



Tax Discounts for Legality/Sustainability Certificates

Dirk Heine

Economist, Global Macro and Debt Unit
Macroeconomics, Trade and Investment Global Practice

October 24, 2018

Uncertain impact of standard forestry taxes

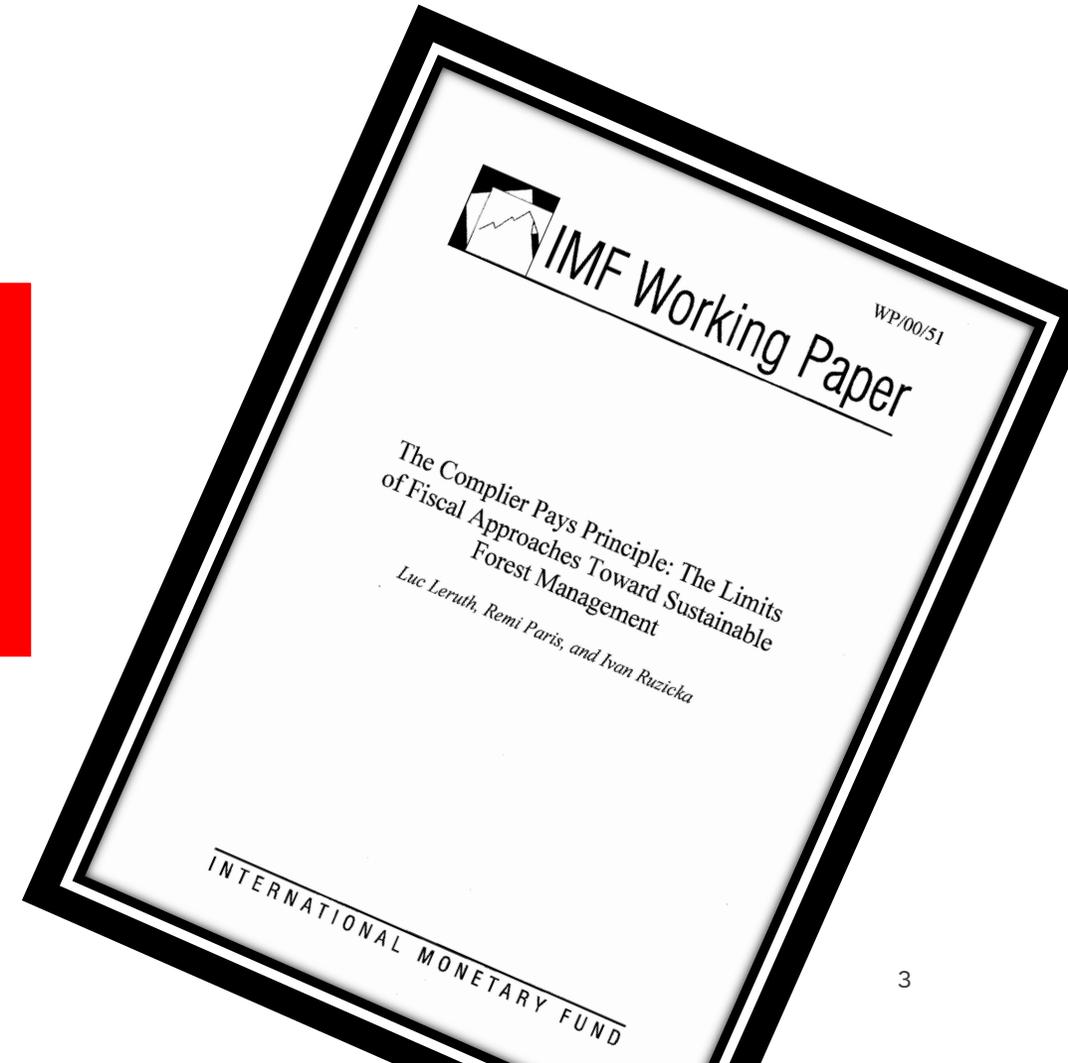


The need to vary forestry taxes according to production method

An optimal forestry tax rate should vary depending on *how* a forest product has been produced.

Unlike current practice to tax the same excise or percentage rate per tonne/area/price of forestry products

But can Finance Ministries access this information?



