

УДК 347.73

DOI <https://doi.org/10.31392/NPU-nc.series18.2023.39.04>

Dubko A. S.

TAXATION IN THE FIELD OF GREEN FINANCE AS AN INSTRUMENT FOR ENVIRONMENTAL PROTECTION

The article refers to the issue of the possibility of using taxation as an instrument for achieving sustainable development goals, namely – in the field of environmental protection. The author of this article proposes her view on tax levers as not only an instrument for stimulating economic growth but also an instrument for changing polluters' behavior. It is also noted, that for now already several EU countries use tax policy and taxation instruments to achieve the goals of sustainability and environmental policy. The author proposes the following promising areas for using tax levers for the purposes of environmental protection in Ukraine: establishment of a special (preferential) tax regime for green bonds, reforming "green" taxes (environmental and carbon taxes), and developing the ETS (emissions trading system). All the identified areas are analyzed from the taxation point of view, in particular – in the context of the barriers and perspectives for further development. As stipulated in the article, the development of the green bonds market in Ukraine needs incentivizing since one of the significant barriers to its proper development lies precisely in the field of taxation. Therefore, given the need to stimulate the use of this financial instrument, it would be promising to use such a stimulating lever of tax policy as an exemption from personal income tax on income in the form of interest accrued on green bonds. Regarding the issue of "green" taxes in Ukraine – the author of the article highlights that such taxes do not fulfill their compensatory and stimulating functions, whilst the amount of income from environmental taxation remains insignificant and insufficient to finance the necessary environmental protection measures. Therefore, the author proposes to reform the environmental taxation in Ukraine by improving mechanisms for spending funds from such taxes payments and financing environmental protection measures. Moreover, attention in the article is paid to the need for the establishment of separate green funds, as well as the development of the emission trading system in Ukraine.

Key words: green finance, taxation, environmental protection, tax levers, sustainable development, environmental taxation, green bonds, green funds, emission trading system.

It is commonly known that all social relations and legal relations is an undoubtedly dynamic phenomenon, which is constantly developing in the context of many factors, such as transformative changes in the countries' economic systems, the political situation, and the influence of European rule-making. One more such transformative factor is also the environmental situation, being a starting point for subsequent changes in state policies, the structure of separate economic sectors, and, as a result, the regulatory field. Talking about Ukraine in particular, it must be noted that by signing the Association Agreement with the EU, Ukraine confirmed the intention to join efforts to develop and strengthen cooperation in various areas, including energy and environmental protection, including investments in environmentally friendly goods, services, and technologies [1].

Of course, substantial amounts of money sources should be mobilized to achieve nationally determined contributions to climate mitigation through the gradual reduction of greenhouse gas emissions and an increase in the share of renewable energy sources. All the reforming that has some effect on the economic structure, its sectors' conjuncture, and manufacturing development, simply cannot go on without reformatting some budget and tax relations. Thus, it is fair to note, that development needs finance, and sustainable development as a strategic goal, as well as transition to it, demands a lot of financial sources for investments, which shall provide environmental benefits during the process of solving the systematic environmental crisis [2, p. 31]. Moreover, the Paris Agreement in Article 2 stipulates, that the regulation of the movement of financial resources within the financial system of a country needs to be built in such a way as to ensure not only the performance of the economic and social functions of the state but also the protection of the environment and the mitigation of climatically negative consequences of economic activity by ensuring the consistency of financial flows with the direction of low-carbon and resistant to climate change development [3]. Therefore,

according to this thesis, the relevant financial flows shall be directed at investing in projects and programs aimed at reducing GHG emissions, lending of such projects and programs, and implementing instruments such as green bonds and green funds. And here we are talking precisely about such category as green finance, which we propose to consider as financing in the form of investment and/or lending of technologies, practices, projects, and other objects, the purpose of which is to ensure the priorities of sustainable development in the context of environmental protection [4, p. 116].

