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Taxing fossil fuel profits, not consumers

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Executive summary

Corporate Income Tax (CIT) rates have fallen during the past decades in a continuous race to the bottom in all economic sectors, both globally and in Europe. With the exception of the extractive sector, inclusive of upstream fossil fuel extraction, corporate taxes on downstream fossil fuel industries have followed the same trend, i.e., lower CIT rates and lower tax base. Combined with generous tax incentives and tax exemptions, these trends have reduced the effective taxation of fossil fuel companies, **leading to a decline in tax payments relative to profits over time.**

In recent years, EU environmental tax differentiation has focused mainly on green investment incentives and carbon pricing instruments such as CBAM and ETS2, with little attention paid to taxing company profits.

A rare exception was the 2022 EU solidarity contribution on fossil fuel companies' windfall profits. The EU should build on this experience to develop a differentiated corporate tax system that applies to all fossil fuel companies.

Tax design is critical from a social equity perspective

A tax on the profits of fossil fuel companies, or on the capital income of their asset owners are less likely to be passed on to consumers than product-based carbon prices or emissions-based taxes.

Expected pass-through to consumers

Only in exceptional circumstances - in high volume and low profit margin sectors, or for specific goods - are consumer prices likely to be impacted, depending on the elasticity of demand, volume sales, profit margin, market concentration and the possibility of tax planning/avoidance. A variety of structural factors influence energy and electricity prices. **CITs are generally not mentioned in the literature as a determinant of the energy price** and a higher or lower CIT does not significantly correlate with higher or lower electricity prices.

Even if a robust tax design were to minimise the risk of companies passing on the cost to consumers, the law should explicitly **prohibit fossil fuel companies from shifting the tax burden onto households or other businesses.** Such a ban has been put in place in several countries, notably in the framework of the solidarity contribution.

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Given companies can increase prices for a variety of reasons, to enforce such a ban, policymakers in the EU should establish a common methodology to monitor whether fossil fuel corporate profit taxes are being passed on through higher prices. It would allow legislators to underpin such a ban with effective sanctions.

While a sound tax design should significantly limit pass-through risks, additional measures can still be needed to **protect consumers from high energy prices and guarantee the right to energy for all, while also encouraging energy savings**.

Many relevant tools already exist; they were deployed during the energy price crisis of 2022–2023. Further, policymakers should support households and firms to shift to renewable energy in heating, cooling and transport, improve energy efficiency and reduce energy consumption, which will lower dependence on fossil fuels. This in turn reduces the ability of the fossil fuel industry to raise prices to offset the tax. **Importantly, the revenue from a tax on fossil fuel profits could be used to finance such measures, as well as international climate finance -** especially the Green Climate Fund and the Fund for Responding to Loss and Damage, to help communities already living with irreversible climate impacts driven largely by the burning of fossil fuels.

Expected pass-through to workers

Literature suggests that between 18 and 47% of a CIT increase could be passed onto the labour force. The Joint Committee on Taxation (JCT) in the US Congress, for example, assigns 25% of the corporate income tax burden to labour and the rest to firm owners. These assessments are not sector-specific though. In fact, the fossil fuel sector currently has high profit margins, which makes wage pass-through less likely than in low-margin sectors. However, given the importance of dividend stability for investors in the oil and gas sector, firms may be reluctant to reduce shareholder payouts, which suggests that limited adjustment pressures on labour costs cannot be fully excluded. It is also important to note that the fossil fuel phase out will inevitably have an impact on workers in the fossil fuel sector and those in the direct supply chains. Policies must be in place to ensure workers in the fossil fuel industry don't lose out from the transition away from fossil fuels, which a tax on fossil fuel profits would encourage.

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Expected impact on investments

Some studies argue that higher CIT rates can affect investment rates. Other economic studies show that a variety of other factors drive investment decisions, and do not exclude a zero effect of corporate taxes on growth. In 2022, the overwhelming majority of the profits of oil and gas largest companies were spent on fossil fuel projects - and only a tiny share on renewable energy. In 2025, major oil and gas corporations cut their targets for future low-carbon investments. In light of that situation, a tax on fossil fuel profits, potentially combined with a tax deduction for investments in renewable energy and related storage capacity, would usefully support a gradual reallocation of capital to investment in renewable energy and related storage capacity, thereby contributing to EU energy security and to curbing climate change.

Recommendations:

1	**Introduce a differentiated corporate tax framework for fossil fuel companies, building on the experience of the 2022 EU solidarity contribution**, to reverse the long-term decline in effective corporate taxation in the sector.
2	**Prioritise profit-based taxation to complement existing consumption-based carbon pricing** when raising revenue from fossil fuels, as the risk of pass-through of taxes on corporate profits and capital income on to consumers are minimal.
3	**Extend and institutionalise taxation of fossil fuel windfall and excess profits**, moving beyond one-off or temporary measures towards a more stable and predictable fiscal approach. An EU Regulation would ideally be needed to ensure the coordinated introduction of such a tax in all Member States. This would reduce the scope for aggressive tax planning and tax avoidance (profit shifting) within the EU.
4	**Explicitly prohibit the pass-through of fossil fuel profit taxes to consumers** (households and businesses) in the legal design of any new tax. Establish a common EU-level methodology to monitor price pass-through, enabling effective enforcement of pass-through bans and the application of sanctions where violations occur.

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5	**Ensure strong flanking measures for workers in the fossil fuel sector**, so that the transition encouraged by higher taxation does not affect income, employment or working conditions. These measures include social conditionalities in public aid to companies to incentivise the creation and protection of quality jobs in the EU; a Just Transition Directive to anticipate and manage changes for workers in the fossil fuel industry; and full implementation of the Adequate Minimum Wage Directive target of collective bargaining coverage of 80%, including in new emerging green sectors.
6	To avoid profit shifting and tax abuses, **put an obligation on fossil fuel companies to report their taxes on a public country-by-country reporting basis**. The threshold for fossil fuel companies to report on their tax payments should be lower than the current €750 million consolidated group revenue, and made public to all jurisdictions (as opposed to only EU jurisdictions and named harmful tax jurisdictions under the EU country-by-country reporting Directive).
7	**Recycle revenues from fossil fuel profit taxes into the energy transition**, including: Support targeted consumer protection measures to guarantee vulnerable households and firms the right to energy, for renewable energy deployment, energy efficiency improvements, and reduction of fossil fuel dependence in heating, cooling, and transport, and for international climate finance.
8	**Use fossil fuel profit taxation as a structural signal to investors**, discouraging continued investment in fossil fuel activities while allowing space for incentives that support genuine investments in renewable energy and related storage capacity.

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Key terms

- **Accelerated Depreciation** – Allowing more tax deductions upfront with accelerated depreciation can reduce end-of-year tax bill significantly, in the long run, depending on the rate of investment, this can incentivise a higher investment rate.
- **Capital Gains Tax** – Tax on the profit when you sell an asset that's increased in value.
- **CIT** – Corporate Income Tax.
- **Country-by-Country Reporting** – An accounting standard proposed to report company revenues, the OECD uses this as a risk-assessment method. Civil society, trade unions, and some countries propose or require this method of accounting to be made public in full or in part, and to be used as the basis for distributing taxing rights of large companies.
- **ETR** – The Effective Tax Rate is the rate you pay on your annual income. To calculate, divide your annual tax bill by your taxable income, and multiply by 100 to get the percentage tax rate. It differs from the statutory tax rate, i.e., the rate imposed by law on taxable income that falls within a given tax bracket, without taking into account tax deductions, exemptions, credits and preferential rates.
- **Gross Profits** – Gross profit is a company's earnings after subtracting the direct costs of producing goods or services from its total revenue. It is calculated as Revenue - Cost of Goods Sold (COGS).
- **Headline tax rate** – The headline corporate income tax rate is often the highest statutory rate, including surtaxes. Different from the statutory tax rate, where this denotes the rate that applies if there are multiple corporate income tax rates.
- **Profit after tax** – Net profits don't include taxes, so profit after taxes is the final accounting profit of a company each year from which it can distribute profits (e.g., dividends to shareholders).
- **Return on Investment (ROI)** – It is calculated as the net profit from investment (i.e., before taxes) divided by the cost of investment, times 100.
- **Net Profits** – Gross profits, plus overhead costs such as administrative salaries, rent, or marketing.
- **Tax Allowance** – An allowance is an amount of otherwise taxable income that you can earn each year, without paying tax on it.
- **Tax Base** – The total value of all the assets, income, and economic activity that can be taxed by a taxing authority.

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- **Tax Credit** – A tax credit is a tax incentive which allows certain taxpayers to subtract the amount of the credit they have accrued from the total they owe the state.
- **Tax Incentive** – Tax incentives are ways of reducing taxes for businesses and individuals in exchange for specific desirable actions or investments on their parts.
- **Tax Rate** – The amount of tax paid as a percentage of the tax base (typically income).

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1. Introduction

Fossil fuels continue to account for approximately 70% of the total energy consumed in the EU: In 2024, alone, the import cost for Europe was above EUR 375 billion. The EU is particularly dependent, in 2023 it imported 95% of the oil it consumed, 90% of the natural (fossil) gas and 41% of solid fuel. Fossil fuel companies made €180bn in taxable profits in the EU in the two years following Russia's invasion of Ukraine, and higher fuel prices were passed onto consumers.

Various tax designs are possible - from an excess profits tax to a top-up on the existing Corporate Income Tax (CIT), or a tax on fossil fuel assets. It could be a permanent tax, or a temporary tax subjected to extension over time after assessing its impact. The EU can take steps to support international coordination which would reduce tax avoidance risks and profit shifting by companies, including by working with other engaged countries in "coalitions of the willing," and more importantly anchoring principles around excess profits and establishing fairer rules for allocating taxing rights on multinational profits through their participation in ongoing negotiations on the new UN Framework Convention on International Tax Cooperation.

At a time when many people across Europe are struggling with the cost of living, a critical question is whether the fossil fuel industry would be able to pass the cost of such a tax on to consumers. What could be the impact of those taxes on consumers - households and companies that are still dependent on fossil fuels for heating, cooking, cooling, transport and for carrying out their business? Does the tax design have an impact on the risk of such pass-through costs? If there is a risk of pass-through, or if energy prices are higher anyway, what kind of flanking measures could be considered by national governments?