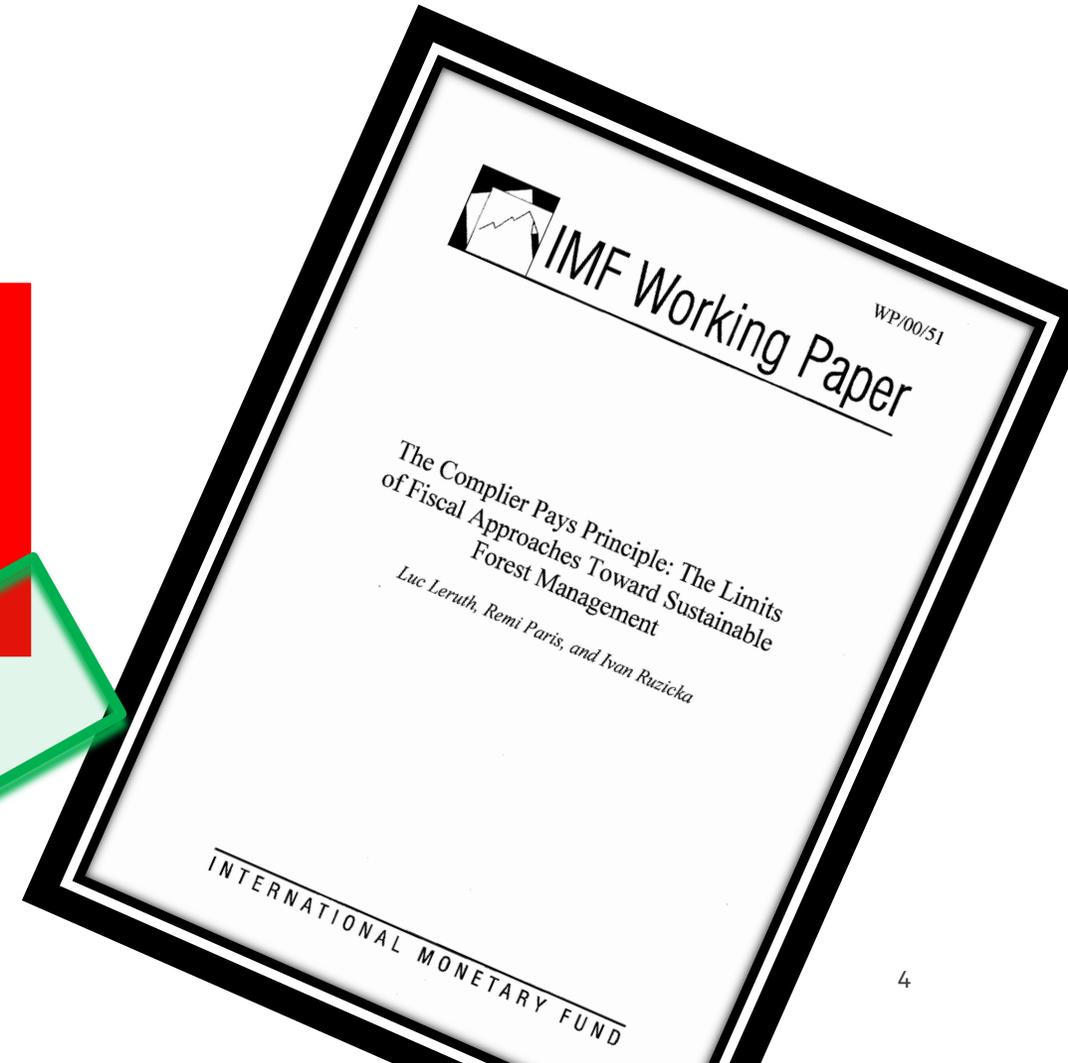
The need to vary forestry taxes according to production method

An optimal forestry tax rate should vary depending on *how* a forest product has been produced.

Unlike current practice to tax the same excise or percentage rate per tonne/area/price of forestry products

But can Finance Ministries access this information?

Yes, under certain conditions!