Talking about taxation, tax policy, and their influence on the development processes, it must be noted, that they are and will always remain to be an instrument for reaching a balance between the implementation of fiscal consolidation tasks and the creation of conditions for economic progress. But now we also talk about taxation and tax policy as instruments for implementation of the sustainable development goals. To ensure the requirements of environmental security it is rational and necessary to use the tools of tax policy. As we know, state regulation can be ensured both by administrative (power-coercive) methods and economic methods, among which the levers of tax policy, such as tax benefits, tax credits for certain types of business activities, "tax holidays" and reductions in tax rates, play a crucial role. Thus, in our opinion, taxation shall be used by the public authorities as an instrument of green finance. Since the last one, as we identified earlier, is basically a targeted flow of funds, taxation can be used as a tool for targeting such flows of funds to achieve sustainable development goals in the context of environmental protection.

For now, several EU Member States use tax policy to achieve environmental policy and sustainability goals. Examples can be taxes designed to alter behavior such as carbon taxes or a plastic bag tax, or tax incentives for companies to behave in an environmentally responsible manner, a common example across the EU is enhanced depreciation allowances for companies that invest in energy-efficient equipment [5, p. 4]. As for Ukraine, we identify the following promising areas for using tax levers for environmental purposes: establishment of a special (preferential) tax regime for green bonds, reforming "green" taxes (environmental and carbon taxes), and developing the ETS (emissions trading system).

According to the provisions of the Law of Ukraine "On Capital Markets and Organized Commodity Markets" (Article 5), green bonds are bonds, the prospectus (decision on the issue, and for state bonds of Ukraine – placement conditions) of which provide for the use of the funds raised exclusively for financing an environmental project or a separate stage of it [6]. The basis for the allocation of this type of bonds is the classification of bonds according to the criterion of the purpose of using the funds involved. Accordingly, the purpose of using the funds raised from the issue of green bonds is exclusively to finance "green" projects. The emission of green bonds can be carried out by a person who implements or finances an environmental project. As for the entities defined by the Law as potential implementers of environmental projects, their closed list consists of the following capital market participants: legal entities under private law, the state of Ukraine in the form of authorized bodies, as well as the Council of Ministers of the ARC or a representative body of local self-government. According to Art. 3 of the Law, environmental projects can be financed by three groups of subjects – international financial organizations, private legal entities, and specialized financial institutions established by the Cabinet of Ministers of Ukraine or another specially authorized body [6].

As for the taxation of green bonds in Ukraine, according to the provisions of the Tax Code of Ukraine, transactions with securities, other than state securities, are taxed. As it is stipulated in paragraph 164.2.9 clause 164.2 of Art. 164 of the Tax Code of Ukraine the taxable income of the individual income of taxpayers includes investment income obtained as a result of transactions with securities. The earnings from transactions with securities mean the number of funds or the value of property received (accrued) by the taxpayer from the sale, exchange, redemption by the issuer, repayment, or other methods of alienation of securities, as well as the value of any tangible or intangible assets that transferred to the taxpayer in connection with such transactions [7].

Here it must be mentioned, that the development of the green bonds market in Ukraine needs incentivizing since one of the significant barriers to its proper development lies precisely in the field of taxation. Therefore, given the need to stimulate the use of this new financial instrument, it would be promising to use such a stimulating lever of tax policy as an exemption from personal income tax

on income in the form of interest accrued on green bonds. By analogy, an example of domestic state loan bonds can be given: the total monthly (annual) taxable income of a taxpayer does not include income received in the form of interest accrued on domestic state loan bonds issued by the Ministry of Finance of Ukraine, and investment profit from operations with these securities, i.e. not subject to personal income tax [7].

As for environmental and carbon taxes (the last one is a component of environmental tax), in general, they were supposed to become a tool for influencing the activities of business entities to preserve the environment, minimize harmful effects, and encourage business entities to reduce environmental pollution. But it is not quite so: today, the environmental tax does not fulfill its compensatory and stimulating functions, and the business community perceives the increase in taxes as an additional fiscal burden. At the same time, the amount of income from environmental taxation remains insignificant and insufficient to finance the necessary environmental protection measures. Moreover, the constant change in the proportions of the allocation of funds from the payment of the environmental tax and carbon tax between state and local budgets and between special and general budget funds makes it impossible to form a consistent policy for environmental protection activities.

