NEW ECONOMIES FOR ERADICATING POVERTY

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Transforming Economic Systems

POLICY PROFILE 1.9

# LUXURY CARBON TAXATION

A contribution to the Roadmap for Eradicating Poverty Beyond Growth

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# EXECUTIVE SUMMARY

This policy proposal addresses a fundamental design flaw in conventional carbon pricing: uniform carbon taxes treat necessary consumption (household heating, basic food, essential transport) no differently from unnecessary luxury consumption, which is both morally problematic, as it risks deepening energy poverty, and politically counterproductive. The policy corrects this by exempting goods and services essential for human wellbeing from carbon taxation while applying levies, at a minimum proportional to carbon emissions, to luxury and non-essential consumption, with revenues recycled into carbon mitigation schemes such as retrofitting low-income housing, redistributed directly to citizens, or directed into climate loss-and-damage funds for global climate justice. Global modelling work finds that, by 2050, luxury carbon taxation could move household emissions approximately 75% of the way towards a two-degree emissions budget, while redistributing revenues to alleviate poverty and fund low-carbon investment, generating substantial co-benefits.

The most common objection — the difficulty of distinguishing luxuries from necessities — does not withstand scrutiny: existing tax systems already attempt similar categorisations (the UK VAT system exempts children's clothing, medications, and most food while taxing non-essentials, producing a workable if imperfect system), and many forms of luxury consumption are unambiguously identifiable — private jets, business and first-class flights, cruises, SUVs, and high-end consumer goods — while proposals exist for operationalising the distinction through consumption elasticities and existing administrative data. This proposal makes a clear difference between subsistence emissions and luxury emissions, and is most directly applicable in high-income countries, where per-capita emissions are high, luxury consumption is prevalent, and necessities represent a smaller share of total consumption. Where capacity for implementation exists, targeting the luxury consumption of high-income classes in lower-income countries is also warranted.

## 1. POLICY GOAL

The primary problem this policy seeks to solve is the inherent inequity of uniform carbon taxes, which treat necessary consumption, such as household heating, identically to unnecessary consumption, such as leisure flying. This lack of differentiation is problematic because it risks exacerbating energy poverty for vulnerable populations and provoking a political backlash that can be exploited by actors wishing to deprioritise the climate agenda. Under a uniform system, the most tempting way for policymakers to avoid these social and political issues is to keep carbon prices at levels that remain fundamentally ineffective for climate mitigation.

The policy proposal aims at taxing commodities and services considered luxurious with a disproportionate environmental footprint. The main objective is to maximise mitigation potential by distinguishing between "subsistence emissions" and "luxury emissions"[1]. By exempting basic goods essential for human wellbeing and taxing non-essential goods at least in proportion to their carbon emissions, the policy ensures that the wealthiest emitters, the top 10% of whom have been responsible for four times more emissions than the bottom 50% since 1990, bear a fair share of the climate burden[2].

Furthermore, the policy intends to use tax revenues to improve progressivity by recycling funds into carbon mitigation schemes like retrofitting low-income housing or by redistributing them to citizens and global loss and damage funds. Ultimately, the goal is to shift the household consumption patterns toward a two-degree budget, potentially achieving 75% of the necessary reductions by 2050[3], and to sanction environmentally damaging forms of consumption, such as SUVs, before they become socially entrenched and normalised[4].

## 2. POLICY FORMULATION

The policy is designed as a differentiated consumption tax that separates essential household needs from high-carbon luxury activities. Rather than applying a flat rate to all carbon-intensive goods, this framework functions through a targeted structure of exemptions and tiered taxation to distinguish between "subsistence emissions" and "luxury emissions". The primary operational feature of the policy is the exemption of basic goods and services deemed essential for human wellbeing, ensuring that subsistence needs remain affordable while non-essential goods are taxed at a rate at least proportional to their carbon emissions.

