

## **Changing The Tax System For A Better Planet**

What we invest in grows and what we tax diminishes. And, where the environment is concerned, remembering this could help to save the planet.

Many industries ship resources and goods all over the world, with a product's supply chain often covering multiple continents. A product can be produced wherever it is cheapest, then shipped around the world. This became possible back during the industrial revolution, and partly as a result, we use 12 times more fossil fuels today compared to last century.

While it seems that the world is shifting to a new sustainability game, it is still playing with the old rules – including the old tax system. Currently, we tax labor heavily, but we barely tax resources and pollution. McKinsey has calculated that the value of resource subsidies globally is over \$1 trillion a year. However, resources and pollution come with a price, and the impact on the climate crisis due to CO2 emissions is extensive both societally, environmentally, and economically.

This means that non-sustainable businesses using large amounts of virgin resources and as such creating large amounts of CO2 and other air pollution can produce products cheaply, paying no price for the societal, environmental and future economic cost their emissions will have.

On the other hand, businesses trying to produce in a way that uses sustainable resources and limits pollution do not see any gain as far as tax is concerned. Applying a tax system that prices finite resources and pollution could improve the average sustainable business case by around 40%.

Therefore, taxing resources, CO2 and other pollution in relation to the hidden environmental and social costs could give sustainable businesses a fair chance at achieving the UN's Sustainable Development Goals (SDGs).

Externalities are a cost that affects a party that did not choose to incur that cost—such as the price society pays from air pollution because of a factory burning fossil fuels. Including externalities in accounting could have a positive impact on both the world and sustainable business.

Removing subsidies, and pricing current externalities could accelerate the growth of sustainable business solutions. Some long-term orientated businesses, committed to the SDGs, are already pressing for carbon pricing at global conventions, initiatives, and policy negotiations.

The global tax system could also help by rewarding positive social and economic behavior, and penalizing negative behavior. That applies to taxes relating to resources and pollution, as well as corporate income taxes. The shift to be made implies aligning the tax system according to what is needed in order to achieve the SDGs.

For business, there is an urgent need to begin with the end in mind. Businesses and investors can provide moral leadership by actively engaging in carbon disclosure projects, and using a price on carbon, pollution, and resources in their own strategic thinking, budgeting and prioritizing. The outcome could strengthen the future of the business, as well as the world as a whole.

It's tempting to hold on to old rules, but the price here is too high. We need to tax what we want to lose and support what we want to win. We only need to act, collectively.

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