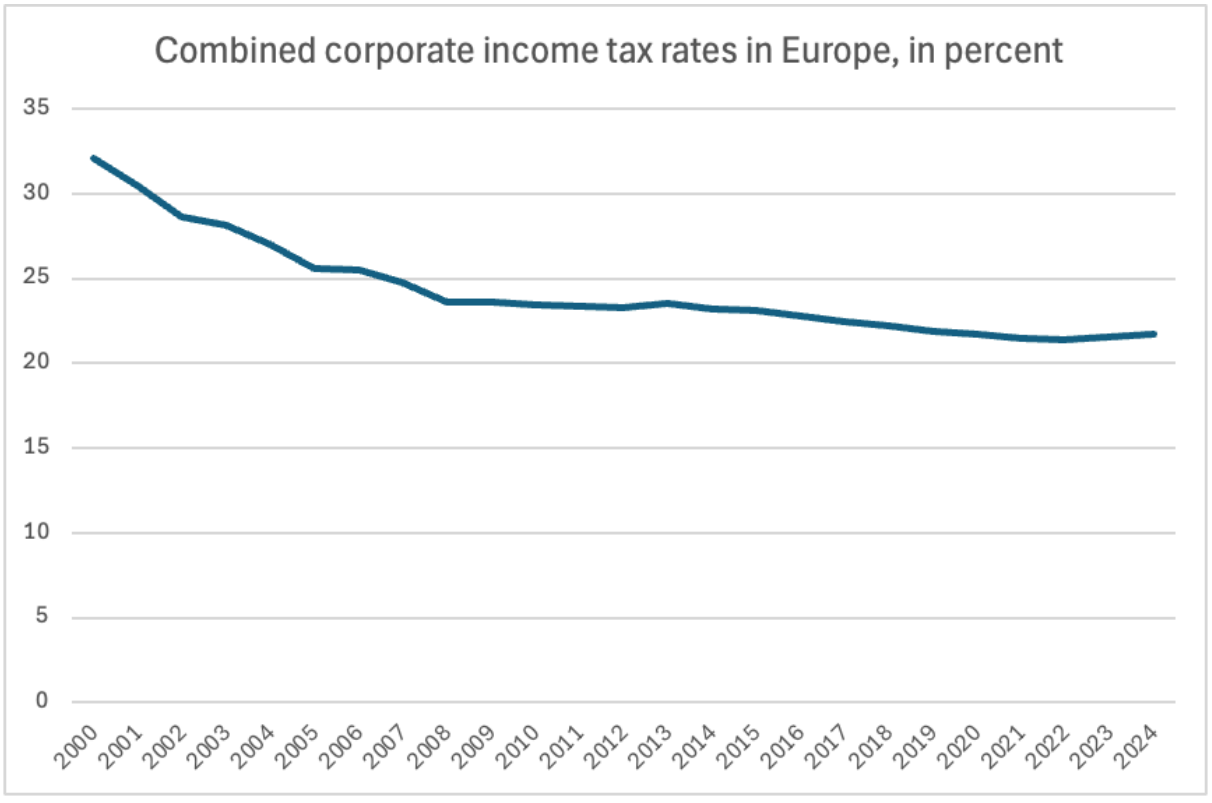
The report proceeds as follows. Section 2 examines recent trends in corporate income taxation and assesses how corporate tax systems have been used to support climate and environmental objectives, with particular attention to the fossil fuel sector. Section 3 analyses whether higher taxation of fossil fuel profits could be passed on to consumers, drawing on economic literature and country evidence to assess impacts on prices, shareholders, workers and investment. It also explores how tax design and legal safeguards can minimise pass-through risks. The report concludes by setting out policy options and recommendations for taxing fossil fuel profits in a way that supports the energy transition while protecting consumers and workers.

2. Climate Related CIT Schemes

This chapter examines how CIT systems have evolved over recent decades and assesses their role in supporting climate and environmental objectives. It documents the long-term decline in CIT rates and tax bases across Europe and beyond, and analyses how tax incentives have shaped effective taxation, including in the fossil fuel sector. The chapter also reviews how corporate tax policy has been used to "green" the economy, with a particular focus on investment incentives, and assesses the experience of the EU solidarity contribution on fossil fuel windfall profits as a recent departure from prevailing approaches.

2.1. Race to the bottom on CIT rates

We have been witnessing two decades of declining CIT rates across all regions, including in Europe (referring to the 27 Member States of the EU, plus Iceland, Norway and the United Kingdom) where the average rate in 2024 stands at 21.3% while in the 1995 it stood at 35%, and by the year 2000 it had already fallen to 30.13%. Figure 1 shows the evolution of the headline CIT rates in Europe from 2000-2023. The International Monetary Fund (IMF) and other institutions also confirm that the same race to the bottom is present in other regions and country income-groups.



Source: OECD Tax Database Table II.1, Corporate Tax Statistics Statutory Corporate Income Tax Rates for years 2000-2022, and *European Commission Tax Indicator Database* for the year 2023 and 2024.

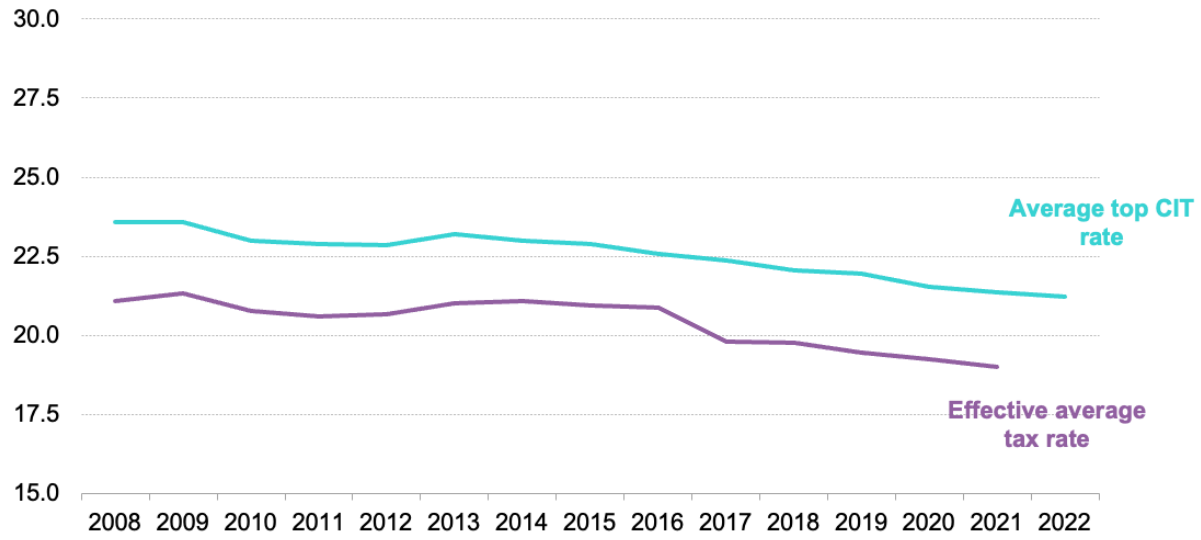
Headline rates are only one part of the picture. To determine the effective tax rate it is important to look at the tax base (the extent to which transactions that corporations undertake are fully taxed). There have been different tax incentives in recent decades in Europe, including for the fossil fuel industry, which have eroded the tax base and thus tax revenue collection. More recently, tax incentives have also been applied to support the transition to renewable energy and climate policy objectives, reducing the tax base also in these sectors.

These tax incentives can be broadly categorised in six categories according to the IMF Tax Policy Rates Database:

1) promoting research and development (e.g., R&D tax credit),
2) investment promotion (e.g., depreciation rules),
3) loss-carry rules (e.g., being able to deduct losses from future taxation),
4) thin capitalisation (intra-firm loan rules),
5) capital gains, and
6) other (e.g., generic sectoral exemptions).

The IMF estimates that 67% of corporate tax policy changes over the period 1988–2014 reduced the corporate tax base through the use of tax incentives. These incentives—documented extensively in the UNCTAD Investment Policy Hub and EU Annual Tax Reports—are primarily designed to encourage investment-related activities by companies. By narrowing the tax base, such deductions have a direct impact on companies' effective tax rates (ETRs), with empirical studies showing that in some sectors, particularly digital services, effective tax rates can be up to 10% lower than headline rates when measured on the basis of actual cash taxes paid.

CIT rates and average effective taxation indicators, 2008-2022 (in %)



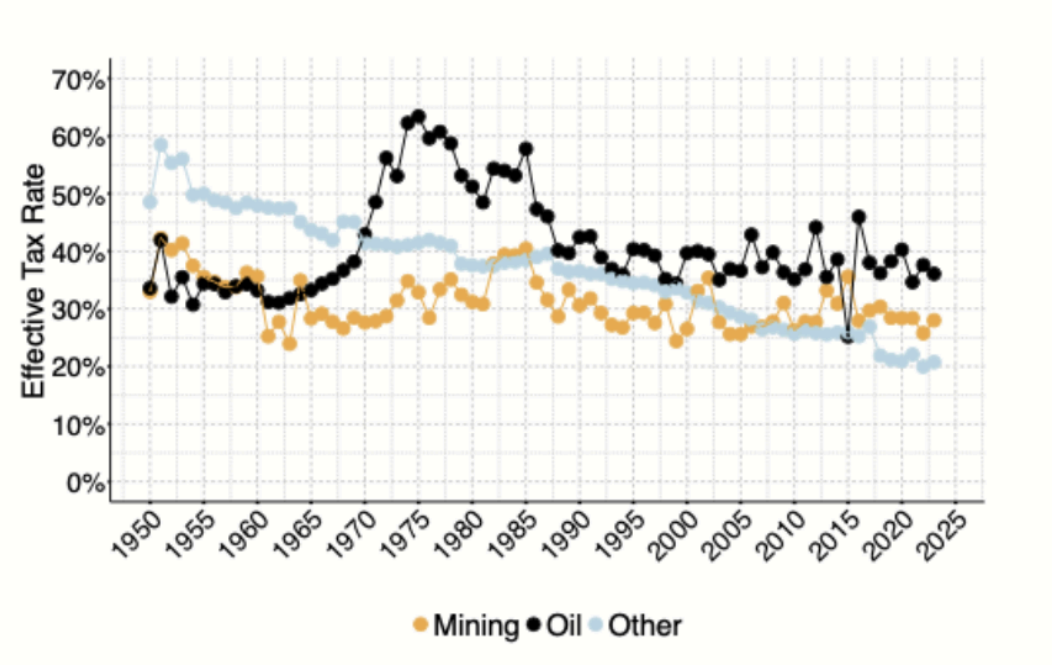
Source: European Commission, Trends in Taxation in the EU 2022 (for years 2008-2022), and EU Annual Tax Report 2025 (for years 2023-2024).

Even after the effective tax rate decreases, there is also a third factor: tax avoidance and aggressive tax planning, which is somewhat harder to estimate given the lack of public country-by-country reporting data. Globally, an estimated average US$ 283 billion was lost to tax avoidance every year according to aggregate public country-by-country reporting data from 2016 to 2021, that doesn't identify industries or single companies.

The actual rate of collected corporate income taxes as a share of GDP, or as a share of total tax revenues, has not changed dramatically over the last 20 years. This is partly because corporate profits have increased by 149% since 2000, well above nominal GDP growth (118%). This trend is also observed in other Global North countries. In the US, between 2000-2024 corporate profits have increased by a factor of five, while GDP has increased by a factor of three. One study shows that firm level data suggests that while corporate tax rates have come down over the years, corporate tax collection has been stable in the period 1995-2016, due to rising corporate profitability.

All of the above analysis is equally valid for the fossil fuel sector, as tax regimes for the fossil fuel industry are the same as for other firms. However, for Europe's major fossil fuel producers (Norway and United Kingdom for oil, and Norway, UK and Netherlands for gas), effective tax rates are higher for the extractive part of the supply chain. There are indeed special tax regimes and royalties and other production-based taxes that are borne by the extractive sector.

Extractive sector Effective Tax Rates (global level)



Source: Alice Chiocchetti and Ninon Moreau-Kastler, The global allocation of extractive windfalls, International Growth Centre, London School of Economics, 2025.

Fossil fuel extraction companies often face diverse top-up rates of CITs. For instance, in the UK they are subject to a headline tax rate of 78% as of November 2024 (comprising 30% Ring Fence Corporation Tax, 10% Supplementary Charge, and a 38% Energy Profits Levy). This is much higher than the standard UK main corporation tax rate of 25% for other large companies. However, effective tax rates are significantly lower due to exemptions and allowances, and in some years (between 2018-2020), BP and Shell paid no effective corporate taxes on their North Sea extraction. Meanwhile, in Norway the effective tax rate is estimated at 78%.

Conclusion: With the exception of the extractive segment of fossil fuel supply chain, the fossil fuel industry related CITs have followed the same trend as corporate taxes overall, that is lower rates and lower tax base, combined with generous tax incentives and exemptions. These trends have reduced the effective taxation of fossil fuel companies, leading to a decline in tax payments relative to profits over time.

2.2. The use of CIT to green the economy

The corporate tax system can be used to raise or reduce tax rates, modify the tax base, or implement various tax incentives - essentially creating differentiation between fossil fuel and non-fossil fuel companies. Thus far, such differentiation has only applied to fossil fuel extraction companies. The 2022-2023 EU solidarity contribution is a notable exception, as it taxed fossil fuel industry windfall profits directly rather than providing tax reductions.