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[1] Shue H (1993) Subsistence Emissions and Luxury Emissions. Law & Policy 15, 39-60. https://doi.org/10.1111/j.1467-9930.1993.tb00093.x

[2] Chancel L (2022) Global carbon inequality over 1990–2019. Nat Sustain 5, 931–938. https://doi.org/10.1038/s41893-022-00955-z

[3] Oswald Y et al. (2023) Luxury-focused carbon taxation improves fairness of climate policy. One Earth 6, 884-898. https://doi.org/10.1016/j.oneear.2023.05.027

[4] Wallace C et al. (2023) Taxing Luxury Emissions. U of Penn, Inst for Law & Econ, Research Paper No. 23-27, Cornell Law Review. http://dx.doi.org/10.2139/ssrn.4384259

The policy targets unambiguous luxury categories such as private jets, first and business-class flights, cruises, expensive cars, and high-end products like jewellery, perfumes, and high-end alcoholic drinks. It also accounts for more complex consumption patterns where goods become luxuries only when the quantity consumed exceeds a certain level, such as animal product consumption beyond natural requirements, or when the consumption is used for a specific non-essential purpose. To maintain fairness and efficacy, the tax rates are informed by consumption elasticities and existing administrative data, allowing for tax rates on luxury items without impacting the prices of essential goods.

A critical component of the policy's design is its revenue recycling mechanism, which is structured to enhance progressivity and public support. Tax revenues are intentionally funnelled into carbon mitigation schemes, such as retrofitting low-income housing, which directly reduces the emissions of households that are exempt from the luxury tax. Alternatively, the funds can be directed toward global climate loss and damage funds to address international climate justice or redistributed directly to citizens as a dividend. By mirroring the operational logic of existing Value Added Tax (VAT) systems, which already categorise and exempt essential goods, the policy utilises a proven administrative framework to achieve its climate and social objectives.

## 3. EXPECTED BENEFITS

The implementation of a luxury carbon tax is expected to yield significant environmental, social, and political improvements by addressing the carbon footprint of high emitters while protecting the most vulnerable.

This policy would have important environmental impacts. The most critical environmental benefit is the potential for substantial emissions reductions. Global modelling suggests that by 2050, a luxury carbon taxation could move household emissions approximately 75% of the way toward remaining within a two-degree budget[5]. By specifically targeting high consumers, who, since 1990, have been responsible for four times more carbon emissions in the top 10% than the bottom 50%, the policy addresses the primary drivers of global warming[6]. Additionally, the policy provides a mechanism to tackle environmentally damaging forms of consumption, such as SUVs, before they become socially entrenched or to sanction them if they already are.

Economically, the policy is designed to be highly progressive. By exempting basic goods, it avoids the risk of exacerbating energy poverty, a common failure of uniform carbon taxes. The redistribution of tax revenues offers further social benefits; funds can be recycled into schemes like retrofitting low-income housing, which reduces emissions for those exempt from the tax while lowering their long-term energy costs. Revenues can also be used to

[5] Oswald Y et al. (2023) Luxury-focused carbon taxation improves fairness of climate policy. One Earth 6, 884-898. https://doi.org/10.1016/j.oneear.2023.05.027

[6] Chancel L (2022) Global carbon inequality over 1990–2019. Nat Sustain 5, 931–938. https://doi.org/10.1038/s41893-022-00955-z

alleviate poverty, invest in low-carbon infrastructure, or address global climate justice through loss and damage funds. Furthermore, the policy allows for high tax rates on luxury items without inflating the prices of essential goods.

From a governance perspective, this policy is highly desirable because it overcomes the "political backlash" often associated with climate action. By distinguishing between luxury and subsistence emissions, the policy builds public legitimacy and reduces the likelihood of populist resistance. It provides a clear, communicable framework for climate justice that can be implemented theoretically immediately, as it relies on existing administrative data rather than new, large-scale infrastructure. Ultimately, the policy creates a pathway for effective mitigation that is shielded from corporate lobbying and refined through ongoing public consultation.

## 4. EVIDENCE, EXAMPLES & BEST PRACTICES

The desirability and effectiveness of luxury carbon taxation are supported by global emissions data, climate modelling, and existing administrative precedents. Research into global carbon inequality reveals that since 1990, the top 10% of global emitters have been responsible for four times more carbon emissions than the bottom 50%, highlighting the necessity of targeting high-end consumption to achieve meaningful climate goals[7]. Global modelling work further suggests that by 2050, a luxury-focused carbon tax could move household emissions approximately 75% of the way toward remaining within a two-degree budget[8]. This evidence indicates that focusing on luxury consumption addresses the core drivers of climate change while providing substantial benefits through the redistribution of tax revenues to alleviate poverty and fund low-carbon investments.