Thus, it would be rational to reform the environmental taxation in Ukraine by improving mechanisms for spending funds from environmental tax payments and financing environmental protection measures. The main idea here would be to partially change the flow of funds accumulated in the form of environmental tax (including carbon tax) payments to the direction of the special fund of the budget.

In addition, it is believed that it would also be rational to establish a few green funds in Ukraine as separate from the budget system legal entities, which would accumulate money from environmental and carbon tax payments or other payments for pollution [8], and then relocate such funds to the Ukrainian private entities that want to spend some money on environmental modernization of their own assets. Therefore, this way it would be possible to fix the problem with the “diluting” of funds in the general state budget fund, as well as stimulate the transition to renewable energy sources. In addition, the establishment of such green funds complies with the best practice worldwide.

And last but not least the promising area is the development of ETS in Ukraine. It must be noted, that in the EU the European Emissions Trading System (EU ETS) is based on EU Directive 2003/87/EC and has been operating on the cap-and-trade principle since 2005 [9]. Such a system covers the energy, production, and processing of ferrous metals, the extractive industry, and the pulp and paper industry. The concept of the ETS is quite simple but has proven to be efficient and justified: the ones who pollute the environment and harmfully affect climate change, pay. And those, who make a difference by preserving the environment and making it cleaner, get a reward in the form of compensation.

In Ukraine, since 2021, the Law of Ukraine "On the Principles of Monitoring, Reporting, and Verification of Greenhouse Gas Emissions" has entered into force, which defines the legal and organizational principles of monitoring, reporting, and verification of greenhouse gas emissions and is aimed at fulfilling Ukraine's obligations under international treaties, consent to obligations the validity of which is granted by the Verkhovna Rada of Ukraine [10]. Nevertheless, for now, the monitoring of emissions “on the pipe” introduced by the Ministry for environmental protection and natural resources of Ukraine [11] does not fully comply with Ukrainian obligations in regard to the European integration process. This monitoring will be started only 5 years after canceling martial law, and only new sources of air emissions will be monitored. Therefore, such a solution did not please the eco-community in Ukraine, which is still waiting for a real breakthrough in the relevant matter.

Therefore, we would say in conclusion that, keeping in mind the need to maintain the balance between economic growth and preserving the environment, special attention should be paid to implementing green finance instruments in Ukraine, especially – tax levers. Taxation can perform a double function in the context of environmental protection: as a “punishment” (implementation of the principle “polluter pays”) and as an incentive (e.g., establishing preferential tax regimes for specific operations). In our opinion, the most promising areas for using taxation as an instrument of green finance are the following: favorable taxation of green bonds, reforming environmental and carbon tax, developing special green funds, as well as developing the emissions trading system in Ukraine.

Використана література:

