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Accounting for Sustainability,
Social and Environmental Transparency

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TM4 Sustainability, taxation, and strategic decision making

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Taxation for Sustainability

Taxes
- are no longer only revenue tools, but public policy instruments.
- **orient economic behavior** toward sustainable practices.

Two sides of taxation:
Costs: eco-taxes, carbon pricing, pollution charges.
Benefits: tax credits, exemptions for green investments.

A Carbon Tax, Explained

Principles of Green Taxation

Polluter Pays Principle → those who pollute bear extra costs.

Pigouvian & Carbon taxes → correcting negative externalities (e.g., CO_2).

Green vs. Traditional taxation → reorienting tax systems to support the green transition.

Double dividend theory → ecological taxes reduce pollution & generate revenue for public goods.

What’s new in Europe

Fit for 55 package & EU Energy Taxation Directive (revised)
- shifts excises toward energy consumption.
- shifts taxes from labor to pollution, promoting renewable energy.

CBAM (Carbon Border Adjustment Mechanism)
- ensures fair competition and carbon costs on imports.

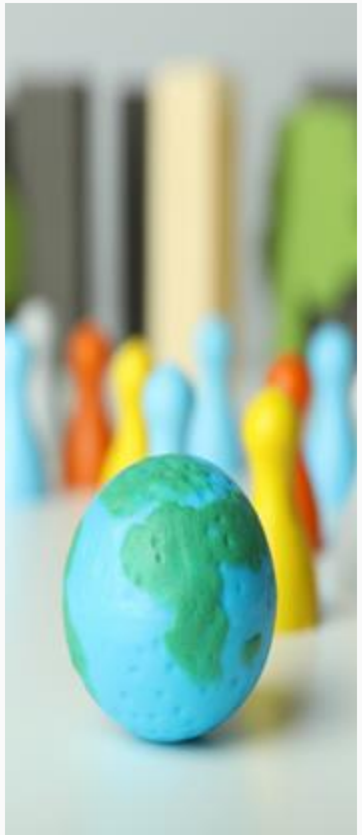
VAT in the Digital Age (ViDA, 2025) - digitalizes tax reporting (including VAT), providing an infrastructure that can also be used for sustainability reporting (e.g., integrating tax data with ESG reporting).

Green investments and tax incentives

1. Green Bonds:
Investments in environmentally sustainable projects.

2. Accelerated Depreciation for Green Technologies:
Tax benefit for quick depreciation of eco-friendly investments.

3. Tax Credits for Energy Efficiency:
Incentives for businesses adopting renewable energy technologies.



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How Reporting Integrates Taxation

1. **CSRD (Corporate Sustainability Reporting Directive) –** Requires large companies to disclose material sustainability risks and opportunities.

✓ Taxation is relevant because carbon pricing, eco-taxes, VAT/energy excises impact the operational costs.

✓ Green tax incentives (credits, exemptions) support transition plans.

✓ Reports must show how fiscal policies affect transition strategies & the financial materiality of new taxes (impact on revenues, costs, pricing).

How Reporting Integrates Taxation

2. ESRS (European Sustainability Reporting Standards)

• **ESRS E1 (Climate Change):** explicitly requires disclosure of how carbon taxes, emission trading systems, or fiscal incentives influence decarbonization plans, investment strategies in energy efficiency & renewables.

• **ESRS S1/S4 (Social & Community Impact):** Fiscal burdens.

• **ESRS G (Governance):** Transparency on how the institution manages fiscal compliance & green incentives.

How Reporting integrates taxation

3. IFRS S1 & S2 (ISSB Standards)

• **IFRS S1 (General Sustainability Disclosures):** This requires explaining the financial impacts of sustainability-related risks and opportunities, including taxation. Example: disclosure of expected costs from higher energy taxes.

• **IFRS S2 (Climate-related Disclosures):** Requires scenario analysis that includes carbon pricing assumptions. Explicit link between fiscal climate policies and climate resilience planning.

Key takeaways

- **Taxation** = powerful driver of **sustainable behavior.**
- **Fiscal policy** directly influences **strategic decisions** (investments, financing, pricing).
- **New EU and national policies** reshape **the cost-benefit landscape.**
- **Entities face challenges** without a **favorable fiscal framework.**
- **Reporting has to** integrate **taxation impacts.**

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Thank you!