Change of direction for green taxation?

Indirect Tax

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The surprise announcement in the summer Budget that the climate change levy (CCL) exemption for renewable energy is to be removed poses questions about the future of environmental taxation. The CIOT has called on the government to produce a ‘roadmap’ setting out its plans for the future of environmental taxes to help the renewable energy industry and business in general take long-term investment decisions.

CCL was introduced as an ‘environmental tax’ – intended to change polluting behaviours and to assist in meeting the UK’s obligations for reduced carbon emissions. The exemption encouraged use of renewable sources of energy over traditional carbon fuels. The removal of the exemption in effect turns CCL’s status from an environmental tax into a revenue raising tax on energy – £3.9 billion over this parliament.

Affecting generators of renewable source electricity, energy market participants and suppliers of such electricity to business and public sector consumers, the complexities arising for suppliers and business customers may be more than suggested in the Budget announcement. Additional energy costs to businesses will either have to be absorbed or, more likely, passed on through higher prices.

There will be a transitional period from 1 August 2015, during which electricity suppliers may be able to continue to exempt renewable source energy generated before that date.

The length of the transitional period will be discussed with interested parties.

The announcement that the government intends to consult in the autumn over business energy taxation is welcomed by the CIOT, particularly where the focus is on simplification and certainty. The CIOT’s Environmental Tax Working Group will continue to monitor developments in this area and it is preparing a submission to the Public Bill Committee Sittings stage of the Finance Bill on the impact of the CCL changes.