

12 MYTHS

BUSTED

Debunking the misconceptions on Taxing Fossil Fuel Profits

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MYTH #1

We need a windfall tax on fossil fuel profits, not a permanent tax.

Windfall taxes are reactive and temporary; a permanent tax is proactive and transformative. **The fossil fuel industry has long enjoyed under-taxed, colossal profits**—even before the US military attack on Iran or the war in Ukraine.

While well-designed taxes on war-driven surplus profits (i.e. windfall profits) play an important redistributive role, they are not enough to incentivise the transition away from fossil fuels. We need a long-term, stable and predictable differentiated taxation system on fossil fuel profits. **This will provide a structural signal to investors, discouraging investment in fossil fuels and thereby increasing the costs of capital for fossil fuel companies.** It would support a gradual reallocation of capital to renewable energy and related storage. It will also provide a predictable revenue stream for socially just climate action, though declining over the years as fossil fuels are hopefully phased out. Last but not least, it will enhance EU energy security by reducing Europe's dependence on volatile fossil fuel markets.

MYTH #2

We all benefit from the colossal fossil fuel profits.

Studies show that **the top 10%, and especially the top 1%, of the richest people capture the lion's share of these profits,** exacerbating wealth concentration. Currently in the US, the 1% richest get 50% of all oil and gas profits. **At the same time, the broader population bears the costs:** rising energy prices fuel inflation, climate-related disasters strain public budgets, and the long-term environmental toll falls on future generations. Inadequate taxation of these profits further widens inequality and slows the transition to renewable energy.

MYTH #3

National taxes are sufficient; an EU-wide tax is not needed.

A coordinated EU tax on fossil fuel profits **is essential to prevent profit shifting by companies that exploit discrepancies between national tax systems.** Fossil fuel corporations can too easily relocate capital and investments across the EU, or even abroad, to avoid higher taxes in individual countries. In addition, an EU-harmonised approach is a critical component of any strategy to phase out fossil fuels. **As long as fossil fuel investments remain highly profitable, private finance will continue to flow into this sector**—rather than into the areas we urgently need: electrification, renewable energy, public transport, and a just transition. By failing to propose an EU-coordinated tax, the European Commission effectively prioritises the interests of fossil fuel profiteers over those of European people. **An EU framework—like the 2022 solidarity contribution—enables Member States to reach an agreement on how to use the revenue.** This ensures funds are earmarked to support households and businesses struggling with energy prices while accelerating the shift to renewables. Additionally, a tiny portion of the revenue could be allocated to the EU budget to assist Member States most in need, fostering cohesion and a level playing field across the EU.

MYTH #4

The European Commission is right to refuse to table a fossil fuel profit tax

The European Commission is pushing the responsibility to the national level when holding back on an EU-wide fossil fuel profits tax. The Commission highlights a wave of legal suits against the 2022 windfall tax on fossil fuel companies – introduced after the war in Ukraine started – as evidence of legal uncertainties surrounding an EU-wide tax.

But two things are clear: First, any tax on fossil fuel profits, whether at the national or EU level, will inevitably face relentless legal challenges from the fossil fuel industry. Second, if these lawsuits intimidate the Commission into inaction, it means fossil fuel companies wield more power than our governments, by misusing litigation to not pay their fair share of taxes. Norway and the UK show that it is possible to apply a higher tax on fossil fuel profits than the average corporate tax rate.

MYTH #5

A tax on fossil fuel profits would risk increasing the prices of gas and oil for consumers

In short, no, it would not. A variety of structural factors influence energy and electricity prices. Corporate Income Taxes are generally not mentioned in the literature as a determinant of the energy price, and a higher or lower tax on corporate profits does not significantly correlate with higher or lower electricity prices. In addition, 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 EU solidarity contribution. 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.

MYTH #6

We cannot prevent fossil fuel companies from shifting profits to avoid taxes

To combat profit shifting and tax avoidance, the EU should put an obligation on fossil fuel companies to report their taxes on a public country-by-country reporting basis. This should include lowering the reporting threshold below the current €750 million consolidated group revenue, and expanding transparency to cover all jurisdictions — not just EU and listed tax havens under the EU country-by-country reporting Directive — so profits and tax payments are fully visible. These measures should be embedded in an EU-wide tax framework for fossil fuel profits.

Additionally, the EU should leverage its influence in the ongoing UN Tax Convention negotiations (August and November 2026) to push for new global rules of international tax cooperation, with the aim of establishing an international tax system for sustainable development. This would create a level playing field and close loopholes for profit shifting worldwide. Such an agreement, which is set to be finalised by 2027, would open up an avenue towards binding global rules that can ensure equitable taxation of all multinational corporations; effective taxation of the super-rich; and international tax initiatives to promote sustainable development, including environmental protection and taxing the companies and polluters at the root of the global ecological collapse.