1. Угода про асоціацію між Україною, з однієї сторони, та Європейським Союзом, Європейським співтовариством з атомної енергії та їхніми державами-членами, з іншої сторони. *Відомості Верховної Ради України*. 2014. № 40, ст. 2021. URL: https://zakon.rada.gov.ua/laws/show/984_011#Text
2. Резнікова Н. В. Зелені фінанси як тригер сталого розвитку. *Цілі сталого розвитку: пріоритети для України* : матеріали Всеукр. наук.-практ. конф., 6 лист. 2021 р. Київ : НУХТ, 2021. С. 30–34.
3. Паризька угода від 12 грудня 2015 року. Організація Об'єднаних Націй. URL: https://unfccc.int/sites/default/files/english_paris_agreement.pdf
4. Дубко А. С. Імплементация та розвиток зелених фінансів в Україні: євроінтеграційний контекст та правове підґрунтя. *Нове українське право*. 2022. Вип. 6, т. 1. С. 113–119.
5. Стійкі фінанси та оподаткування. *Платформа для хорошого податкового врядування* : веб-сайт Європейської Комісії. С. 1–6. URL: https://taxation-customs.ec.europa.eu/system/files/2021-06/20210615_sustainable_finance_and_tax.pdf (дата звернення: 12.04.2023).
6. Про ринки капіталу та організовані товарні ринки : Закон України від 23 лют. 2006 року № 3480-IV. URL: <https://zakon.rada.gov.ua/laws/show/3480-15#Text> (дата звернення: 11.04.2023).
7. Податковий кодекс України від 02.12.2010 № 2755-VI. *Відомості Верховної Ради України*. 2011. № 13, ст. 112. URL: <https://zakon.rada.gov.ua/laws/show/2755-17#Text>
8. Покращення екологічного оподаткування та фінансування заходів довкілля. *Міністерство захисту довкілля та природних ресурсів* : веб-сайт. URL: <https://mepr.gov.ua/files/%D0%95%D0%BA%D0%BE%D0%BF%D0%BE%D0%B4%D0%B0%D1%82%D0%BE%D0%BA.pdf> (дата звернення: 12.04.2023).
9. Система торгівлі викидами ЄС. Агенція захисту довкілля : веб-сайт. URL: <https://www.epa.ie/our-services/licensing/climate-change/eu-emissions-trading-system/> (дата звернення: 12.04.2023).
10. Про засади моніторингу, звітності та верифікації викидів парникових газів : Закон України від 12.12.2019 № 377-IX. URL: <https://zakon.rada.gov.ua/laws/show/377-20#Text> (дата звернення: 13.04.2023).
11. Про затвердження Порядку запровадження обов'язкових автоматизованих систем контролю викидів забруднюючих речовин : Постанова Кабінету Міністрів України від 28.03.2023 № 272. URL: <https://ips.ligazakon.net/document/KP230272?an=1&hide=true> (дата звернення: 13.04.2023).

References:

1. Verkhovna Rada of Ukraine (2014). Uhoda pro asotsiatsiiu mizh Ukrainoiu, z odniiei storony, ta Yevropeiskym Soiuzom, Yevropeiskym spivtovarystvom z atomnoi enerhii i yikhnimy derzhavamy-chlenamy, z inshoi storony [Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community, and their member states, on the other hand, ratified by the Law of Ukraine of September 09, 2014 No 1678-VII]. *Vidomosti Verkhovnoi Rady Ukrainy*, no 40, art. 2021. Retrieved from: https://zakon.rada.gov.ua/laws/show/984_011#Text [in Ukrainian].
2. Reznikova N. V. (2021). Zeleni finansy yak tryher staloho rozvytku [Green finance as a trigger of sustainable development]. *The sustainable development goals: priorities for Ukraine*. Materials of the All-Ukrainian Scientific and Practical Conference. Kyiv, November 6, 2021. *The National University of Food Technology*. Pp. 30–34 [in Ukrainian].
3. United Nations (2015). The Paris Agreement. Retrieved from: https://unfccc.int/sites/default/files/english_paris_agreement.pdf [in English].
4. Dubko A. S. (2022). Implementatsiia ta rozvytok zelenykh finansiv v Ukraini: yevrointehratsiinyi kontekst ta pravove pidhruntia [Implementation and development of green finance in Ukraine: European integration context and legal basis]. *New Ukrainian law*. The 6th edition, vol. 1, 2022. Pp. 113–119 [in Ukrainian].
5. European Commission (2021). Platform for tax good governance. Sustainable finance and tax. Pp. 1–6. Retrieved from: https://taxation-customs.ec.europa.eu/system/files/2021-06/20210615_sustainable_finance_and_tax.pdf
6. Verkhovna Rada of Ukraine (2006). Zakon Ukrainy “Pro rynky kapitalu ta tovarni rynky” vid 23.02.2006 № 3480-IV [the Law of Ukraine “About capital markets and organized commodity markets” of February 23, 2006 № 3480-IV]. Retrieved from: <https://zakon.rada.gov.ua/laws/show/3480-15#Text> [in Ukrainian].
7. Verkhovna Rada of Ukraine (2010). Podatkovyi kodeks Ukrainy vid 02.12.2010 No 2755-VI [Tax Code of Ukraine of December 02, 2010 No 2755-VI]. *Vidomosti Verkhovnoi Rady Ukrainy*, № 13, art. 112. Retrieved from: <https://zakon.rada.gov.ua/laws/show/2755-17#Text> [in Ukrainian].