International bodies such as the Organisation for Economic Co-operation and Development (OECD) generally recommend using corporate tax incentives as the main tool for differentiation. These incentives include tax credits to reduce taxable income, accelerated depreciation of investment assets from tax liabilities, and other incentives for investment in clean technology.

The OECD emphasises that such incentives must be transparent, temporary, and closely monitored to ensure they deliver results without excessive cost. Monitoring and evaluation should consider the potential risks and costs that they carry, ensuring continued best value for any incentives. The OECD also recommends tax incentives to be time-bound rather than offered without expiry, even if many countries offer permanent tax incentives. This is crucial as poorly designed incentives risk triggering legal disputes when governments later change or remove them. In fact, a large number of arbitration cases challenge new taxes, the ending of tax breaks or feed-in tariffs in the energy sector, both by fossil fuel and renewable energy companies. Therefore it is important to design tax and tariff incentives carefully, make them temporary and thereby provide predictability for companies, while preserving the right for future governments to regulate.

In the EU, environmental taxation represents a small share of total tax revenues and is mainly based on indirect consumption taxes such as energy duties and emissions trading systems. Consumption related environmental taxes represent 5% of total EU government revenue from taxes and social contributions. In 2023, they constituted mainly of energy taxes (76% of the total revenues from environmental taxes), well ahead of taxes on transport (19%), pollution and

resources (5%). Green tax incentives are also often used, such as tax base reduction and reduction of effective rates. For example, under the Recovery and Resilience Facility, environmental tax reforms undertaken were investment-related incentives (by 8 countries), followed by advice on how to implement the CBAM (see Annex 1). The EU solidarity contribution in 2022-2023 was a notable exception, as it taxed fossil fuel industry profits directly rather than taxing carbon content or providing tax reductions.

Conclusion: CIT systems can help support climate and environmental goals by differentiating between fossil fuel and non-fossil fuel industries. Until recently, this mostly involved higher tax rates on fossil fuel extraction, as extraction is quite limited in the EU where 90% of fossil fuels are imported. International organisations such as the OECD recommend aligning corporate tax incentives with climate goals by phasing out subsidies and other tax schemes that support fossil fuel, while expanding well-designed incentives for clean technologies. These include tax credits, accelerated depreciation, and other measures that lower tax burdens for environmentally beneficial investments.

2.3. Experience of the fossil fuel windfall profits tax in Europe

The solidarity contribution on fossil fuel companies' profits established by the 2022 Council Regulation on an emergency intervention to address high energy prices, was a one-off measure in 2022-2023 (in some cases continued afterward) that marked a change of approach. The solidarity contribution consisted in a higher CIT on fossil fuel companies for financing measures to protect consumers (households and companies) from excessive increases in energy prices and to support the transition to renewable energy. The regulation established a minimum tax rate, a definition of windfall profits and rules regarding the use of returns, but left leeway for Member States to design the tax taking into account national circumstances.

The tax targeted windfall profits. To define windfall profits, the 2022 Council Regulation has relied on the average earnings method, which refers to past profits as normal returns. Under the 2022 Council Regulation, taxable profits, as determined under national tax rules, were the ones generated in 2022 and/or 2023 above a 20% increase of the average taxable profits made in the four fiscal years from 2018 to 2021. This means that all profits above 120% of the preceding four years' average were subject to the solidarity contribution.

The temporary solidarity contribution applied in addition to the regular taxes and levies applicable according to the national law of a Member State. The minimum rate determined by Member States must not be below 33%.

The 2022 Council Regulation includes a list of possible uses that aim at mitigating the effects of high energy prices on customers (in particular vulnerable households), including by promoting their investments into renewables or energy efficiency investments. Member States were also allowed to support companies in energy-intensive industries provided that such support was made conditional upon investments into "renewable energies, energy efficiency or other decarbonisation technologies". No tax deductions were included in the 2022 Council Regulation.

The temporary windfall profits tax should be seen as a stepping stone towards a permanent tax on the profits of fossil fuel companies, or a temporary tax subjected to extension over time after assessing its impact. Article 2 of the 2022 Council Regulation provides a clear definition of fossil fuel companies upon which a future tax can be built, and the provisions regarding the use of proceeds also constitute a robust precedent. The provision of targeted tax incentives for green investments by these same companies could be done simultaneously to encourage them to shift their investment into areas of the green transition (renewable energy and related storage capacity).

The implemented windfall taxes in Member States differed significantly in their tax rates (which was set at a minimum of 33% in the EU regulation), the sectors targeted, and their design. Between 2022 and 2023, 16 of the 27 Member States applied the solidarity contribution, while eight adopted an equivalent national measure. Three countries, namely Luxembourg, Latvia and Malta reported no companies in scope of the regulation, while Germany was ordered by an arbitration tribunal to suspend the implementation of the solidarity contribution due to a legal challenge by a fossil fuel company. Finland, Lithuania, Cyprus and Sweden reported no revenue from the tax. Croatia applied a windfall tax for all sectors, but did not report to the European Commission the part of the revenues that came from fossil fuel windfall profits taxation.

Spain adopted Law 38/2022 which established three taxes: the windfall profit tax on energy companies (which was later extended to 2024), the windfall tax on credit institutions and the tax on large fortunes, all managed by the Tax Agency. While the windfall tax on fossil fuel companies ended in 2024, the tax on the banking sector was extended for another three years in 2024. Replacing the fixed rate of 4.8%, the tax is now between 1% and 7% of lenders' net interest income and commissions in accordance with their lending volumes. The highest rate of 7% applies to lenders whose annual volumes surpass €5 billion, namely Santander, BBVA, and Caixabank. In Hungary, while other windfall taxes were phased out in 2024, the windfall tax still applies to credit and financial institutions. Meanwhile, Slovakia also still has a windfall tax on banking institutions while having phased out similar taxes on other sectors such as electricity producers. In Czechia, both banks and electricity companies still had windfall profit taxes in 2024. Lithuania also had a bank and energy sector windfall profits tax. The United Kingdom, which also implemented a windfall profits tax on oil and gas companies in 2022, extended its application to 2030.

Some of the windfall taxes came with a major caveat. In the UK, the government didn't want to discourage investment in oil and gas extraction. The UK included a clause to ensure that companies investing in new projects in the North Sea would benefit from a tax relief rise. The New Economics Foundation (NEF) estimates that oil and gas extractors could receive up to £18.1 billion in tax relief between 2023 and 2026. The levy had two investment allowances: until 31 October 2024, the 29% investment allowance (80% of investment expenditure prior to 2023), which was abolished on 1 November 2024; and the 80% decarbonisation of oil and gas production investment allowance, now reduced at 66% to compensate for the higher rate of Energy Profit Levy. In addition, capital allowances, including 100% First Year Allowances, are

still taken into account in calculating levy profits. This is generally calculated in the same way as the standard corporation tax applicable to all companies but with the addition of a "ring fence" and the availability of 100% first year allowances for virtually all capital expenditure.

Had these various reliefs been directed towards renewable energy and related storage capacity, they could have supported substantial investment in the energy transition. Alternatively, the windfall tax without exemptions could have raised more revenue that could be spent on mitigating actions for households and businesses who suffered from high energy prices.

In 2021 and 2022, the IMF estimated that corporate profits accounted for half of inflation in Europe. A small number of firms have quasi-monopolistic positions in the market, due to their power to set prices. In particular, the sectors of energy, food (grains and seeds sectors are highly monopolistic) and pharma have seen huge price hikes. In the US, research shows that 51% of fossil fuel profits went to the wealthiest 1%, predominantly through direct shareholdings and private company ownership. By contrast, the bottom 50% only received 1%. As a consequence, fossil fuel profits in 2022 increased the disposable income of the wealthiest Americans by several percent and compensated a substantial part of their purchasing power loss from inflation that year, thereby exacerbating inflation inequality. The role of profits in energy price inflation has also been exposed in the EU, due to energy companies' profit maximisation imperative. In response, EU governments implemented energy price control and income support for consumers. In addition, the EU introduced the windfall profits tax on fossil fuel companies as well as a cap on market revenues to electricity producers. Analysis by the Commission of price developments in the fossil fuel sector point to a gradual decrease in and a stabilisation of energy prices in 2023 and 2024 compared to 2022, when these measures were introduced. .

Trade unions demand monitoring corporate profits, not only wages, as inflation drivers. Stronger price monitoring and margin control is key. Profit-driven inflation requires vigilance over mark-ups and transparency in price formation to protect workers' purchasing power. The inflationary risk is an additional reason to better monitor price formation in the field of energy, and to establish a common methodology to monitor whether fossil fuel corporate profit taxes are being passed on through higher prices.

Conclusion: The experience of the solidarity contribution on fossil fuel companies' profits was a step in the right direction in reversing the long-standing trend of lower CIT rates for the corporate sector overall, and the fossil fuel sector in particular. We suggest learning the lessons from it, and to build a differentiated corporate tax system for all fossil fuel companies. Tax incentives, if included, should only be for genuine investments in renewable energy and related storage capacity.

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3. Would higher CITs increase consumer electricity and energy prices?

This chapter assesses whether higher taxation of fossil fuel corporate profits could be passed on to consumers through higher energy prices. Drawing on economic literature and country evidence, it analyses the determinants of energy prices, the incidence of corporate income taxation on shareholders, workers and consumers, and the conditions under which pass-through may occur. The chapter also examines how tax design, legal safeguards and monitoring mechanisms can minimise pass-through risks, and reviews national and EU-level experiences with bans on passing tax costs on to consumers.

3.1. What determines the price of electricity in the EU

The CIT rate is not a prevalent factor that determines electricity prices. Electricity prices are rather determined by the following structural factors:

- Wholesale energy costs may vary depending on the cost of energy generation (based on the technology and the price of fuel used), carbon allowance cost, supply and demand conditions, power plant availability, and possibility to store and trade energy across borders.
- Network charges cover the cost of transporting electricity to customers, financing the investment for grid upgrade and expansion, as well as system services and balancing costs (to keep the system stable). In the EU as a whole, network charges make up about a quarter of final household energy prices (both electricity and gas).
- Taxes and levies and policy charges paid by consumers, including value added tax (VAT), excise duties and various levies. Research shows that in the EU, taxes and levies added to electricity are among the drivers of pricing imbalance between electricity and gas.

Electricity prices therefore often reflect policy choices made by governments. Interestingly, CITs are generally not discussed as a factor in electricity price determination even though corporate tax rates vary quite dramatically across EU countries.