Experience with uniform carbon taxes provides a cautionary lesson on political feasibility. The "Yellow Vest" movement in France serves as a key example of the political backlash caused by the perceived and real[9] distributional impacts of flat carbon taxes on household consumption[10]. By distinguishing between luxury and subsistence emissions, a distinction long argued in academic literature, this policy avoids the regressive nature of taxes that risk exacerbating energy poverty. Furthermore, the feasibility of distinguishing between essential and non-essential goods is already demonstrated by existing Value Added Tax (VAT) systems.

[7] Ibid.
[8] Oswald Y et al. (2023) Luxury-focused carbon taxation improves fairness of climate policy. One Earth 6, 884-898. https://doi.org/10.1016/j.oneear.2023.05.027
[9] Dietsch P (2024) A fairer and more effective carbon tax. Nat Sustain 7, 1584–1591. https://doi.org/10.1038/s41893-024-01429-0
[10] Mehleb RI et al. (2021) A discourse analysis of yellow-vest resistance against carbon taxes. Env Innov and Soci Trans 40, 382-394. https://doi.org/10.1016/j.eist.2021.08.00

The UK VAT system, for instance, has decades of experience exempting essential goods like medications and children's clothing from taxation[11].

While categorising goods can occasionally be complex or controversial, many forms of luxury consumption are unambiguous and easy to identify, such as private jets, first and business-class flights, cruises, expensive cars, and high-end products like jewellery and perfumes. Proposals for fairer carbon taxes utilise consumption elasticities and existing administrative data to demonstrate that high tax rates can be set on these luxuries without impacting the prices of essential goods. Ultimately, these precedents show that a well-designed luxury carbon tax can be both an effective mitigation policy and a socially just instrument for climate action.

## 5. OBJECTIONS, POTENTIAL BARRIERS & COUNTERARGUMENTS

The primary objection to luxury carbon taxation is the difficulty of distinguishing between luxuries and necessities. Critics argue that many forms of consumption only become luxuries based on quantity or purpose, such as a flight taken to visit a relative versus one taken for a vacation. Furthermore, there is a risk that categorisations could become arbitrary or controversial, similar to existing issues in the UK VAT system, where items like tampons were taxed while betting remained tax-free. Resistance is likely to come from corporate lobbyists and high-income stakeholders who may exploit these complexities to stall legislation.

However, these difficulties should not be used to rule out the policy. Existing tax systems already manage similar "messy" categorisations with successful results; for instance, the UK VAT system has long distinguished between essential goods like medications and non-essential goods like chocolate-coated biscuits[12]. Moreover, many luxury categories are unambiguous and easy to identify, such as private jets, first-class flights, cruises, and jewellery. Strategic use of consumption elasticities and administrative data can allow for high tax rates that do not impact the prices of essential goods.

Another barrier is the potential for political backlash, similar to the "Yellow Vest" protests in France. This resistance is typically triggered by the perceived distributional impact of uniform carbon taxes. To counter this, a luxury carbon tax is specifically designed to be progressive, recognising the difference between subsistence and luxury emissions. By recycling tax revenues into schemes like retrofitting low-income housing or providing direct redistribution, the policy improves fairness and reduces the risk of backlash. Open public dialogue and consultation can further help communicate these benefits and refine definitions to ensure the policy remains sheltered from corporate lobbying.

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[11] de la Feria, R (2023) The UK VAT at 50: The Good, the Bad and the Ugly. British Tax Review 30/3, 307-321, Available at SSRN: https://ssrn.com/abstract=4512696; https://www.gov.uk/guidance/rates-of-vat-on-different-goods-and-services

[12] de la Feria, R (2023) The UK VAT at 50: The Good, the Bad and the Ugly. British Tax Review 30/3, 307-321, Available at SSRN: https://ssrn.com/abstract=4512696

## 6. IMPLEMENTATION STEPS

The implementation of a luxury carbon tax is practically feasible because it does not rely on substantial infrastructure investments or the upskilling of labour forces. Instead, the pathway focuses on administrative alignment, public consultation, and global coordination to ensure the policy is both effective and equitable.