8. Ministry for environmental protection and natural resources of Ukraine. Pokrashchennia ekolohichnoho opodatkovannia ta finansuvannia zakhodiv zakhystu dovkillia [Improving environmental taxation and financing of the measures of environmental protection]. Official website of the Ministry for environmental protection and natural resources of Ukraine. Retrieved from: <https://mepr.gov.ua/files/%D0%95%D0%BA%D0%BE%D0%BF%D0%BE%D0%B4%D0%B0%D1%82%D0%BE%D0%BA.pdf> [in Ukrainian].
9. Environmental Protection Agency. EU Emissions Trading System. The official website of the Environmental Protection Agency. Retrieved from: <https://www.epa.ie/our-services/licensing/climate-change/eu-emissions-trading-system/>
10. Verkhovna Rada of Ukraine (2019). Zakon Ukrainy “Pro zasady monitorynhu, zvitnosti ta veryfikatsii vykydiv parnykovykh haziv vid 12.12.2019 No 377-IX [the Law of Ukraine “On the Principles of Monitoring, Reporting, and Verification of Greenhouse Gas Emissions” of December 12, 2019 No 377-IX). Retrieved from: <https://zakon.rada.gov.ua/laws/show/377-20#Text> [in Ukrainian].
11. abinet of Ministers of Ukraine (2023). Postanova Kabinetu Ministriv Ukrainy Pro zatverdzhennya Poriadku zaprovadzhennya oboviazkovykh system kontrolyu vykydiv zabrudnyuyuchykh rehovyn vid 28.03.2023 No 272 [Decree of the Cabinet of Ministers of Ukraine On the approval of the Procedure for the introduction of mandatory automated pollutants` emissions control system of March 28, 2023 No 272]. Retrieved from: <https://ips.ligazakon.net/document/KP230272?an=2&hide=true> [in Ukrainian].

Дубко А. С. Оподаткування у сфері зелених фінансів як інструмент захисту навколишнього середовища

У статті розглядається питання можливості використання оподаткування як інструменту досягнення цілей сталого розвитку, а саме – у сфері охорони навколишнього середовища. Авторка цієї статті пропонує свій погляд на податкові важелі як інструмент не лише стимулювання економічного зростання, а й інструмент зміни поведінки забруднювачів. Також зазначається, що наразі вже кілька країн-членів Європейського Союзу використовують податкову політику та інструменти оподаткування для досягнення цілей сталого розвитку та екологічної політики. Автором запропоновано наступні перспективні напрями використання податкових важелів для цілей охорони навколишнього середовища в Україні: встановлення спеціального (пільгового) режиму оподаткування зелених облігацій, реформування «зелених» податків (екологічного та вуглецевого) та розвиток системи торгівлі викидами. Усі визначені сфери проаналізовано з точки зору оподаткування, зокрема – у контексті бар'єрів та перспектив подальшого розвитку. Як зазначено у статті, розвиток ринку зелених облігацій в Україні потребує стимулювання, оскільки одним із суттєвих бар'єрів для його належного розвитку є саме сфера оподаткування. Тому, враховуючи необхідність стимулювання використання цього фінансового інструменту, перспективним буде використання такого стимулюючого важеля податкової політики, як звільнення від оподаткування ПДФО доходів у вигляді процентів, нарахованих за зеленими облігаціями. Стосовно питання «зелених» податків в Україні – авторка статті наголошує, що такі податки не виконують своїх компенсаційних та стимулюючих функцій, а обсяг надходжень від екологічного оподаткування залишається незначним та недостатнім для фінансування необхідних природоохоронних заходів. Тому автором пропонується реформувати екологічне оподаткування в Україні шляхом вдосконалення механізмів витрачання коштів від сплати таких податків та фінансування природоохоронних заходів. Крім того, у статті приділено увагу необхідності створення окремих «зелених» фондів, а також розвитку системи торгівлі викидами в Україні.

Ключові слова: *зелені фінанси, оподаткування, захист навколишнього середовища, податкові важелі, сталий розвиток, екологічне оподаткування, зелені облігації, зелені фонди, система торгівлі викидами.*