporations and put in place progressive environmental or climate taxes have also faced setbacks. Table 2 highlights some key lessons learned.

Table 2: Lessons learned from past taxation efforts.

TAX	HOW DOES IT WORK?	WHAT WERE THE ISSUES?
Digital Services Taxes (DSTs)	DSTs are revenue-based taxes imposed by countries on large multinational technology companies (e.g. Google, Meta, and Amazon) for revenue generated from service users within their jurisdiction. DST are typically around 2-3 percent, but range from 1-7 percent. They target specific digital services like social media, search engines, and online marketplaces, aiming to ensure firms pay taxes where value is created (e.g. through sales and subscriptions), not just where corporations are headquartered. ¹⁸ DSTs have the potential to raise hundreds of millions or billions a year, funds that can support responses to loss and damage. ¹⁹	Developed and developing countries have faced the threat of retaliatory tariffs, particularly from the US, against countries imposing a digital services tax on big technology companies. ^{20,21}

TAX	HOW DOES IT WORK?	WHAT WERE THE ISSUES?
France Carbon Tax	France initiated a Contribution Climat-Énergie carbon tax in 2014 at €7 per tonne of CO2 equivalent (tCO2e), intended to rise to over €86 per tCO2e by 2022 that applies to fossil fuel consumption. ²² The tax was intended to encourage a shift from fossil fuels to cleaner alternatives, covering roughly 60 percent of greenhouse gas emissions through explicit carbon prices and fuel excise duties. ²³	Poor tax design, coupled with tax rebates for high-income households, led to a publicly unacceptable tax that resulted in widespread protests led by the <u>Gilets Jaunes</u> movement. ²⁴ As a result, the tax has remained frozen at €44.6 per tCO2e since 2018. ²⁵ However, recent research found that the tax has already had a significant impact on fuel prices, and if it were combined with support for households to undertake a just energy transition, the tax could be successful in its objective. ²⁶

What do we need to see?

There is an urgent need to crack down on tax havens and reduce tax dodging by multinational corporations globally to generate urgently needed revenue for sustainable development and climate action in every country.²⁷ In light of this challenge, negotiations are underway to establish a global tax convention under the UN.²⁸

The UN Tax Convention provides an important opportunity to reallocate international taxing rights, combat illicit financial flows and tax abuse, and put in place progressive global taxes on wealth and fossil fuels.²⁹ It can also ensure that all nations have an equal voice in shaping international tax rules³⁰ and provide the rules needed for countries to put in place progressive environmental and climate taxes at the national level.³¹

The UN Tax Convention has the potential to reclaim trillions of dollars every year. The inclusion of a global wealth tax within the tax convention, targeting the top 0.5 percent of high-net-worth individuals could raise approximately 2.1 trillion USD a year. While establishing an internationally applied “polluter pays” surtax on the global profits of polluting and environmentally damaging industries and an effective global minimum corporate tax could raise trillions more.³²

To achieve all of these goals, the UN Tax Convention must be established as a fair, inclusive, and transparent global tax system that embeds climate justice, human rights, and sustainable development at its core.³³ Table 3 highlights what a robust convention would look like and the implications for loss and damage response.

Table 3: Key expectations from civil society for UN Tax Convention articles and their relevance to loss and damage responses.³⁴

PROPOSED ARTICLE	WHAT SHOULD IT ACHIEVE?	HOW IS IT RELEVANT TO LOSS AND DAMAGE FINANCE AND SUPPORT?
<p>Fair Allocation of Taxing Rights</p>	<p>Ensure the fair allocation of taxing rights so that every jurisdiction (e.g.country, State, or municipality) where economic activity takes place has the right to tax the income or wealth generated.</p>	<p>Fair allocation of taxing rights is vital to ensure multinational corporations pay taxes where economic activity occurs, preventing billions in annual tax revenue losses.³⁵ This will strengthen revenue collection and resource mobilisation for sustainable development and climate action in both developing and developed countries.</p>
<p>Equitable Taxation of Multinational Enterprises</p>	<p>Initiate a transparent process to develop a new international tax system to ensure fair, equitable, progressive, transparent, and effective taxation of multinational corporations. One that:</p> <ol style="list-style-type: none"> 1. Prevents illicit financial flows stemming from corporate tax avoidance and evasion; 2. Ensures multinational enterprises are taxed as a single unified business, with taxes being paid in the States where economic activity takes place; 3. Reduces inequality within and among States and prevents harmful tax practices; 4. Provides an international system for taxing multinational enterprises on the basis of their global consolidated profits, with taxing rights being allocated fairly between States; and 5. Includes a mechanism to implement an effective global minimum corporate tax rate at a level high enough to prevent an international race to the bottom. 	<p>An effective global minimum corporate tax will generate revenues for developing countries to undertake sustainable development and loss and damage responses.</p>