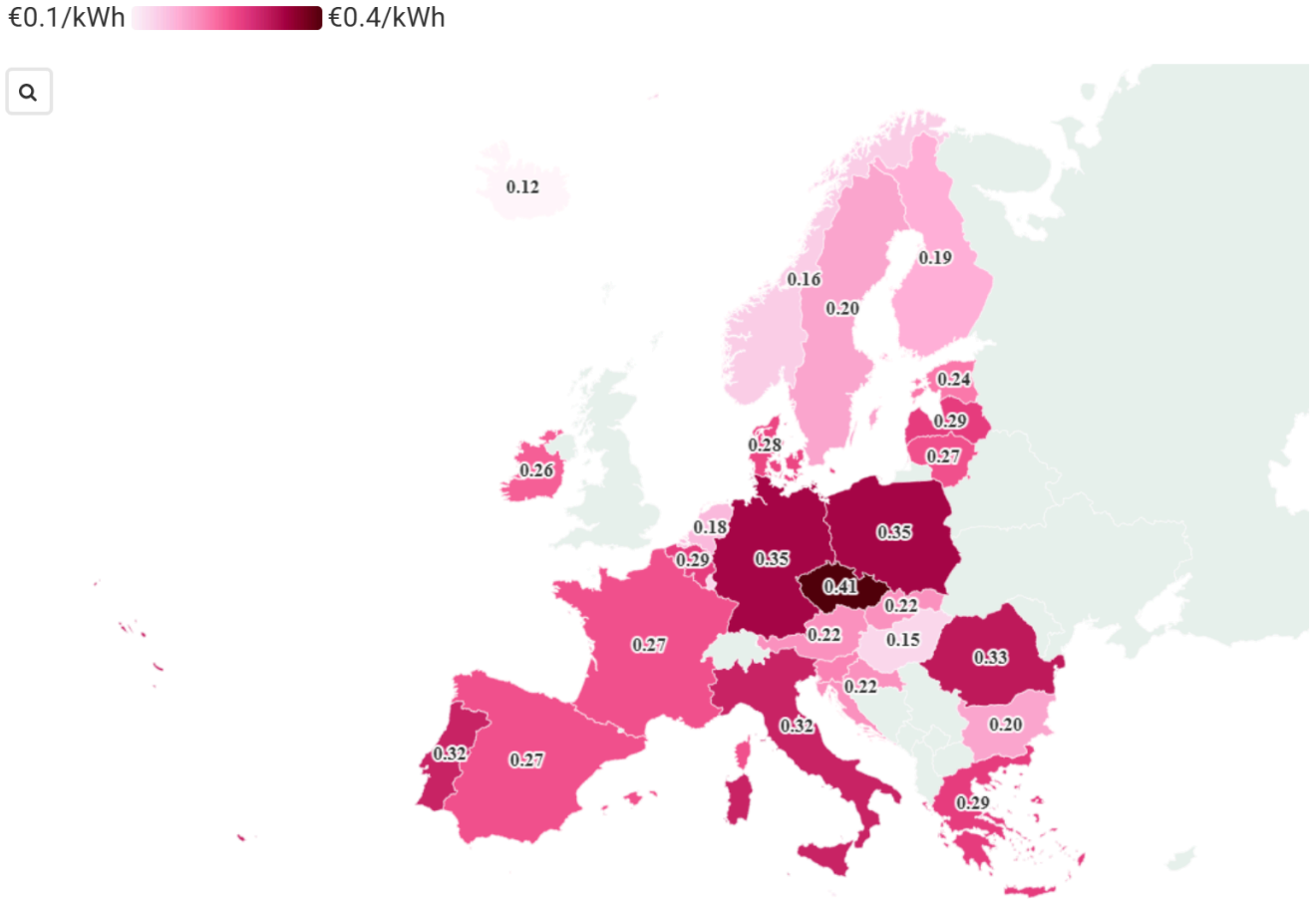
By comparing different countries we can conclude for instance that Ireland (electricity price 31.4c/kWh in EUR) and the UK (electricity price of GBP 26.35p/kWh, 30.16c/kWh in EUR) have vastly different CIT rates, where the UK headline rate is 25% while the Irish headline rate is only 12.5%. The UK and Ireland both apply windfall taxes on fossil fuel profits and in both cases prices have remained similar. The UK and Ireland both rely on fossil fuels to meet their energy demand, and the influence of gas on setting the price is very high (97% in the UK, 72% in Ireland in 2021). The low corporate tax rate in Ireland has not incentivised shifting away from gas or coal, it has rather allowed a high rate of profit and dividends for these companies.

In 2024, the UK grid was 29.9% gas, 30.7% wind, 13.4% nuclear, 7.3% biomass, and 6.4% solar. It is gradually decarbonising, and coal was phased out in 2024. Ireland, meanwhile, was 53.2% gas, 6.9% coal, and 22% wind energy in terms of production in 2023. Historically in Ireland, wind energy has so far replaced coal power generation almost entirely, but it has not yet reduced the share of gas in the electricity production mix, which it is likely to do in the future. This replacement has very little to do with the CIT rates. Actually, when CIT rates are low, firms may be less inclined to invest in renewables, as their ability to use these investments to offset higher tax liabilities is reduced.

Italy, with a corporate income tax rate of 27.9% in 2024, and Romania, with a rate of 16%, are among the EU countries with the highest retail energy prices. In both countries we see a distinctive pattern of fossil fuel reliance. Romania is still relying on Russian gas, and has had to gradually shift its electricity production to other sources, and rely increasingly on imports. Romanian businesses are now receiving loans and grants from the European Bank for Reconstruction and Development (EBRD) to green the energy supply, which then enables the mobilisation of private financing. Public subsidy and public policy support - not low CIT rates - are enabling renewable energy investments in Romania. Meanwhile, Italy has relied on gas for electricity generation. Italy has implemented a wide range of tax incentives to support green investment and has received financing from the European Investment Bank (EIB) and the Recovery and Resilience Facility (RRF), including for measures such as the Superbonus scheme for renewable energy and energy efficiency upgrades, subsidised loans, and differentiated energy pricing policies designed to encourage investment in southern regions. Both countries applied a series of measures to reduce the cost of energy to consumers and businesses during the years 2021-2024. Romania extended the support until July 2025, but this has now ended, and consumer electricity prices have increased dramatically after the price cap ended.

Households electricity price, second half of 2024

In €/kWh, expressed in Purchasing Power Standards (PPS)



Source: Eurostat [nrg_pc_204] • Electricity price from the second semester of 2024. All taxes and levies included.

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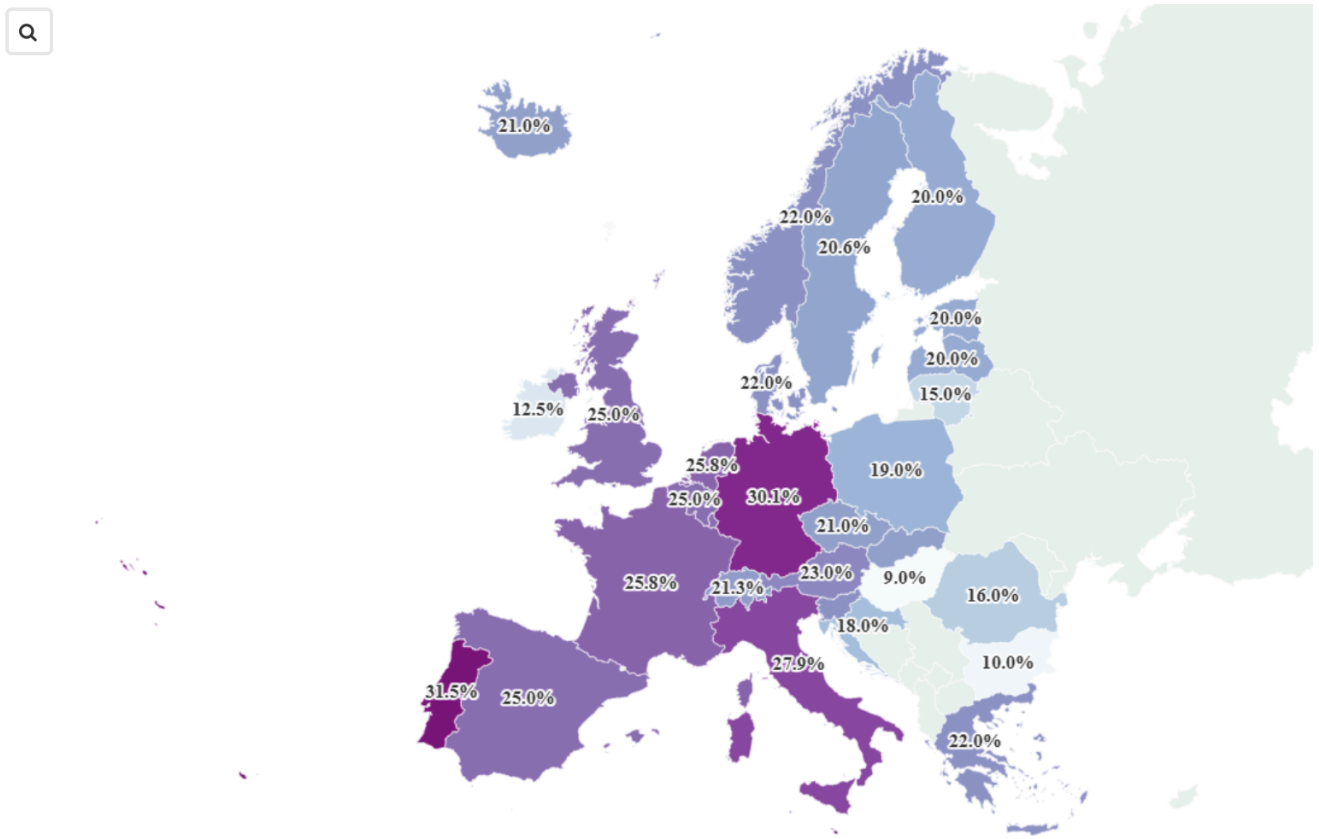
Corporate tax in 2024 (%)

Includes both sub-national and federal headline corporate taxes

9% 35%



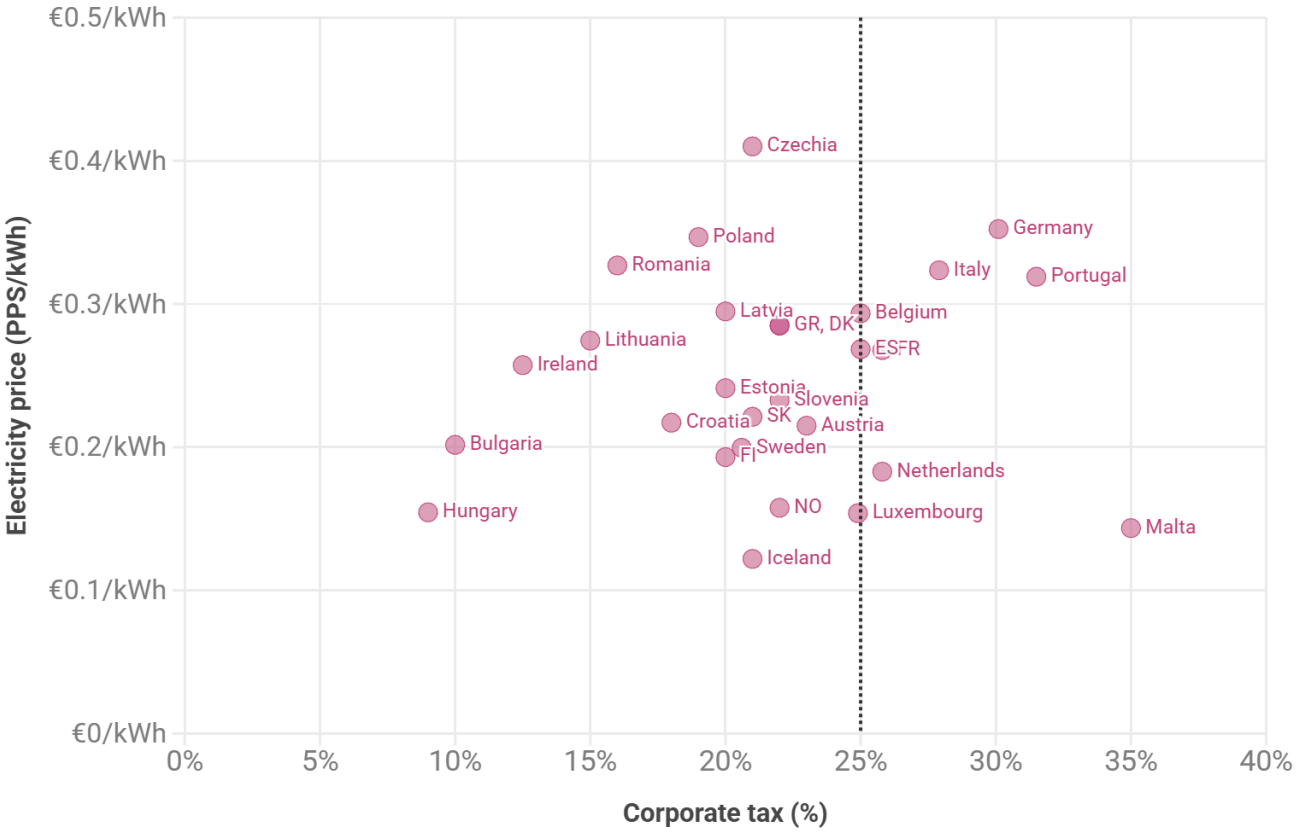
Source: Eurostat, Governments of the UK, Norway and Switzerland

Commissioned by

The two graphs below, showing electricity and gas prices respectively, indicate that there is no close correlation between energy prices and the level of CIT. As noted above, energy prices are shaped by a wide range of complex and interrelated factors.