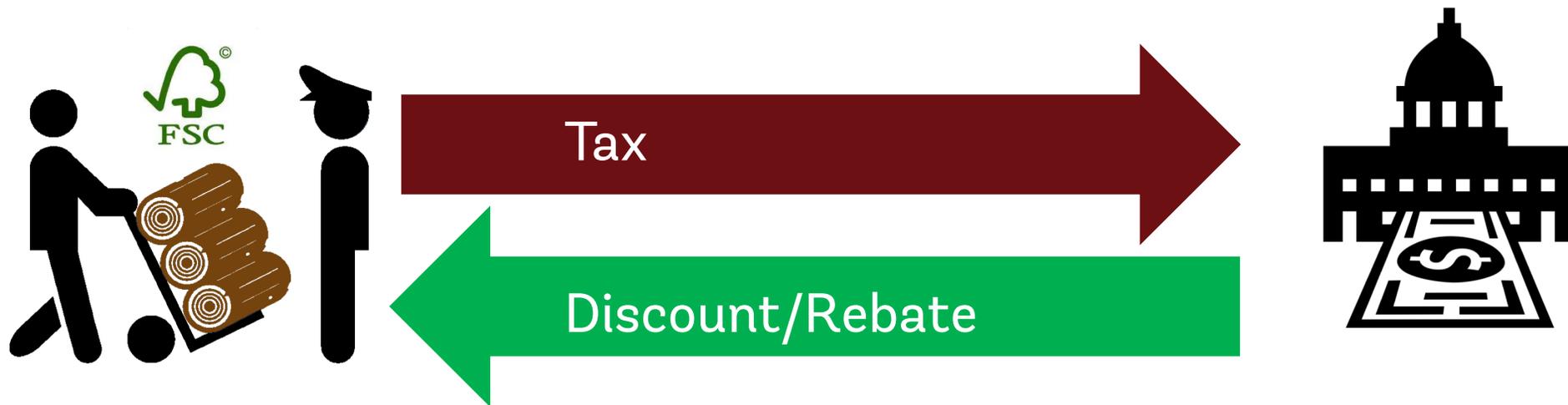


The spread of forest certification provides information on production methods

Initially for timber, but increasingly also for other deforestation-related commodities



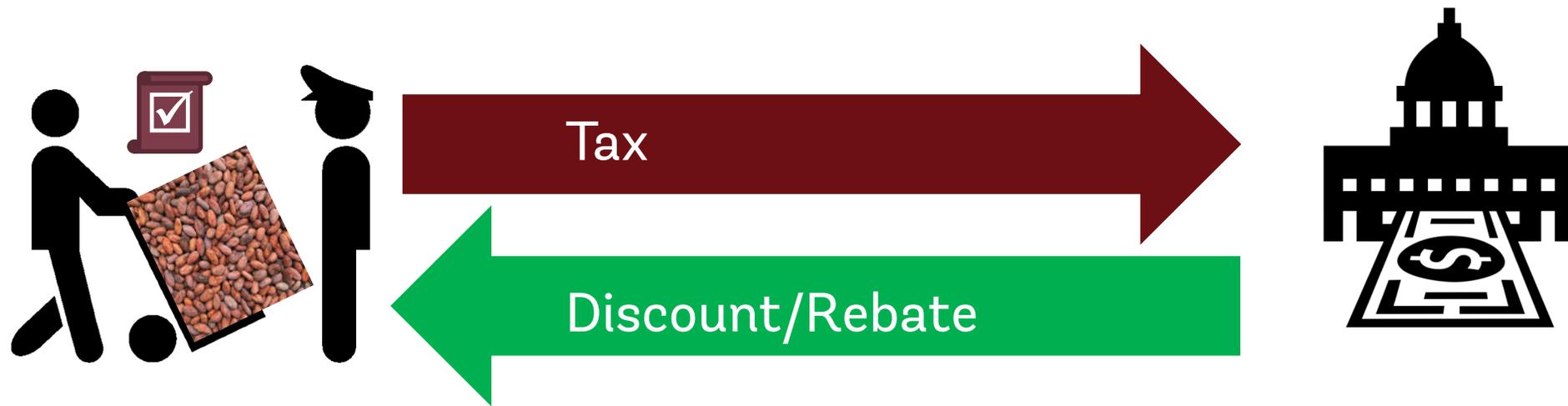
Using certificates for varying taxes on deforestation-related commodity according to production methods



Default tax based on default value for the assumed illegality / non-sustainability (external cost) of the wood production

Tax discount if an accredited agency certifies that the timber is more sustainable than the default value