PROPOSED ARTICLE	WHAT SHOULD IT ACHIEVE?	HOW IS IT RELEVANT TO LOSS AND DAMAGE FINANCE AND SUPPORT?
Effective Taxation of High-Net Worth Individuals	<p>Strengthen international cooperation to prevent, detect, and address tax avoidance and tax evasion by high-net-worth individuals, including by:</p> <ol style="list-style-type: none"> 1. Establishing processes to identify high-net-worth individuals within national jurisdictions; 2. Putting in place a system to tax high-net-worth individuals on a progressive and equitable basis, including through a global minimum tax applicable to the world's wealthiest individuals; 3. Ensuring that revenues raised through globally coordinated taxation of high-net-worth individuals contribute directly to sustainable development, address ecological debt and the disproportionately large ecological footprints of high-net-worth individuals; 4. Providing mechanisms to ensure compliance. 5. Ensuring States share tax revenues from high-net-worth individuals equally and that revenues help to address historical injustices related to the accumulation of wealth across borders. For example, when wealth has been generated by exploiting resources in developing countries but the high-net-worth individual resides in a developed country. 	<p>A global wealth tax targeting the top 0.5 percent of high-net-worth individuals could raise approximately 2.1 trillion USD annually for sustainable development, climate action and responding to loss and damage.³⁶</p> <p>The taxation of high-net-worth individuals would also reduce and disincentivise their carbon intensive and ecologically destructive lifestyles and encourage investment in activities that prevent loss and damage.³⁷</p>
Global Asset Register	<p>Establish a global asset register. —a comprehensive global list of all wealth and assets—to help ensure effective, fair, progressive, and efficient tax systems and stop tax-related illicit financial flows.</p> <p>Increase public knowledge of who owns an asset or business, who holds wealth, and where there are inequalities.</p>	<p>Knowing which business and individuals to tax are key to raising funds for sustainable development, climate action, and responding to loss and damage.</p>
Public Country by Country Reporting	<p>Ensure that multinational enterprises submit and publish country-by-country reports on their revenues, profit, tax paid, employees, and assets, amongst other things.</p>	<p>Understanding where multinational enterprises do business and how much profit they make is key to knowing who to tax.</p>

PROPOSED ARTICLE	WHAT SHOULD IT ACHIEVE?	HOW IS IT RELEVANT TO LOSS AND DAMAGE FINANCE AND SUPPORT?
Automatic Information Exchange	Establish a mechanism for automatic information exchange between countries to share the banking information of foreign citizens, companies, trusts, and similar legal structures.	Understanding where high-net-worth individuals, companies, and trusts are keeping their money and how much they have, is critical for generating funds through taxation.
Beneficial Ownership Transparency	Establish a national beneficial ownership register in each country—a database recording who owns, controls or benefits from companies, trusts, and legal arrangements.	Identifying the real person who owns or controls a company will prevent them from avoiding taxes. Beneficial ownership information is also important for identifying who is benefiting from carbon intensive and ecologically destructive business activities (e.g. fossil fuel extraction), crucial evidence that can support criminal proceedings, litigation, and sanctions. This can help to prevent these activities and ensure remedy and reparation for loss and damage. ³⁸
Harmful Tax Practices	Ensure that countries carry out assessments to identify potentially harmful tax practices.	The prevention of harmful tax practices will stop national economies and livelihoods being impacted through the shifting of tax burdens from corporations onto individuals and governments. This will help to enhance resilience to climate change by increasing countries' fiscal space and the incomes and savings of individuals.
Sustainable Development	<p>Ensure that international tax cooperation contributes to the achievement of sustainable development, including by:</p> <ol style="list-style-type: none"> 1. Establishing international tax-based mechanisms to generate revenue and incentivise sustainable development; 2. Enabling countries to use their tax systems to promote sustainable development and ensuring they are not constrained by another country's tax system; and 3. Ensuring that sustainable development commitments are upheld, including the commitment that developed countries will provide finance to developing countries. 	This article is critical to guarantee that funds raised through taxation contributes to sustainable development and climate action, including responding to loss and damage. This is critical, as there is no way to guarantee that governments will invest in sustainable development and climate action at a time when priorities such as militarisation and investing in Artificial Intelligence may take precedence. It can also play an important role in removing harmful tax incentives for un-sustainable, polluting, and extractive activities such as fossil fuel extraction.