Timeframes for Implementation

- Short-term (2–3 years): The immediate focus is on establishing a public dialogue to communicate policy benefits and distinguish between luxury and subsistence consumption. Governments should leverage existing administrative data and consumption elasticities to identify unambiguous luxury targets such as private jets, cruises, and high-end jewellery. Initial legislation should be drafted to shelter the process from corporate lobbying while allowing for ongoing refinement based on public input.
- Medium-term (5 years): Implementation of the revenue recycling mechanism begins, with funds being funnelled into retrofitting low-income housing and low-carbon investments. This stage involves monitoring and adjusting tax rates to move household emissions toward a two-degree budget, aiming for the projected 75% reduction.
- Long-term (10 years): Full integration of the tax into the national fiscal framework occurs, with periodic reviews to prevent environmentally damaging forms of consumption from becoming entrenched or normalised. International coordination ensures that revenues also support global climate loss and damage funds.

**Table 1. Matrix for policy implementation**

| | | | | |
|---|---|---|---|---|
| **LEVEL OF GOVERNANCE** | **Local** | **National** | **Regional** | **Global** |
| | X | X | | X |
| **TIME HORIZON** | **Short-term (2-3 years)** | **Medium-term (5 years)** | | **Long-term (10 years)** |
| | X | X | | |
| **POLICY FIT BY ECONOMIC CONTEXT** | **Low-income countries (LICs)** | **Middle-income countries (MICs)** | | **High-income countries (HICs)** |
| | | | | **X** |

## 7. INTERNATIONAL HUMAN RIGHTS OBLIGATIONS AND INTERNATIONAL COMMITMENTS

The policy of levelling tax burdens through carbon taxation targeted at luxury products or activities that generate more significant greenhouse gas emissions (GHG emissions) is particularly connected to the measures States must adopt to guarantee the human right to a clean, healthy and sustainable environment, as recognized by the United Nations General Assembly. [13] It is also grounded in the principles of equality and non-discrimination common to the International Covenant on Civil and Political Rights (Arts. 2 and 26) and the International Covenant on Economic, Social and Cultural Rights (Art. 2).

The protection of the environment, and its inextricable link with the protection of human rights, has been recognized since the 1972 Stockholm Declaration, the 1992 Rio Declaration on Environment and Development, the Paris Agreement (Preamble), and the jurisprudence of regional courts and United Nations treaty bodies. This means that climate action must respect human rights. Accordingly, articulating climate action through mechanisms such as carbon taxes should take into account population vulnerabilities, differentiated impacts, and unequal consumption patterns across social sectors, thereby facilitating the achievement of climate goals in a just and equitable manner.

This is also consistent with internationally recognized principles of environmental and climate law, which should guide States in interpreting the scope of the applicable international legal framework. These include, for example, the principle of common but differentiated responsibilities and respective capabilities, as an expression of equity, which allows the responsibilities and capacities of States—including those that generate the highest levels of GHG emissions and those that will suffer the most severe impacts of climate change, such as small island developing States—to be assessed in light of their different contributions to, and capacities to address, climate change. They also include the principle of intergenerational equity, which underscores the need to safeguard conditions of habitability for future generations, including through the transformation of unsustainable consumption patterns (UNFCCC, Art. 3(1); Paris Agreement, Arts. 2(2), 4(3) and 4(4)). [14]

Within this framework, it becomes especially important to move from the classical understanding of the polluter-pays principle towards a paradigm in which climate action is financed by those who overexploit planetary boundaries through the consumption of luxury goods and services. This approach is consistent with the internalization of environmental costs and the use of economic instruments, taking into account that the polluter should, in principle, bear the cost of pollution (Rio Declaration, Principle 16). It is also consistent with

[13] United Nations General Assembly (UNGA), The human right to a clean, healthy and sustainable environment, A/RES/76/300 (2022).
[14] International Court of Justice (ICJ), Obligations of States in respect of Climate Change, Advisory Opinion of 23 July 2025, paras. 148-157.

the obligation of States to mobilize resources to the maximum for the progressive realization of economic, social and cultural rights (ICESCR, Art. 2(1)).