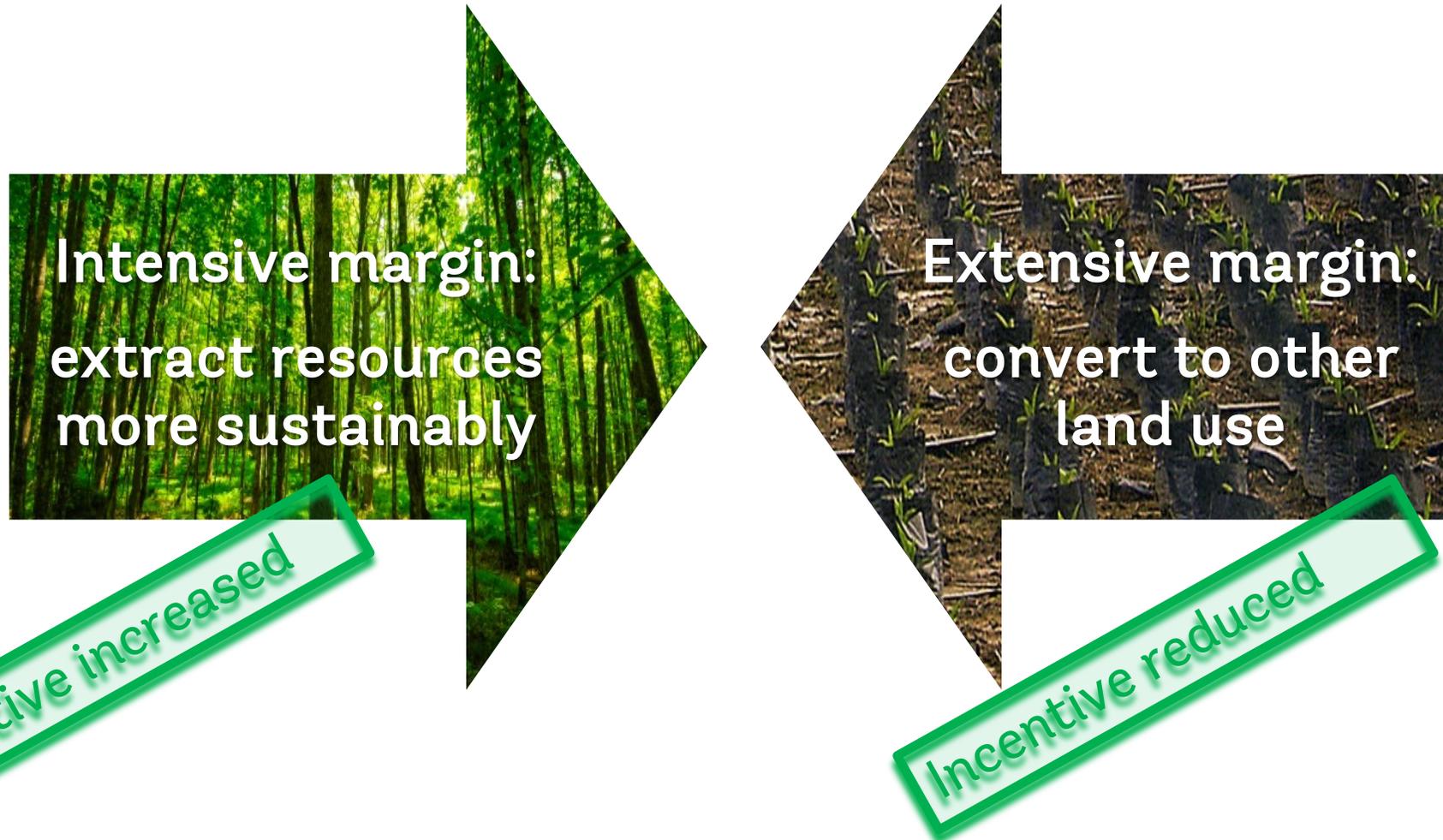
Using certificates for varying taxes on deforestation-related commodity according to production methods