Electricity price and corporate tax level in the EU

Electricity Price in €/kWh, expressed in Purchase Power Standard (PPS)



Source: Eurostat [nrg_pc_204] • Electricity price from the second semester of 2024. All taxes and levies included.

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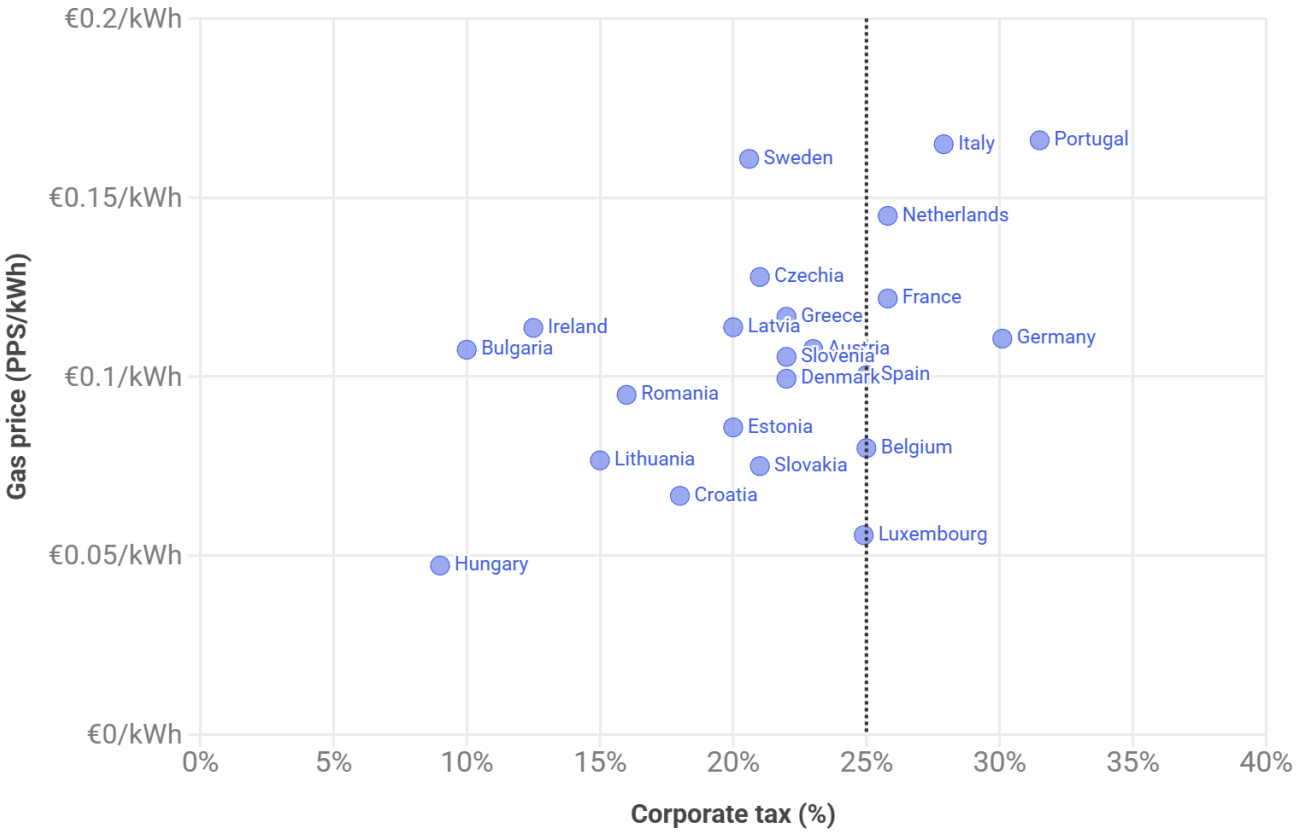
Gas price and corporate tax level in the EU

Gas Price in €/kWh, expressed in Purchase Power Standard (PPS)



Source: Eurostat [nrg_pc_202] • Gas price from the second semester of 2024. All taxes and levies included.

Conclusion: Energy prices in general, and electricity prices in particular, are shaped by a range of structural factors. Energy retail prices depend on many factors, including the wholesale price as well as other factors such as market competition and market integration conditions, regulatory and policy-related costs, taxation as well as consumers' needs and behavioural patterns. The price of electricity at the retail end depends on the energy mix of the country (the sources of energy used to generate electricity), energy taxes and levies, grid infrastructure and subsidies. The profit margins of energy producers and energy retailers, and how these profits are taxed may play a role in investment decisions rather than energy prices. CITs are not generally identified as a determinant of energy prices, nor is there evidence of a correlation between corporate income tax levels and electricity prices.

3.2. What is the pass-through of CITs?

In this section, we analyse the potential pass-through of CITs to shareholders/investors, workers, and consumers, including both households and firms.

3.2.1. Most of the pass-through impacts shareholders, rather than consumers

The impact of a corporate tax rise is different from an increase in sales, VAT or excise taxes, where sales tax is closely linked to unit costs that are more closely associated with consumer prices. In some retail sectors, e.g., cigarettes, the cost is almost entirely passed on, while in other sectors with higher margins, retailers and wholesalers may absorb a higher part of the cost. Levies applied to unit costs of electricity and gas, or fuel duties also tend to be very closely passed on to consumers, as are potentially carbon taxes and purchases of ETS credits. These are applied on the consumer-facing side of the business, rather than the balance sheet of the business. Literature indeed suggests that the impact of price increases due to energy taxes and carbon pricing tends to be regressive in developed countries, as low-income people spend a larger share of it on energy or carbon-intensive consumption - even if in absolute terms, richer households emit more than poorer households.

Congressional analysis in the US concerning the impact of a CIT rise assessed in 2021 shows that the incidence of a CIT rise from 21% to 24% falls mainly on highest income earners (those with incomes above 1 million USD bearing 30% of the increased impact the subsequent year and 20% still 8 years after the CIT increase). Over time, the impact of a CIT increase is distributed more evenly among income earners from US$100,000 of annual income and above. The US uses a rate of 82% of a CIT increase being paid by capital income and 18% by labour income, and ultimately capital income earners are those who hold most wealth in shares in diverse ways (savings, pensions, insurance, other instruments).

Where CITs are reduced, there is generally no impact in terms of reducing consumer prices, and the cut in corporate taxes tends to increase shareholder returns. Trump Administration officials claimed their centrepiece corporate tax rate cut would "very conservatively" lead to a US$4,000 boost in household income. Research shows that workers who earned less than about US$114,000 on average in 2016 saw "no change in earnings" from the corporate tax rate cut, while top executive salaries increased sharply.[1] This means that tax cuts were largely passed through to shareholders, and since wealthier individuals and households hold a substantial portion of their wealth in shares, they are the primary beneficiaries.

Similarly in the UK, both the Institute of Fiscal Studies (IFS – a centre right thinktank), and the Office of Budget Responsibility (official budget watchdog) argue that the primary burden of an increased CIT rate falls on shareholders. The IFS considers that "The direct effect of a corporation tax is to reduce companies' after-tax profits and therefore the return to company shareholders (e.g., through lower dividends)." They also point out that a higher CIT rate may reduce the rate of investment that companies make.

It should be noted that in certain sectors research has shown that a CIT increase can lead to higher consumer prices. One study by the European Central Bank (ECB) estimates that a tax rise of 1% leads to a 0.4% increase of prices in the retail sector for food and personal care products

[1] The $114,000 threshold for the 90th percentile of the within-firm earnings distribution appears in an earlier version of the paper, dated December 9, 2022 (Table 5, Panel A).

in Germany. This significant pass-through of the tax burden to consumers was mostly due to price changes in supermarkets and hypermarkets, suggesting that manufacturers may exploit their market power to shield profits from corporate taxes. A study in Germany finds that a one percentage point increase in a producer's corporate tax rate raises the retail prices of its goods in stores in the rest of Germany on average by 0.3%. A study of gas stations in Germany (with variable CIT rates depending on the municipality), found that fuel prices increased €0.1on average for each percentage point the corporate tax was increased. Other factors (big brand names, proximity to motorways, opening hours) affected the prices more than CIT rates. In the USA, a study found that a one percentage point increase in a state-level corporate tax rate leads to an increase in affected retail prices of approximately 0.24%. Again, this wasn't the leading determinant of consumer prices. These studies suggest that limited pass-through may occur, depending on the elasticity of demand—i.e., the extent to which consumers can adjust their consumption in response to higher prices—and on market structure, as firms are more able to raise prices in highly concentrated or monopolistic markets.

The elasticity of demand and the company's market power are indeed important elements to take into account to anticipate whether a higher CIT could lead to increased consumers' price. It is therefore important when taxing fossil fuel profits to ensure that affordable alternatives are available (such as heat pumps, public transport, and home insulation). As households gain the ability to shift to renewable energy sources, demand becomes more elastic - making it more difficult for fossil fuel companies to raise prices in response to higher taxes. Ensuring a healthy level of competition in electricity markets would further reduce the risk of pass-through. Competition is typically strongest at the retail level, while entry at the generation level involves longer timeframes and higher barriers.

Finally, petrol stations warrant specific attention. As a low-margin business, higher CIT rates may be more readily passed through to petrol and diesel prices, as well as to other goods sold on site. This risk is particularly relevant for independent petrol stations—many of which operate as franchises despite carrying the branding of large companies—rather than supermarket- or large retailer-owned stations, which can more easily absorb costs across multiple business units.

3.2.2. Some possible pass-through onto workers

While pass-through to consumers appears exceptional, there are debates among economists about the incidence of corporate taxation on labour costs (i.e., wages). Studies have shown more significant pass-through of CIT rises to workers than to consumers. The pass-through will depend on wider labour market conditions, such as supply of labour in specific industries and jobs.

The Joint Committee on Taxation (JCT) in the US Congress, for example, assigns 25% of the CIT burden to labour and the rest to firm owners. It also specifies that the Department of the Treasury assigns 20% to labor in its last distributional estimate. A 2021 Congressional Research Service report for the JCT cites among others a study by Harberger, who concludes that, under a closed economy model: because owners of capital have far less ability to adjust their investment decisions to changes in taxation than labour has, the entire long-run burden of the corporate tax falls on capital owners, with both corporate and non-corporate capital owners being affected. In an open economy model it is estimated that up to 79% may fall on labour, and the rest on capital.

A study in Germany estimated that in some sectors 47% of CIT incidence is passed on to wages. This is probably true in industries with relatively small profit margins - which for the moment is not the case of the fossil fuel industry. However, given the importance of dividend stability for investors in the oil and gas sector, firms may be reluctant to reduce shareholder payouts, which suggests that limited adjustment pressures on labour costs cannot be fully excluded. While literature suggests that between 18 and 47% of the tax increase could be passed onto the labour force, it is important to note that the fossil fuel phase out will inevitably have an impact on workers in the fossil fuel sector and those in the direct supply chains. They will ultimately have to transit to other employment opportunities. Therefore, there is a need for:

1. A Just Transition Directive to anticipate and manage such changes for workers in the fossil fuel industry expected to phase down, and related supply chains;
2. Support unionisation and collective bargaining, including in new emerging green sectors
3. Making sure that any public funding for those companies, including tax breaks, go with environmental, but also social conditionalities to protect workers in the transition and incentivise the creation and protection of quality jobs in the EU;
4. Fully implement the Adequate Minimum Wage Directive target of collective bargaining coverage of 80%.