MYTH #7

A tax on fossil fuel profits has nothing to do with intergenerational justice.

Taxing fossil fuel profits decreases profitability and thereby disincentivises investments in fossil fuels. It generates public financing that can be used for future-oriented investments while operationalising the polluter pays principle.

MYTH #8

A tax on fossil fuel profits will inevitably affect workers in the fossil fuel industry

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. 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.

The net income of the global oil and gas industry was around US\$4 trillion in 2022, equivalent to 4% of global GDP. In 2023, net income was US\$2.4 trillion. **Profits have been significant over the past 15 years.**

These profits are mainly used **to increase shareholder dividends and share buybacks, and to expand fossil fuels**. The industry invested just over \$1 trillion in fuels in 2024, 9% more than in 2023. Clean energy investments made up for \$28 billion in 2023, less than 4% of the sector's total capital expenditure and less than 1% of net income.

The EU is particularly dependent on fossil fuels, importing in 2023 95% of the oil it consumes, 90% of the natural gas and 40.8% of solid fuel, at a total cost of €449 billion. Fossil fuel companies made €180bn in taxable profits in the EU in the two years following Russia's invasion of Ukraine. The US and Israeli strikes on Iran on 28 February 2026 triggered the **sharpest spike in crude oil prices since Russia's invasion of Ukraine in 2022**. If current conditions are maintained until the end of 2026, T&E's analysis estimates excess profit would be generated across the road fuel supply chain — **€39 billion** accruing to refiners and distributors operating largely within the EU, and **€51 billion** flowing to crude oil producers and oil-producing nations.

MYTH #9

The fossil fuel industry does not make that much profit.

MYTH #10

Not much money could be raised.

The tax design matters and will determine how much money can be raised. **Even with a less ambitious tax design, we talk about billions of euros.** The EU solidarity contribution represents a precedent on which to build, with its definition of what the fossil fuel industry is, what revenues from the tax should be used for, and the combination of coordination and national leeway. How much money can be raised will depend on the tax base (which profits are being taxed), the tax rate (at least 33% was the minimum tax rate for the solidarity contribution) and the exemptions allowed (none were allowed in the solidarity contribution and in the future, tax deduction should only be allowed for investments in renewable energy and related storage capacity).

1 trillion US dollars could have been raised since the ten years of the Paris Agreement, if the world's 100 largest oil and gas companies had been charged a 20% surtax on their profits. In the EU, the 'solidarity contribution' in 2022-2023 generated 28.4 billion euros. If profit shifting had been prevented, this could have raised 73.8 billion euros.



MYTH #11

Failing to tax fossil fuel profits has nothing to do with budget cuts at the national level.

The EU has already spent an **additional €22 billion to buy fossil fuels in just one month since the U.S. military attack on Iran**. These costs will inevitably translate into further cuts in social and green spending by our governments – eroding education, public health, nature protection and climate action, making a just transition out of reach.

The **price of inaction is staggering** and will only rise as the closure of the Strait of Hormuz persists, compounded by long-term damage to infrastructure and global supply chain disruptions. **Without higher taxation of the colossal fossil fuel profits, these costs will continue to burden taxpayers**, deepening inequality and delaying the transition to a sustainable future.



MYTH #12

Legal barriers will stop the implementation of a fossil fuel profits tax, even if it is decided.

It's true that some fossil fuel companies have launched legal suits against the previous EU tax on fossil fuel profits. These cases cannot be used as an excuse for inaction. **If governments back away every time fossil fuel companies threaten litigation, they effectively hand the power to block democratic legislative processes to the fossil fuel industry.**

Some of these companies are using Investor-State Dispute Settlement (ISDS) mechanisms, controversial provisions in trade agreements that enable investors to sue countries over policies impacting their profits. **The threat of ISDS claims should be dealt with by getting rid of ISDS.** ISDS undermines countries' policy sovereignty to transition away from fossil fuels.

Some of the ongoing cases also rely on the Energy Charter Treaty (ECT), which the EU already exited, but the so-called sunset clause allows fossil fuel companies to exploit it 20 years after countries leave. European countries must work together to neutralise ECT's sunset clause and stop granting fossil fuel investors privileged rights to challenge public-interest regulation through ISDS. **Investor privileges should not override the public interest, democratic decision-making or the polluter pays principle.**



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