

Conceptual Diagram of Draft for a Climate Change Tax

Note: see **Study of Alternate Proposals** (pp 25-26) of this report for other possible approaches.

The current state of climate change measures, and features of a tax in this situation

- It will not be easy to achieve the 6% reduction committed in the Kyoto Protocol. Moreover, after this is achieved, major reductions in emissions will be required over the long term.
- Climate Change Tax that are able to economically and efficiently give people and enterprises incentives to combat climate change, including ordinary households and automobile use, rather than only using existing policies and programs, will be effective at promoting these efforts.
- Climate Change Tax are expected to function as follows:
 - (1) The incentive effect of the above-mentioned tax will reduce CO₂ emissions
 - (2) The revenues obtained through these taxes, which can be used on behalf of the Japanese people, could further reduce CO₂ if they are used to promote ACC measures
- If the 2004 assessment and review of the Programme determines they are necessary, Climate Change Tax should be adopted in 2005, or soon thereafter

Conceptual overview of requirements for tax

Thinking on reducing the tax burden

Fossil fuel tax	Source tax	Upstream tax
Items taxed (ex)	Coal, crude oil, imported petroleum products, natural gas (LNG)	<ul style="list-style-type: none"> • Coal, petroleum products (e.g. gasoline, heavy oil, diesel), city gas • Fossil fuel for power generation (e.g. coal, petroleum, LNG)
Tax standard (ex)	Volume traded in bonded area, or pumped/mined from source	<ul style="list-style-type: none"> • Coal: same as source tax • Petroleum products/city gas: amount produced by refinery • Amount of fossil fuels consumed for power generation
Taxpayers (ex)	Entity purchasing from bonded area, or pumping/mining at source	<ul style="list-style-type: none"> • Coal: same as source tax • Petroleum products/city gas: refiner • Consumer of fossil fuels for power generation
Method of setting tax	Set in accordance with the average carbon content of each type of fossil fuel subject to the tax standard	

- | | |
|---------------------------|---|
| Method of reducing burden | <ul style="list-style-type: none"> • Reductions/exemptions from tax, rebates • Reductions/exemptions for other taxes (e.g. special Climate Change Tax) • Put back into the economy through spending (e.g. subsidies) |
| Thinking on eligibility | <ol style="list-style-type: none"> (1) Cases in which greenhouse gases are not emitted (2) Cases in which the impact of the tax would be extremely large (3) Cases that should be promoted from the perspective of combating climate change (4) Cases in which the Climate Change Tax were adopted as a policy mix with other policy instruments, under which the entity has shown results, or is expected to show results (5) Cases in which the assessment and review of the Programme (2004 & 2007) reveal that results have been shown |

- | | |
|----------|---|
| Tax rate | <ul style="list-style-type: none"> • The tax rate will be decided based on the 2004 assessment and review of the Programme • It would be best to set a relatively low rate, then adopt with other measures, including returning the tax revenues as support measures for climate change |
|----------|---|

Thinking on tax revenues

- Study using revenues from Climate Change Tax to subsidize ACC measures, or reduce other taxes
- Study the following concrete methods/mechanisms:
 - Use in special account as targeted tax or earmarked funds
 - Add to the general account as general funds, but use the funds to subsidize measures to combat climate change
- Points to consider regarding use of tax revenues:
 - They must be utilized in a transparent way, in order to ensure the consent of the public
 - Criteria for support should be efficient and assured reduction
 - Such measures should at the same time help to vitalize the Japanese economy, and bolster Japan's international competitiveness.
- Some of the tax revenues must be given to local governments, in order to make sure they have enough money to combat climate change

Relationship with existing energy-related taxes

- Double-taxation:** Must be thoroughly discussed, in order to gain the understanding of the taxpayers.
- Overlapping uses:** If revenues from ACC tax are used for climate change measures that are already being funded from existing tax revenues, work out their respective roles, and coordinate as necessary