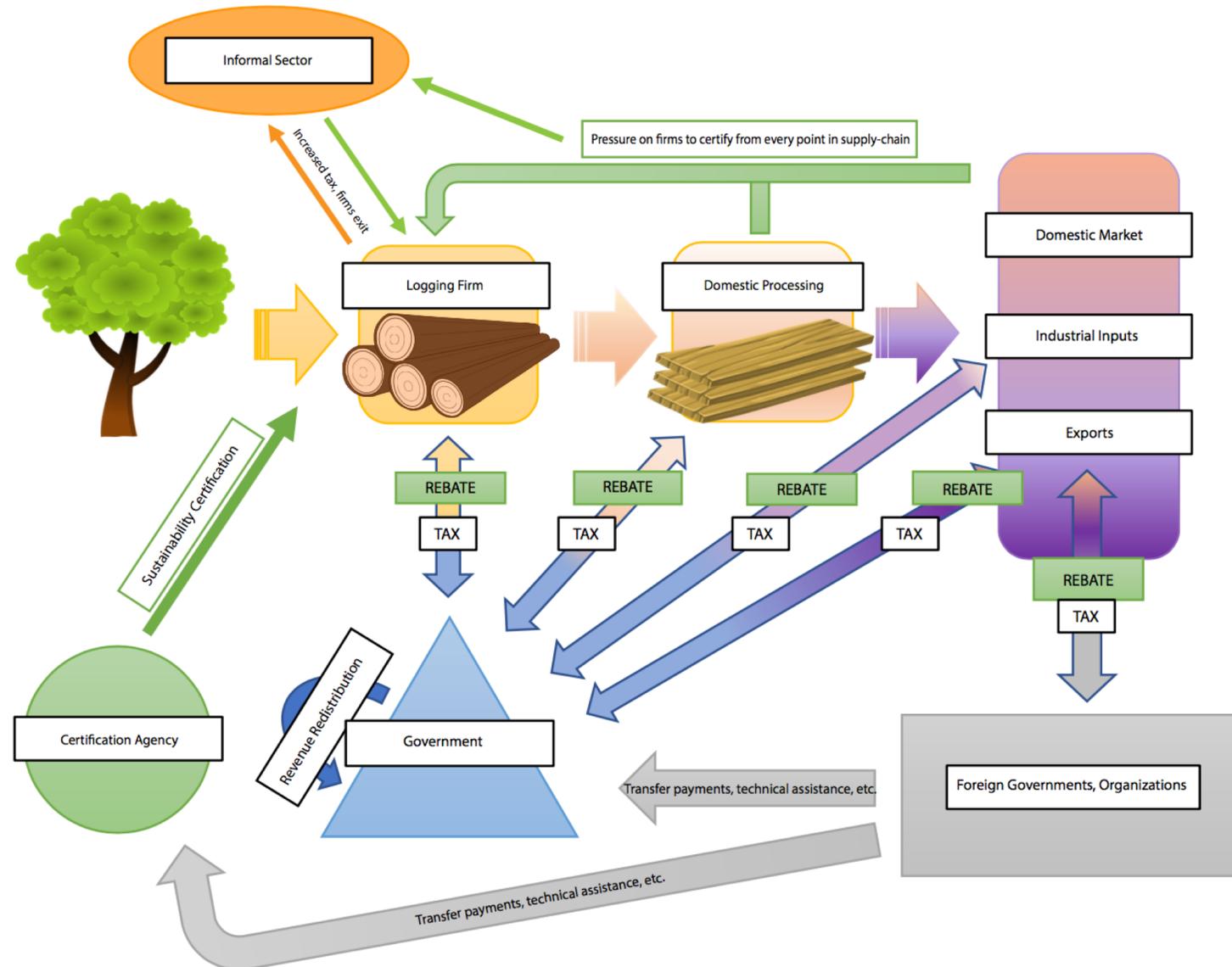
Default tax based on default value for the assumed illegality / non-sustainability (external cost) of the wood production

Tax discount if an accredited agency certifies that the timber is more sustainable than the default value

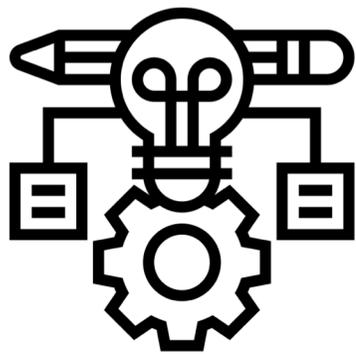
This combination of taxes and certificates improves the incentives of forestry taxes



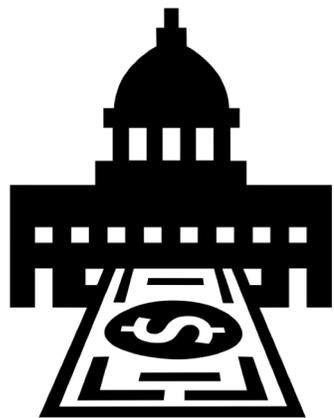
Using certificates to vary taxes in sectors that consume deforestation-related commodities