Furthermore, tax avoidance of income taxation is skewing the picture of labour pass-through of CIT rises. A lower CIT rate, relative to labour taxes, may incentivise a company to reduce the number of workers under the income tax system, while increasing the number of workers in agency contracts or as contractors paid through a supplier relationship rather than as an employee. Such practice allows the company to benefit from the lower CIT rate instead of the higher labour taxation rates. This can affect the studies on labour pass-through of CIT rates.

This is particularly true for workers hired through so-called 'umbrella companies', which vary across Europe. A study by the UK's Trade Union Congress (TUC) states that there is "an established contractor culture in oil and gas", contributing to companies not paying employer-related payments, but asking employees to be contractors. TUC is also concerned that this may extend to the offshore wind sector.

The use of agency workers can be an aggressive tax avoidance scheme if the client has one long-term employer and genuine conditions for contracting aren't met. Overall, TUC also cites studies showing that 50% of agency workers work via umbrella companies. Analysis suggests

there are approximately 1.4 million individuals involved in agency work, and a further 325,000 self-employed persons use umbrella companies. In conclusion, the wider the gap between marginal rates of income tax, and the applicable CIT and dividend income tax are, the more this presents an opportunity for tax avoidance and more precarious working conditions.

Conclusion: Generally speaking, evidence suggests that a CIT increase (i.e., taxing profits) mostly burdens shareholders and capital owners. Indeed, profits generally are either distributed to shareholders or reinvested in the company. Energy companies are likely to first and primarily pass the cost on to shareholders in a competitive market that adjusts to a higher rate of corporate taxation. Some of the cost may be passed onto workers, and to a lesser extent to consumers, depending on the elasticity of demand, volume sales, profit margin and possibility of tax planning/avoidance. The fossil fuel sector has high profit margins which makes wages pass-through less likely than in low-profit margin sectors. As far as workers are concerned, there are very important measures and policies to put in place in order to make sure they don't lose out from the transition away from fossil fuels.

3.2.3. Impact on investment level in company operations

The OECD and some tax academics argue that lower CIT rates lead to higher investments. However, other studies conclude that there is evidence for publication selectivity in favour of reporting growth-enhancing effects of corporate tax cuts, and that a meta-analysis of studies does not exclude a zero effect of corporate taxes on growth. There are some exceptional circumstances where lower CIT rates may attract significant investments, at least on paper. These tend to be related to very low CIT rates (e.g., Hungary attracts manufacturing investments in automotive, electronics, and pharmaceuticals with its low 9% CIT rate), or due to eroding the tax base and shifting profits from other countries (Ireland, Luxembourg) where a large share of GDP is made of profits generated elsewhere, but on paper reported in these jurisdictions for tax purposes. Studies show that inward investment is influenced more by indirect effects, such as how corporate tax changes affect incentives for research and development or the availability and skills of workers.

When assessing the potential impact of a corporate tax on the level of investment in company operations, it is important to determine whether current profits are being reinvested meaningfully, or only marginally. In 2021 and 2022, the biggest firms experienced an 89% leap in profits. Of these profits, 82% were used to benefit shareholders. As for the fossil fuel sector in particular, Greenpeace analysed the annual reports for the year 2022 of six global oil giants and six European oil and gas companies. The study shows that only 7.3% of the investments made by these twelve companies in 2022 were allocated to green energy, amounting to €6.57 billion. In contrast, 92.7%, or €81.5 billion were spent on fossil fuel projects, and even the expansion of the fossil fuel business. In 2025, major oil and gas corporations cut their targets for future low carbon investments.

Dividend expectations typically differ between early-stage companies focused on growth and mature firms with stable earnings and established return profiles. When a company is a new entrant to the market (e.g., most electric vehicles companies, and some wind companies), there is no immediate expectation of profit or indeed dividends distributed from profits. Where a company is more mature (e.g., an oil or gas company wanting to transition into low-carbon energy), existing shareholders may not expect periods of low profitability as they are used to higher constant returns from a mature actor in a mature industry. Taxing fossil fuel profits would help signal to investors that they can expect lower profits from fossil fuel investments in the future, which would then allow them to redirect investment where it is needed to strengthen Europe's economic security and resilience to both geo-political threats and climate impacts.

Conclusion**:** Higher CIT rates can affect investment rates, but wider studies that don't focus on single and exceptional sectors show that a much wider set of circumstances affect investment decisions, and the impact of CIT rates on investment are generally neutral. In light of the low level of investment by fossil fuel companies in renewable energy, a tax on fossil fuel profits, potentially combined with a tax deduction for investments in renewable energy and related storage capacity, would usefully support a gradual reallocation of capital, thereby contributing to EU energy security and to curbing climate change.

3.3. The tax design matters

Tax design impacts how the burden of the tax can be passed onto consumers.
As seen above, if a tax is applied on profits, it is less likely to be passed onto consumers as profits generally are either distributed to shareholders or reinvested in the company. CAN Europe supports three possible tax designs on the profits of the fossil fuel industry, and proposes to build on the EU solidarity contribution to define the fossil fuel industry, i.e., the scope of the tax.

An excess profits tax is less likely than carbon taxes to have any pass-through to consumers as investors and shareholders would still have a significant return to their investment and receive dividends, thus the management would not feel under pressure to raise the level of profitability and distribution of dividends to investors. Carbon prices, however, are a very important tool to reach another objective: give the right price signal on the market, as long as low-income consumers are compensated through adequate general social protection systems or specific allocation to counter the impacts.

A top-up in the CIT (i.e., also a tax on net profits) would have a higher revenue potential than an excess profit tax as long as it does not involve huge deductions for investments. It would thus be able to fund more energy transition and mitigation measures. It would also give a clear signal to capital owners/shareholders that they can expect lower profits from fossil fuel investments in the future. However, compared with an excess profits tax, this approach may

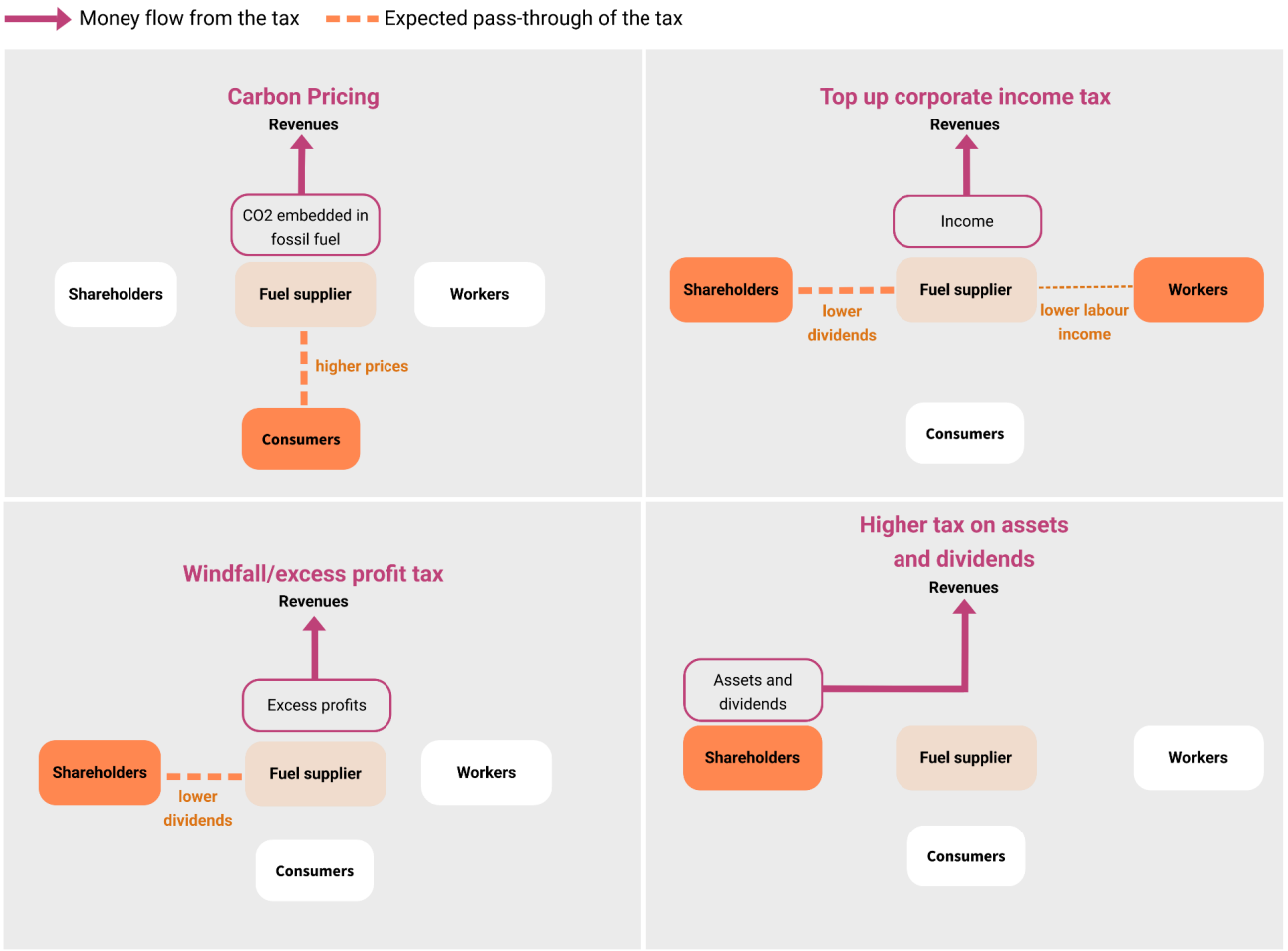
carry a higher risk of the additional tax burden being passed on to workers and, in exceptional circumstances—such as in low-margin or highly concentrated sectors—to consumers.

A tax on the ownership of fossil fuel assets would mainly be passed through to asset owners, and would disincentivise holding fossil fuel assets if the asset owners can find other similarly performing assets. Asset owners would see their income decrease, and where an asset owner is an institution (including pension funds, insurance companies) there is a possible pass-through to pensioners or insurance policy holders. Some pension funds already require stronger attention to climate from their asset managers. Making their choice of asset manager conditional on ending support for fossil fuel expansion would protect pensioners against climate risks to the retirement security of millions of workers. It would also protect them from any financial risk related to stranded assets or higher taxation of fossil fuel profits. The incidence of such a tax in the long-term would be smaller profits for the fossil fuel industry, due to higher cost of capital.

As far as carbon prices are concerned, studies have shown for example pass-through of ETS1 credits to consumer prices in the energy sector, although not completely. The extent of pass-through depends on each generator's market power, the sensitivity of demand for the electricity they produce to price changes—i.e., the elasticity of electricity demand—and the extent to which they choose to absorb the additional costs. In manufacturing, pass-through was considered more limited due to being subject to international competition. As above, the one sector where ETS credits are passed the most to consumers are retail petrol stations, which in the UK saw a pass-through of carbon permits of up to 50%-75% due to inelasticity of demand, carbon tax directly affecting the product being sold, and low profit margins.

Fossil fuel tax designs and expected pass-through

Illustrative example—does not reflect all real-world conditions



Source: T&E, CAN-E (2026) Taxing fossil fuel profits, not consumers

Design of CITs should be done so as to avoid potential leakages and opportunities for profit shifting and tax abuses. One way to mitigate leakages is to ensure that all fossil fuel companies need to report their taxes on a public country-by-country reporting basis, as is already the case in the EU Accounting Directive regarding extractive industry companies and financial industry companies. The threshold for country-by-country reporting under the EU Directive 2016/881 being set at €750 million is relatively high, and the EU has made public country-by-country reporting only mandatory for EU jurisdictions and named harmful tax jurisdictions rather than all jurisdictions. The country-by-country report will include information for every tax jurisdiction in which the MNE group does business on the amount of revenue, the profit before income tax, the income tax paid and accrued, the number of employees, the stated capital, the retained earnings and the tangible assets. The threshold for fossil fuel companies should be lower, and made public to all jurisdictions.

