Future of energy taxation: a business view

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Energy tax policy faces big challenges

- tax is generally a contentious issue for business
- business regards design & implementation of UK green taxes to date as sub-optimal
- options for improving CCL package need to be taken up but other questions remain….
- …. and need to address longer term coherence of CCL vs other UK policies & international context

Tax is generally a sensitive issue for business

- overall tax burden on UK business has grown and continues to grow (£47 billion)
- UK green taxes share of total tax revenue > EU average (8.1% vs 6.7%)
- business pays 50% of HMG green tax take cf 30% of total tax take

Business finds eco-tax design wanting in practice

- double dividend used as justification but little evidence
- concept of revenue neutrality discredited - overall and by sector
- CCL approach to discounts more restrictive than overseas (eg Germany & Netherlands)
- CCL focused more on proxy (energy) than actual externality (carbon)

CCL experience is mixed

- net losers & winners

  - eg manufacturing (-£143m) & services (+£62m)
- most absorb costs, some moving production abroad or planning to do so
- action on energy efficiency more likely for

  - CCA (87%) vs non-CCA (42%) firms

  - larger firms (74%) vs SMEs (43%)
- CCAs officially doing well (88% of sites on target)

CCL can be improved but other questions remain

- widen CCA eligibility beyond (not instead of) IPPC

  - eg energy intensity (but NB other HMT tests)
- enhance Carbon Trust support programme

  - eg develop Action Energy, ECAs
- future rates of tax - certainty vs flexibility ?
- revenue neutrality over time?

Energy tax needs to fit with other low carbon policies

- emissions trading (UK and proposed EU schemes)

  - danger of paying twice through upstream focus?

  - basis of national allocation plans?

- IPPC

- energy efficiency packages - building and product performance

- proper carbon tax instead of CCL?

UK approach needs to reflect international context

- 60% GHG cut by 2050: small GDP loss assumes "world's leading industrial nations act together"
- DTI PSA target - energy prices in lower half of G7/EU basket
- EU harmonisation is not nirvana:

  - non-EU competition

  - current Energy Products Directive = "gorgonzola"

  - allows for more generous rebates than UK (100% for EIUs & 50% for non-EIUs)

Conclusions

- credibility of HMG approach on tax to achieve green goals needs to be strengthened
- business supportive in principle but concerned over tendency toward "additive" approach
- context all important - other taxes, other measures, other goals (eg economic & social), international
- detailed CCL changes desirable - but more fundamental review also needed to ensure joined-up & cost-effective approach