Varying corporate income taxes in this manner is not unprecedented



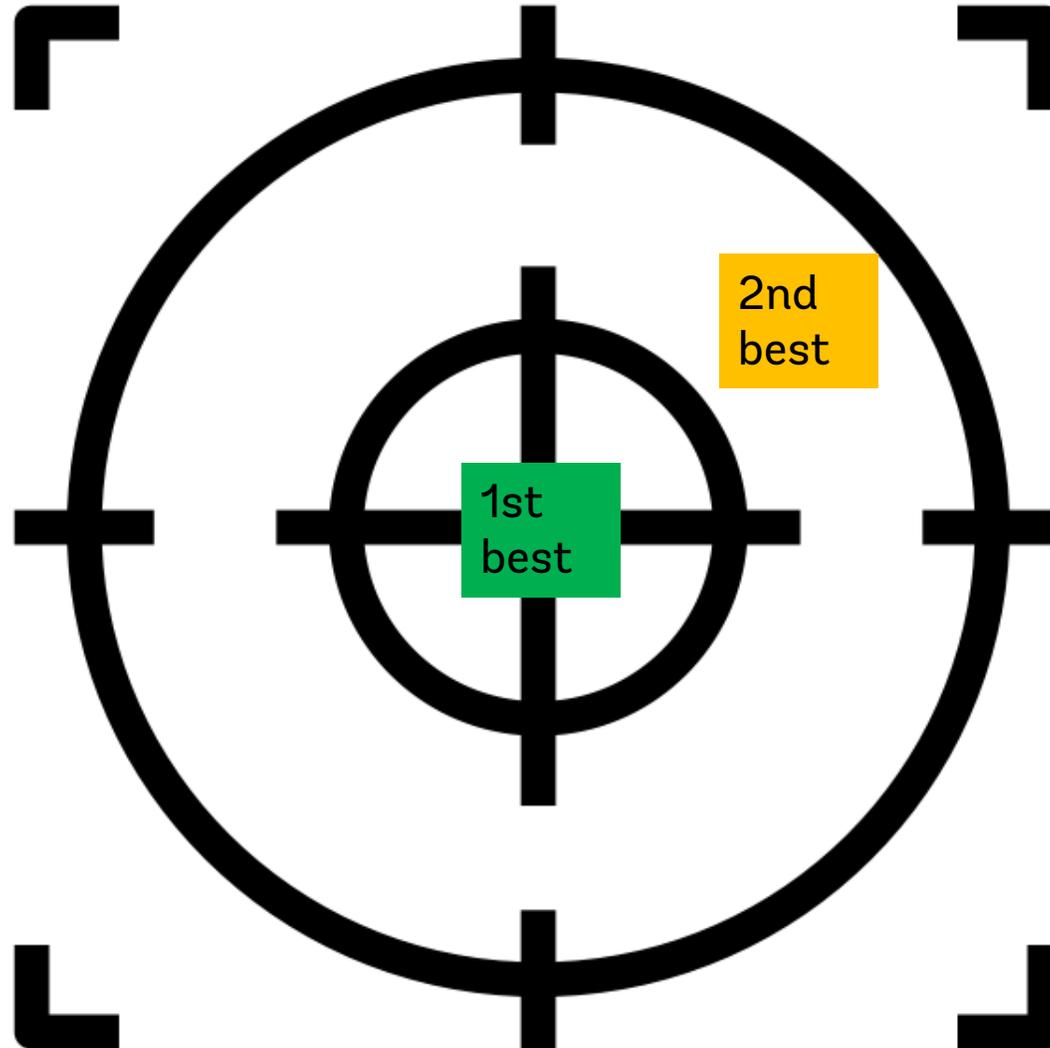
When a firm invests in innovation, there is an externality to society as some new ideas spread to other firms.



The Finance Ministry accounts for this externality by granting the innovating firm an advantage in its corporate income taxation.



Getting as close as possible to the externality



Using certificates to modify public procurement



Improvements for certificate markets themselves

Using legality/sustainability for fiscal policy reduces long-standing problems of certificates with:

- ✓ Dynamic incentives
- ✓ Threshold costs for smallholders
- ✓ Competition among certificates
- ✓ Freeriding
- ✓ Fraud control



Conclusion

- To reward legality and sustainability, the rates of forest-related taxes need to vary according to production methods.
- Third-party certificates can provide the data enabling this variation.
- Different designs are needed depending on the stage of supply chains affected by informality.
 - It can be possible to impose an environmental fiscal incidence on the informal sector through the use of rebate schemes in the taxation of the formal sector.
- The fiscal use of certificates can improve the certification market itself.