Introduction

KPMG IMPACT is a platform to support and empower KPMG professionals to assist clients in fulfilling their purpose and helping deliver on the UN Sustainable Development Goals (SDG).

One focus of KPMG IMPACT is on the latest global climate policy developments and their possible impact on international business. To assist with the communication of these issues, we have decided to produce a newsletter (on an occasional basis) for those who are alert to the latest climate and decarbonization developments. This newsletter focuses on proposals and developments of Plastics Taxes — most notably from the EU, its member states but also from other countries and territories globally.

Background

According to the UN, as of June 2021 there are 195 signatories to the Paris Agreement to limit their CO₂ emissions. However, the Paris Agreement permits countries to set their own ambitions within certain parameters. Some jurisdictions or regions have undertaken to cut carbon emissions faster than others. The EU, in particular, has stated its ambition to cut emissions by 2030 by 55 percent in comparison with 1990 levels. This commitment has been made as part of the EU Green Deal, which is a comprehensive package of tax and non-tax measures.

The EU’s plastics tax is one of several tax reforms proposed as part of the Green Deal which aims to reduce consumption of raw materials and waste, promoting the move towards a circular economy.

Other significant carbon reforms were tabled by the European Commission (EC) on 14 July as part of its ‘Fit for 55 package’ to meet its 2030 emissions reductions goals. These are set out in Figure 1 below.

Figure 1: Tax Measures (and other interventions) in the EU Green Deal

- Net zero emissions — 2050 (to be legislated)
- 50–55 percent emissions reductions from 1990 levels by 2030
- Revenue collection based on non-recycled plastic consumption. 10–15 major economies will be levied.
- Each to design own Plastic Tax — different state taxes.
- Broad tax base now including aviation, maritime and fishing.
- Tax rates according to energy content and environmental content, not volume.
- Price signals reinforcing innovation and investment. Anti-fossil fuels.
- Shadow ETS applied to certain high emissions imported covered goods
- Aim: applies equivalent carbon costs between imports and locally produced goods
- Pricing of carbon inside the EU with many sectors regulated through the ETS
- Withdrawal of some free allocations in parallel with CBAM introduction

Source: KPMG 2021

The circular economy

Instead of a traditional linear model which sees natural resources introduced into a manufacturing system which are then used to produce a product which is ultimately disposed of, the circular economy, is based on the principles of designing out waste and pollution, keeping products and materials in use and regenerating natural systems by minimizing the amount of new raw materials required. The contributions will be calculated based on Eurostat data, which Member States already collect and provide under existing reporting obligations (specifically the Packaging and Packaging Waste Directive and its Implementing Decision (Decision (EU) 2019/665).

Given that the exact data is reported to Eurostat in July of the year N+2, the European Commission will first calculate the contributions based on forecasts. This is a standard practice also applied for other sources of revenue to the EU budget. Once final data is available, the European Commission will adapt the calculations of Member States contributions accordingly.

For instance, in 2021 (after the entry into force of the Own Resources Decision), Member States will pay their contributions, on a monthly basis based on forecasts. This contribution will be adjusted after July 2023 when the final data will be available.

Financials

Initial estimates indicate that this new plastic contribution can provide the EU with between EUR 6 to 8 billion of additional revenue each year. Set in accordance with the European strategy, the national contributions will be proportional to the quantity of plastic packaging waste that is not recycled in each Member State. In order to avoid an excessively regressive impact on national contributions, an adjustment mechanism with an annual lump sum reduction should be applied to contributions of Member States.

Below the estimated payment under the plastics tax for a few Member States, based on the weight of non-recycled plastic packaging waste in 2018 in each Member State:

- Belgium: EUR 160,000,000
- France: EUR 1,300,000,000
- Germany: EUR 1,300,000,000
- Italy: EUR 845,000,000
- Netherlands: EUR 200,000,000
- Spain: EUR 500,000,000

How will Member States fund the payment?

We see, at this moment, each member state having two main options when considering how to fund the payment:

- Member States will pay the contribution from their own budget, regardless of whether they have set up a national system to collect the tax. Examples are Austria and Belgium, who intend to pay the contribution from their national budget.
- Member States designing their own tax legislation and setting up a national system to collect the plastics tax by way of a tax on specific taxpayers (each country has to determine the definition of taxed products; the mechanism to collect the tax; and the refund options, etc.).

