

# Carbon Tax

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Emissions of carbon dioxide and other greenhouse gases are changing the climate. A carbon tax **puts a price on those emissions**, encouraging people, businesses, and governments to produce less of them. Deterring the burning of fossil fuels is crucial to reducing the accumulation of heat-trapping greenhouse gases in the earth's atmosphere.

## More About Carbon Tax

- Carbon taxes, levied on coal, oil products, and natural gas in **proportion to their carbon content**, can be collected from fuel suppliers.
- They in turn will **pass on the tax in the form of higher prices** for electricity, gasoline, heating oil, and so on, as well as for the products and services that depend on them.
- This provides **incentives for producers and consumers alike to reduce energy use and shift to lower-carbon fuels or renewable energy** sources through investment or behavior.
- They can also **raise significant revenue for governments**, revenue that can be used to counteract economic harm caused by higher fuel prices.
- Carbon taxes are **generally straightforward to administer** because they can be piggybacked on existing fuel taxes, which most countries already collect with ease.
- It is also possible to integrate carbon taxes into the royalties paid by coal mining and oil and gas drilling industries.
- Carbon taxes can play a key role in achieving countries' **pledges under the 2015 Paris Agreement**, which lays the foundation for international action to combat global warming.

## Carbon Tax in India

- The decision of the current government to **increase fuel taxes as well as quadruple the coal cess** is sometimes interpreted as a variant of a carbon tax.
- Only a third of the sharp decline in global oil prices after 2014 was passed on to consumers.
- However, steep price hike due to carbon tax may make such a tax a **political issue**, especially in a developing country like India, where on the one hand politically **influential groups** such as the urban middle class or rich farmers are the **biggest consumers of energy**, and on the other, **people emerging out of poverty need access to cheap electricity and fuels**.
- The government in India, until recently, has not put in place a carbon tax or cap in the trade system. However, **leading Indian companies have set up their own carbon pricing mechanisms** following a three-phase process:

. In the foundational phase, a company assesses how much carbon it is emitting through greenhouse gas inventories.

. In the next phase, the company sets its green vision and identifies an ideal **carbon pricing strategy** to achieve it. Several pricing approaches are possible including **shadow prices, taxes or fees, cap-and-trade and implicit carbon pricing**.

. Finally, in the roll out phase, the company operationalizes its scheme and sets in place a system to track its effectiveness.

- 40 large Indian companies have priced or are planning to price carbon. Combined, their revenue exceeds \$7 trillion.
- The Indian government's budget for 2020-2021 includes **preliminary plans for some form of environmental taxation**.