3.4. A legal ban on companies to pass on the cost onto consumers

In the past, there have been attempts by the legislator to prevent energy companies from passing the cost of a tax onto consumers - both individuals and companies.

The Belgian law of 16 December 2022 establishing a measure equivalent to the EU solidarity contribution[2] prohibited oil companies from passing the cost of the solidarity contribution, in all or in part, on to final consumers (individuals or other companies) (art 5.1). The government ensures a general monitoring of the energy market and prices, but did not put in place a particular control connected to the 2022 law and the way companies absorb, or not, the burden of the tax. However, in Belgium, the price of oil products is capped via a contract-programme concluded between the State and Energia. The solidarity contribution was not taken into account in the calculation of that maximum price, since the law establishing the tax was banning the pass-through. Therefore, one can consider that the onus of the tax was not passed onto consumers as far as oil products are concerned.

In Spain, the EU Solidarity Contribution was implemented through Law 38/2022. This law includes a ban on passing through the burden of the tax on to consumers (art. 1 para. 8).[3] It empowers the competition regulatory agency (CNMC) to monitor the respect of the ban and implement sanctions. The government is required to publish an assessment of the implementation of the tax by the end of 2024 (art. 2.13).

In Italy, it appears that lessons were learned from the Italian Robin Hood tax on energy companies. A 2008 law in Italy provided for an additional levy ("surcharge" of 5.5%) on the income tax of the companies operating in the sale of gasoline, petroleum, gas and lubricant oils that had achieved revenue in excess of €25 million during the tax period. This law applied the supplementary tax on certain companies operating in the energy sector to rein in what was considered excessive profits from high oil prices. It prohibited the undertakings liable to the levy from passing it on to consumer prices. The Electricity and Gas Authority (which subsequently became the Regulatory Authority for Electricity Gas and Water) was required to monitor and submit an annual report to the Parliament concerning the effects of the tax. In 2015, the Italian Constitutional Court ruled this law anti-constitutional (cf. principles of reasonableness and

[2] The EU regulation applied to companies with activities in four sectors (the crude petroleum, natural gas, coal and refinery sectors) generating at least 75% of their turnover from economic activities in the field of the extraction, mining, refining of petroleum or manufacturing of coke oven products. The Belgian law taxes oil companies active in crude oil and refinery, but also the distribution of "diesel, gasoil et essences" – so extends to distribution, but does not cover gas and coal companies, nor kerosene. Also, the tax base is not profits or windfall profits, but the number of cubic meters put for consumption. So both the tax base and the scope differ from the EU regulation.

[3] "El importe de la prestación y su pago anticipado no serán objeto de repercusión económica, directa o indirecta. Tendrá la consideración de infracción muy grave el incumplimiento de la obligación a que se refiere el párrafo anterior y se sancionará con una multa pecuniaria proporcional del 150 por ciento del importe repercutido. Esta infracción no tendrá carácter tributario y estará sometida al régimen administrativo sancionador general. Corresponde a la Comisión Nacional de los Mercados y la Competencia la comprobación del cumplimiento de la obligación a que se refiere el párrafo primero así como, en su caso, la tramitación y resolución de los procedimientos sancionadores por incumplimientos de la misma. A related FAQ specifies that "La prohibición contenida en el número 7 del artículo 2 de la Ley se refiere únicamente a la repercusión económica a los clientes de la entidad".

proportionality) on several grounds. One of them was the fact that it was impossible to put in place assessment mechanisms capable of ensuring respect for the obligation not to pass on the cost of the tax increase to consumers. In fact, the Court indicated that there was a suspicion that the prohibition on transferring the burden onto prices had not been complied with, but that it could not be properly sanctioned "due to the objective difficulty within a market economy in isolating the element of the price charged that is due to transfers motivated by the tax". It is to be noted that the ruling was not applied retroactively, so that the Italian government did not have to reimburse the taxes perceived so far.

It seems that the implementation of the EU solidarity contribution in Italy in 2022 has been taking on board the lessons learned from the Robin Hood tax, as there are now assessment mechanisms in place to determine whether there has been pass-through. In Italy indeed, the law decree that established the solidarity contribution in 2022 (Decreto-Legge no. 21/2022 – cf article 37, points 8 and 9) required the Italian antitrust authority (the Autorità Garante della Concorrenza e del Mercato), supported by the Finance Police, to verify that companies were not increasing prices for consumers. Companies under the solidarity contribution were required to communicate to the antitrust authority, at the end of each month, the average purchase, generation and sale prices of the energy carrier (natural gas, methane, gasoline, diesel, etc.) that they sold the previous month.

Art. 30f para. 3 of the ETS 2 Directive foresees that "From 1 January 2028, Member States shall ensure that, by 30 April each year until 2030, each regulated entity reports the average share of costs related to the surrender of allowances under this Chapter which it passed on to consumers for the preceding year. The Commission shall adopt implementing acts concerning the requirements and templates for those reports. (...) The Commission shall assess the submitted reports and annually report its findings to the European Parliament and to the Council. Where the Commission finds that improper practices exist with regard to the passing on of carbon costs, the report may be accompanied, where appropriate, by legislative proposals aimed at addressing such improper practices." This provision does not define what "improper practices" mean, and regrettably proposes to only table legislative proposals once the damage is already done.

Lessons should be learned from those various experiences of banning pass-through onto consumers, and best practices identified.

Conclusion**:** With appropriate tax design, the risk of pass-through can be kept to a minimum. Nevertheless, the legislation establishing a tax on fossil fuel profits should explicitly prohibit companies from passing the cost on to consumers. Given companies can increase prices for a variety of reasons, to enforce such a ban, policymakers in the EU should establish a common methodology to monitor whether fossil fuel corporate profit taxes are being passed on through higher prices. It would allow legislators to underpin a ban with effective sanctions. This may require looking at existing best practices and additional research.

4. Conclusion and recommendations

4.1. Conclusion

In the context of declining headline and effective corporate tax rates and sustained high profitability in the fossil fuel sector, increased taxation of fossil fuel industry profits is key. Profit-based taxes are less likely to be passed on to consumers—both households and businesses—than consumption-based taxes. With profit-based taxes, the tax is applied to the gross-profits of the company, after allowable deductions, tax credits and other incentives for green investments. These taxes can take for example the form of an excess profit tax, a top-up on the CIT, or a tax on the ownership of fossil fuel assets. Taxing fossil fuel companies should go together with ending fossil fuel subsidies, starting with production subsidies, as they are counterproductive and provide contradictory signals to market players.

Companies and their interest groups tend to argue that lower CITs help investment and growth. That's for example the kind of arguments used by the Tax Foundation Europe to justify their calls for lower corporate taxation. However, evidence from literature is mixed in that regard, and drivers for investment decisions are most often not primarily related to CIT rates. Taxing fossil fuel industry profits would provide a structural signal to investors, discouraging continued investment in fossil fuel activities and reallocating capital in the energy transition, thereby strengthening Europe's economic security and resilience to both geo-political threats and climate impacts. In addition, tax deductions can be envisaged for investments in renewable energy and related storage capacity that those companies would do.

With the right tax design, there is no or only very limited expected pass-through to consumers. A ban on pass-through in the law would protect consumers even more. As for workers, the expected pass-through would be very limited. However, workers in the fossil fuel industry need anticipation and support throughout the expected changes in the sector due to fossil fuel phase out altogether.

4.2. Recommendations

1	**Introduce a differentiated corporate tax framework for fossil fuel companies, building on the experience of the 2022 EU solidarity contribution**, to reverse the long-term decline in effective corporate taxation in the sector.
2	**Prioritise profit-based taxation to complement existing consumption-based carbon pricing** when raising revenue from fossil fuels, as the risk of pass-through of taxes on corporate profits and capital income on to consumers are minimal.
3	**Extend and institutionalise taxation of fossil fuel windfall and excess profits**, moving beyond one-off or temporary measures towards a more stable and predictable fiscal approach. An EU Regulation would ideally be needed to ensure the coordinated introduction of such a tax in all Member States. This would reduce the scope for aggressive tax planning and tax avoidance (profit shifting) within the EU.
4	**Explicitly prohibit the pass-through of fossil fuel profit taxes to consumers** (households and businesses) in the legal design of any new tax. Establish a common EU-level methodology to monitor price pass-through, enabling effective enforcement of pass-through bans and the application of sanctions where violations occur.
5	**Ensure strong flanking measures for workers in the fossil fuel sector**, so that the transition encouraged by higher taxation does not affect income, employment or working conditions. These measures include social conditionalities in public aid to companies to incentivise the creation and protection of quality jobs in the EU; a Just Transition Directive to anticipate and manage changes for workers in the fossil fuel industry; and full implementation of the Adequate Minimum Wage Directive target of collective bargaining coverage of 80%, including in new emerging green sectors.
6	To avoid profit shifting and tax abuses, **put an obligation on fossil fuel companies to report their taxes on a public country-by-country reporting basis**. The threshold for fossil fuel

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companies to report on their tax payments should be lower than the current €750 million consolidated group revenue, and made public to all jurisdictions (as opposed to only EU jurisdictions and named harmful tax jurisdictions under the EU country-by-country reporting Directive).

7 **Recycle revenues from fossil fuel profit taxes into the energy transition**, including: Support targeted consumer protection measures to guarantee vulnerable households and firms the right to energy, for renewable energy deployment, energy efficiency improvements, and reduction of fossil fuel dependence in heating, cooling, and transport, and for international climate finance.

8 **Use fossil fuel profit taxation as a structural signal to investors**, discouraging continued investment in fossil fuel activities while allowing space for incentives that support genuine investments in renewable energy and related storage capacity.

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Annex 1: Examples of environmental taxation in Europe from the Recovery and Resilience Facility (RRF)

Type of policy	Countries that adopted it
Increased or introduced tax reliefs, such as exemptions, deductions and accelerated depreciation to incentivise the use of clean transport, mainly relating to electric vehicles	Belgium, Cyprus, Germany, Spain, Finland, Ireland, Italy and the Netherlands
Implemented reforms to increase taxes and duties on fossil fuels and C02 emissions, with the goal of reducing emissions	Latvia, Lithuania, the Netherlands, and Ireland
Reduced fuel-related fossil fuel subsidies	The Netherlands has proposed to abolish the exemption for dual and non-energy coal consumption by 2027 and Germany has introduced measures to gradually reduce their tax subsidy for diesel used in agriculture and forestry until expiry of the subsidy in 2026.
Introduced measures to encourage environmentally friendly energy sources and energy efficient buildings	Austria has introduced an increased deduction in PIT for the replacement of fossil fuel heating systems, while Cyprus is providing increased capital deductions for expenditures on increasing the energy efficiency of buildings. Ireland has decreased the VAT rate for the installation of heat pumps, while the Netherlands has agreed to apply a reduced energy tax rate on hydrogen to distinguish it from gas. Denmark has also implemented duties on greenhouse gas emissions from livestock as a part of the Green Tax Reform.
Reduced tax dodging by offshore companies	The Dutch Recovery and Resilience Plan includes a law on withholding tax on dividends paid to low-tax jurisdictions, which entered into force on 1 January 2024. This reform aims to reduce the funds flowing from the Netherlands to low-tax jurisdictions and contributes to making the

	Dutch taxation system more transparent internationally.
Technical Support Instrument	Support for the implementation of the CBAM Regulation will continue with the implementation of a multi-country project in Belgium, Ireland, Italy, Latvia, Luxembourg, Malta, Slovakia, Spain, aiming to support national competent authorities to adapt and establish different working methods, procedures and methodologies regarding the integration of different CBAM processes into the national workflow of public institutions. This multi-country project will foster inter-institutional cooperation between different national authorities, enhanced cooperation with the declarants and better dialogue with the European Commission.