Source: KPMG 2021

Taxes and tax incentives can play a part in directing behaviour at each stage of the circular economy life cycle. For example, at the production phase taxes on extraction of raw materials or on the production of high carbon products such as steel. There are several points in the circular economy lifecycle that a plastics tax can be introduced, for example, the EU measures their plastics contribution based on the amount of plastic packaging residual waste a country generates. Whereas Spain, Italy and the UK’s national plastics tax is levied when non-reusable plastic packaging is produced (or imported).

European plastic contribution

The European Union has introduced a “plastic tax” as part of the EU recovery package necessitated by EU spending as a result of Covid 19 (NextGeneration EU). This “plastic tax” is an own resource to the 2021–2027 EU budget. In fact, it is not a tax but a contribution from the Member States to the EU, based on the amount of non-recycled plastic packaging waste produced by each member state.

All Member States have already agreed to the contribution. This own resource is closely linked to the EU policy priorities.

How does it work?

Started 1 January 2021, the contribution is calculated by the weight of non-recycled plastic packaging waste with a uniform rate of EUR 0.80 per kilogram.

2 Plastic Tax

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Country update

Many countries have some taxes on specific kinds of plastics, such as taxes on plastic bags which are present in approximately 27 countries and territories across four continents. However more extensive taxes are less common.

Through discussions with colleagues in KPMG firms, we can provide the following update on which European countries are farthest along in the legislative process towards introducing more comprehensive plastic taxes.

Italy

What? Italy has proposed a plastic tax on the consumption of manufactured single-use items, which have or will have the function of containing, protecting, handling or delivering goods or food products.

Who? In Italy the taxable persons obliged to pay the plastic tax are the following:
1. the manufacturer;
2. the seller;
3. the purchaser, if the items are bought from other EU countries and sold for business activity;
4. the EU supplier, if the items are bought from other EU countries and sold to a private consumer; and
5. the importer.

When? The tax liability arises at the time of production, definitive importation into the national territory or introduction into the same territory from other countries of the European Union and becomes payable when the items are released for consumption. It is expected to come into force on 1 January 2022.

How much? The rate has been set at EUR 0.45 per kilogram of plastic.

The Netherlands has published a report about the possibilities to introduce a national tax on virgin plastic. Probably taxed when plastic granules and powder are sold to producers of plastic products.

Spain

Spain has introduced a plastic tax as part of wider legislation. The objective of the new law is to contribute to the fight against climate change and to protect the environment. It includes an excise tax on non-reusable plastic packaging.

What? The excise tax is to be levied on the use of packaging, in Spain, that contains plastic and cannot be reused. Generally speaking, for the purposes of this tax, packaging is taken to mean any product designed for the containment, protection, handling, distribution and presentation of goods.

Packaging is deemed non-reusable when it is not intended, designed or marketed with a view to accomplishing multiple trips or rotations throughout its life cycle, or to be refilled or reused for the same purpose for which it was originally conceived.

Exemptions are available for packaging of certain medical products.

When? In the case of manufacture, the tax will become chargeable on the date on which the packaging is first delivered or made available to the acquirer in the tax territory. In the case of imports, the tax will become chargeable when the import duties become chargeable. We expect the Spanish excise tax on non-reusable plastic packaging will enter into force later this year/at the beginning of 2022.

How much? The tax rate is EUR 0.45 per kilogram.

The UK

What? The charge to plastic packaging tax arises when a chargeable plastic packaging component is produced in the UK or imported into the UK.

Who? The person who produces the component is liable to pay the amount charged or the person on whose behalf the component is imported is liable to pay.

When? The UK plastic tax will take effect from 1 April 2022.

How much? The rate is £200 per tonne of chargeable plastic packaging components. A plastic packaging component is chargeable if the proportion of recycled plastic in the finished component, when measured by weight, is less than 30 percent of the total amount of plastic in the component. This should encourage the use of recycled rather than new plastic.
What does Plastics Tax mean for business?

The attention to plastics is increasing at a European and national level and plastics tax introductions are happening quickly. It is important to remain informed about the European developments and the developments in the countries where organizations have business/production facilities as companies could face significant additional cost pass through if plastic taxes are implemented. Corporations should be compliant and in control with regard to new global plastic regulations.

Service offerings for clients

KPMG IMPACT’s service offerings for businesses, in relation to plastics, include:

— **Plastics Advisory services**, like a plastic tax scan (be informed and be up to date about current and upcoming plastic regulations)

— Climate risk and **supply chain impacts** and responses and strategies to enable financial planning and effective supplier management

— **IMPACT measurement, assurance and reporting** services, enabling clients to develop and implement methods, tools and frameworks to better track and measure plastics and climate risks and opportunities.

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