In its Advisory Opinion on *Obligations of States in respect of Climate Change* (2025), the International Court of Justice established that States must take all appropriate measures to protect the climate system from GHG emissions. In this context, fossil fuel production, consumption, the granting of fossil fuel exploration licences, or the provision of fossil fuel subsidies may constitute an internationally wrongful act attributable to States, particularly linked to the breach of conventional and customary obligations to protect the climate system from significant harm resulting from anthropogenic emissions. States also may be responsible where they fail to exercise due diligence by not adopting the necessary regulatory and legislative measures to limit GHG emissions caused by firms. [15]

In addition, thematic reports produced within international human rights mechanisms are especially relevant. For example, the United Nations Secretary-General has recommended that, in order to implement the obligation of progressive realization of ESCR, States should design and implement fiscal policies for this purpose, including by increasing consumption taxes on luxury goods (§§49, 54(a)).[16] The Special Rapporteur on the human rights to safe drinking water and sanitation has also recommended progressive policies on resource use, including differentiated charges for water and sanitation services. Under this approach, minimum vital water consumption should be free or affordable, while luxury uses should be subject to higher tariffs (§87).[17]

The policy also jointly and interdependently addresses several objectives that humanity set for itself under the 2030 Agenda for Sustainable Development, which frames its action around people, planet and prosperity. It does so not only by seeking to ensure sustainable consumption and production patterns, but also by contributing to climate action and the reduction of inequalities. These inequalities are reflected in differentiated consumption patterns and their associated carbon footprints (SDGs 10, 12 and 13).[18]

The policy is also relevant to the Kunming–Montreal Global Biodiversity Framework, adopted by the Conference of the Parties to the Convention on Biological Diversity in 2022, which calls on States to establish supportive policy, legislative or regulatory frameworks to enable sustainable consumption choices. It places particular emphasis on reducing the global

[15] International Court of Justice (ICJ), Obligations of States in respect of Climate Change, Advisory Opinion of 23 July 2025, paras. 427-428.
[16] Report of the Secretary-General, Question of the realization in all countries of economic, social and cultural rights, A/HRC/49/28, https://docs.un.org/en/A/HRC/49/28.
[17] Report of the Special Rapporteur on the human rights to safe drinking water and sanitation, Pedro Arrojo Agudo, Water and economy nexus: managing water for productive uses from a human rights perspective, A/HRC/57/48, https://docs.un.org/en/A/HRC/57/48.
[18] United Nations General Assembly (UNGA), Transforming our world: the 2030 Agenda for Sustainable Development, A/RES/70/1 (2015).

footprint of consumption in an equitable manner by 2030, including by significantly reducing overconsumption and substantially reducing waste generation (Section H, Target 16). [19]

Finally, access to information and public participation in environmental matters should guide the implementation of the policy, particularly because differentiated carbon taxation requires transparent criteria. These procedural rights are reflected in the Aarhus Convention and the Escazú Agreement, and provide guarantees for environmental decision-making (Aarhus Convention, Arts. 6, 7 and 8; Escazú Agreement, Art. 7).

## 8. LITERATURE REFERENCES

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## REMARKS

This policy profile is adapted from the research and submission of Joel Millward-Hopkins and Yannick Oswald, and has been prepared by the Special Rapporteur team with direct input from the authors. This formatting has been conducted to preserve the original conceptual framework of their research. Please note that while every effort has been made to align their work with the Special Rapporteur template, some sections may contain gaps where the original submission did not provide specific data points required by the template's structure. For example, the executive summary, timeline for implementation as well as the section on international human rights obligations have been contributed by UN staff.

[19] Conference of the Parties to the Convention on Biological Diversity, Decision 15/4, Kunming–Montreal Global Biodiversity Framework, CBD/COP/DEC/15/4.