Source: Annual Report on Taxation in Europe 2025, https://taxation-customs.ec.europa.eu/taxation/economic-analysis/annual-report-taxation_en

Annex 2: Flanking measures to protect households from rising costs

Table 2: Measures to mitigate rising energy prices to households and businesses

Countries	Reduced energy tax / VAT and regulatory measures	Retail price regulation (cap / social tariff), universal measures	Transfers to vulnerable groups	Business support
Austria	Increased protection against eviction, price increase tax credit, tax bracket revision, protection against eviction, reduction in tax for natural gas, suspension	Electricity price subsidy, energy cost subsidy, electricity price compensation, increased climate grant, public transport support,	Help for low-income households, living and heating grant, additional child allowance, cost of living bonus, reduction of family burden	Energy cost subsidy to businesses (covering 60% of costs), electricity price subsidy, credit line to Wien Energie, increase tax exemption limit to farmers,

	of energy taxes contribution and lump sums	commuter cost compensation	transfer fund contribution, indexed social benefits, one-off payment to vulnerable groups, family bonus grant, one-off payment to pensioners	security of agricultural supply, support for decarbonisation, cost compensation for agricultural diesel
Belgium	Excise duty reduction on gas and electricity for firms, excise duty reduction on petrol and diesel, VAT reduction on gas, VAT reduction on electricity, compensation for excise duties	One-off compensation for electricity (135 EUR) and gas (61 EUR) bills (two times)	Social tariff for beneficiaries of collective heating, extension of social energy tariff (3 times), electricity heating grant (300 EUR for electricity, 100 EUR for oil, gas, butane)	Subsidise SNCB and Infrabel, exemption from social security contributions
Bulgaria	Lower excise on LPG and electricity, lower VAT on bread, district heating and natural gas, excise exemption on electricity and LNG, tax relief for children, full excise reduction	Aid package to consumers		Business support for high electricity prices, aid package to businesses, compensation to companies for high electricity costs
Croatia	Aid package to consumers (tax benefit to households, working students, VAT reduction on gas and heat,	Energy transition and efficiency in buildings, price cap heating and electricity and public sector,	Allowance to vulnerable customers, cash benefit to unemployed persons, student meal subvention,	Measures to help farmers and fisheries, support to MSME enterprises, utility company support

		gas electricity subsidies to households	one-off support to pensioners, energy supplement to low-income pensioners, social benefits to vulnerable groups	
Cyprus	VAT reduction on electricity from 19% to 9% for all households, tax relief on petrol and diesel	Electricity tariff reduction, limit company windfall profits, grant for energy efficient renovations, state aid on electricity bills over a certain amount, installation of renewable energy generation	Grant to vulnerable consumers to replace appliances with energy saving features, VAT reduction on electricity from 19% to 5% for vulnerable households	Electricity tariff reduction, grant to support renewable energy in agriculture, grant to support circular economy, SME energy upgrade scheme
Czechia	VAT exemption on electricity and gas	Cap on electricity and gas prices, aid to households and entrepreneurs	Discounted electricity for low-income families, and direct payments	Compensation for heating plants, bailout of a utility company, company heating support
Denmark	Postponing tax payments, reduction of electricity tax	District heating support, deduction in day-care payments, child benefit increase, temporary freeze on electricity and gas prices, counteract large	Civil society support, support to citizens with high medical costs, disability supplement, help for children in vulnerable families, help for elderly, lump sum increases in	Support for vulnerable energy-intensive cultural institutions, support for small rural shops, loan scheme for energy companies, guarantees for

		rent increases, heating cheque	disability, elderly, and single parents and students, senior citizens' cheque	energy companies, increase employment allowance
Estonia	Deferral of electricity excise tax increase, deferral of liquid fuel excise tax, elimination of gas network fee for consumers, reduction of electricity network fee for consumers	Universal service for electricity, energy subsidy to households, compensate electricity, gas, and district heating price increases to consumers	Compensation of 380,000 vulnerable households for energy prices	Credit guarantees to support enterprises, support to non-household users of gas
Finland	Tax reduction to households with high electricity costs, VAT reduction to passenger transport, VAT reduction to electricity, increase personal income tax deduction on upgrading heating systems, increase deductibility of commuting	Extension of electricity subsidies, temporary reduction on biofuel share in diesel, support public transport	Temporary assistance with energy costs, adjust national pension index	Support of commercial fishers, liquidity support to publicly owned energy companies, financing to public energy company Fortum, rescue package to utility firms, exemption of agriculture buildings from real estate taxes, support building sector
France	Discount on fuel by 18c/l to increase to 30c/l	Subsidy to households heating with wood and oil, postponing abolition of non-road diesel,		Public take-over of Électricité de France (EDF), subsidy to road freight, subsidy to energy intensive

		electricity price cap, gas price cap, energy bill support, increase scale of mileage rebate, energy price cap		companies and SMEs
Germany	Restaurant sales tax reduction, reduction on sales tax on gas, tax allowances for long-distance commuters, abolition of energy surcharges	Subsidy to cover for electricity price hike, financing gas price break, reduction on price of transport tickets, one-off energy price allowance, inflation reduction package of measures	Hardship schemes for research, social services, tenants, hospitals, one-off payments vulnerable groups, relief for students, introduce citizen income, housing benefit extension, increase child allowance, heating and cooling allowance, child benefit bonus, heating subsidy	Federal participation in UNIPER (energy company), hardship scheme for SMEs, culture sector, grants for energy intensive companies, loan guarantees to energy sector, corporate aid package
Greece		Subsidies for vulnerable households, heating benefits, subsidised heating gasoline for households, subsidised petrol and diesel for poor	Support for government entities for petrol costs	Measures for agricultural sector (fuel, foodstuffs, fertilizers)

		households, subsidise diesel and electricity prices for households		
Hungary	Fuel excise tax cut		Price cap on petrol, capped electricity, gas and district heating prices	Company support scheme, support for small gas stations
Ireland	Income tax cut, reduce excise duty for petrol and diesel, tax rebate for energy and broadband, VAT reduction on electricity and gas for households		Electricity cost grant scheme, €500 rent credit, fare discount for public transport, fuel allowance lump sum, energy saving upgrade scheme for households, electricity credit for households, general support for low-income households	Reduced 9% VAT rate for electricity and gas for hospitality, assistance to vulnerable businesses in manufacturing, business energy support scheme
Italy	Reduction of gas VAT, personal income tax cuts, reduction in electricity system use charges, tax cuts on energy taxes, VAT reduction on gas and electricity, cuts in fuel excise and VAT, eliminate system charges for electricity and gas users		Fuel grant for employees, social grant for vulnerable households, social support for high energy prices, measures for third sector, sports clubs, and local government, €150 support for pensioners, €150 support for employees, €150	Tax credit for purchase of equipment for agriculture and fisheries, loan guarantees for small businesses, gas and energy tax credits, company tax credits to purchase electricity and gas, provisions for transport sector, tax credits

			for self-employed, support for cultural institutions (cinemas, theatres), index increase in pensions, support for unemployed and vulnerable households, Social Bonus (discount on electricity bills), contain bill increases on electricity and gas	for fisheries, road hauliers, agriculture
Latvia	Reduction in electricity, gas, heating and district heating system service fees		Compensation for price of energy, compensation for electricity system costs, support for disabled persons, support local government payment of housing benefits, grants to vulnerable households (with children, disabilities, pensioners)	Support to energy intensive companies
Lithuania	VAT relief on catering, recreation, cultural		Compensate households on electricity and	Tax deferral, targeted help to businesses,

	sectors, VAT reduction on district heating, reduce income tax for low-income people		gas prices, index increase in basic support, increase social benefits, compensate high gas and electricity prices	electricity and gas price compensation to businesses,
Luxembourg	Reduced vat to solar panels, temporary reduction of VAT (on everything), diesel price subsidy, energy tax credit		Measures to mitigate impact on households, subsidise households' energy price, stabilise price of gas for households, allowance to vulnerable households, increase child benefit, stabilise energy prices, energy grant for low-income households	Energy aid to companies, scheme for companies on energy prices, assistance to energy intensive businesses
Malta		Energy support measure for households	Food subsidies, fuel and energy subsidies	Subsidised loan scheme, energy support for businesses
Netherlands	Fuel excise duty reduction, reduce excise on petrol and diesel, and LPG, lower energy taxes, VAT reduction on energy, excise tax reduced on fuel	Energy price cap	Compensation for high energy prices for households	
Norway			Household support, housing	Companies support scheme,

			support increased, transfers to municipalities, support scheme for voluntary organisations	support to agriculture
Poland	Reduction of excise duty on light fuel, personal income tax reduction from 17%-12%, reduction of VAT on fuel, reduction of VAT on electricity, tax cuts on fuel	Cap on electricity prices	One off payment to households that are heating with coal, tax advantages to vulnerable consumer, energy allowance to vulnerable households, energy allowance for households	Support for agricultural sector
Portugal	VAT reduction on electricity, lower income tax, VAT reduction on petrol and diesel	Support public transport prices, incentive to sale excess energy to grid, price cap on gas, €10 per cylinder of gas price control	Children in poverty allowance, support for electricity bills, support to families €240, support to social institutions, 'Familias Primeiro' programme (various support schemes children, families, limit rent increases, public transport), vouchers for low-income families, fuel	Support fuel for agriculture, programme to support energy intensive sectors

			consumption voucher	
Romania	Exemption from paying of green levies on electricity and gas, exemption from distribution charges on electricity and gas	Ceiling for electricity and gas prices	Vouchers for low-income families	Business support via grants/loans, aid to SME energy bills, aid for farmers
Slovakia		Capping of electricity and gas prices for companies, heat price cap for households, flat electricity prices for households, cap for municipalities' electricity bills	One off increase in child benefits, one-off aid to low-income families, payment of extra 14th pension, increase for child benefit for newborns	Support for energy intensive businesses, capital injection to agricultural policy
Slovenia	Exemption from payment of network charges, regulation of heating gasoil, excuse duties for petrol and diesel reduced	Regulation of petrol and diesel prices	Direct relief for poorest households, 200 EUR energy allowance, one-off 150 EUR social allowance	Price cap on energy for SMEs, aid to farmers
Spain	Excise duty on electricity cut from 5.11% to 0.5%, suspension of electricity generation tax, VAT frozen for electricity, then rebate of 5% for consumers of gas, VAT on electricity	Price cap on wholesale market, temporary reduced tariff introduced for electricity and gas, gas price cap	Social Thermal Grant in hottest and coldest areas, Social Bond where vulnerable receive discount of initially 40%, then 65% (vulnerable) to 80% (severely	Electricity intensive users see grid access tariffs reduced by 80%, suspended tax on electricity generation 7%, subsidy to industry with intense gas consumption, aid

	to remain at 5%, various fuel price discounts, regulatory measure to not cut basic supplies from households from vulnerable customers, rent increase freeze of 2%		vulnerable), expand number of households who receive support for energy bills (reaching 4.2 million households), aid to vulnerable consumers, heating voucher, direct income support of 200 EUR, 15% increase in disability pensions, increase minimum basic income by 15%	to farmers on carbon tax, subsidised fertilizers, aid to transport sector, tax credit to gas intensive industry
Sweden	Reduced taxation of diesel and petrol, suspension of GDP indexing of diesel and petrol duty	Electricity bill compensation for South and Central Sweden (Sweden has 5 energy markets), compensation payments for South and Central Sweden, Support for energy-efficient home renovations	Housing support supplement	Temporary tax cut for agriculture, forestry and aquaculture use of diesel
United Kingdom	Cut in fuel duty by 5%	HH Energy bill support scheme, HH warm home discount, and Energy Price	double universal credit (transfer to low-income, vulnerable HH), one-off cost of living support for	Fuel duty reduction, Energy Price Cap Freeze

		Cap Freeze (2 years)	people receiving income support, with pensioner and disability supplements	

Source: Sgaravatti, G., S. Tagliapietra, C. Trasi and G. Zachmann (2021) 'National policies to shield consumers from rising energy prices', Bruegel Datasets, first published 4 November 2021, available at https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices

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