PROPOSED ARTICLE	WHAT SHOULD IT ACHIEVE?	HOW IS IT RELEVANT TO LOSS AND DAMAGE FINANCE AND SUPPORT?
Tax and Environmental Challenges	<p>Promote sustainability through progressive environmental taxation, including by:</p> <ol style="list-style-type: none"> 1. Ensuring that national and international tax systems and mechanisms operate in line with the principles of <u>Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC)</u>, progressivity, precaution, prevention, historical responsibility, and the polluter pays principle; 2. Guaranteeing a focus on industries and high-net worth individuals with excessive ecological footprints; and 3. Establishing a <u>polluter pays mechanism</u>³⁹ no later than 2028, that introduces an internationally applied surtax⁴⁰ on the global profits of polluting and environmentally damaging industries. 	<p>The polluter pays mechanism generates revenues for sustainable development and climate action, including responding to loss and damage. It could be used to capitalise multilateral funds including the <u>Fund for Responding to Loss and Damage</u> as well as mobilise resources to other critical pieces of the mosaic such as the <u>Santiago Network</u>.</p> <p>The protocol would also make important links between taxation and the key principles of international environmental law that are central to Loss and Damage discussions, including CBDR-RC, the polluter pays principle, and the precautionary principle.</p>
Tax and Gender Equality	<p>Establish a standard to assess the gender-responsiveness of the UN Tax Convention and its protocols, as a contribution towards the fulfillment of existing UN obligations, commitments, and targets (e.g. <u>SDG 5 Gender Equality</u>). This would also help to ensure the full realisation of the rights of women and girls and gender minorities, while addressing their intersectional inequalities.</p>	<p>Loss and damage disproportionately affects women and girls⁴¹, further undermining the achievement of gender equality. Therefore, this protocol could play an important role in helping to regain lost progress on gender equality and prevent further harms.</p>
Extractive Industries	<p>Ensure the effective taxation of extractive industries by:</p> <ol style="list-style-type: none"> 1. Guaranteeing that countries undertake effective taxation of extractive industries⁴² in locations where resources are extracted and combat sector-specific illicit financial flows and harmful tax practices (e.g. tax incentives); 2. Agreeing specific methods to ensure correct valuation of natural resources as well as raw or under-processed materials. This would include the long-term cost of the environmental and social impacts of extraction, such as environmental degradation, and the displacement of local communities; and 3. Ensure fair and effective taxation of the extractive sector and reinforce efforts to promote sustainable development, including by ensuring economic diversification and by promoting a just transition. 	<p>This article would provide important guidance to countries wishing to put in place taxes or levies on extractive activities (e.g. a <u>Climate Damages Tax</u>) to raise revenues for sustainable development and responses to loss and damage.</p> <p>It would also enable countries to end tax incentives that perpetuate polluting and environmentally damaging activities, thereby helping to prevent loss and damage and reduce vulnerability resulting from the cascading impacts of extraction (e.g. health impacts and environmental degradation).</p>

PROPOSED ARTICLE	WHAT SHOULD IT ACHIEVE?	HOW IS IT RELEVANT TO LOSS AND DAMAGE FINANCE AND SUPPORT?
<p>Relations With other Agreements, Instruments and Domestic Law</p>	<p>Address relations between the UN Tax Convention and other treaties, including by:</p> <ol style="list-style-type: none"> 1. Ensuring that countries review all of the tax and tax-related treaties they have already entered into to check that they are compatible with the UN Tax Convention; and 2. Guaranteeing that countries renegotiate or terminate any treaties or tax-related treaties not compatible with the convention. 	<p>This article would ensure that existing tax treaties do not stop countries from generating revenues for sustainable development and loss and damage responses and/or perpetuate harmful tax practices.</p>
<p>Conference of the Parties</p>	<p>Establish a Conference of the Parties (COP) to the UN Tax Convention —a regular meeting of the countries that have signed the agreement. The protocol should also encourage civil society to contribute to the work of the Convention and guarantee their participation in the process.</p>	<p>A COP is needed to advance work under the Convention relevant to loss and damage responses, and to ensure transparency and accountability. Meaningful participation of civil society will help to ensure responsive tax governance and that the needs and priorities of communities affected by loss and damage drive decision making.</p>

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