Tax and the Woodland and Peatland Codes

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Do you have clients involved or considering getting involved in Woodland or Peatland Code projects and the carbon credit market? If so, we'd be keen to hear from you.

The ATT is currently working with a number of other bodies on the creation of a group to look at the potential tax and accounting treatment of carbon credits created under the Woodland and Peatland Codes. We understand from members that this is an area attracting increasing interest from both landowners interested in bringing land into the schemes and those concerned about their carbon footprint who are looking to offset their emissions.

The aim of these codes is to make various 'green' projects economical by creating an income for landowners taking part through verifying the climate benefits in the form of carbon credits. Both verified credits and potential (future) credits can be sold by the landowner to businesses or individuals looking to offset their carbon emissions.

The carbon credit market is still in its infancy, and the two most well-known codes at present are the Woodland and Peatland Codes. These voluntary codes are intended to provide assurance to purchasers of carbon credits that a removal or reduction of CO2 emissions has occurred.

In the case of the Woodland Code, carbon is sequestered in growing trees, while for the Peatland Code, carbon reduction occurs through the restoration and enhancement of peat bogs. A healthy peat bog should be a carbon sink, but if poorly maintained, drained or damaged then a bog will instead release carbon.

There is currently very little guidance on the tax treatment of carbon credits and the group is proposing to go 'back to basics' to look at some of the conceptual issues

around what a carbon credit is for tax purposes, and thus how to deal with the income and also potential capital taxes issues for landowners (and purchasers).

The group will include legal and accounting experts and will be seeking input from the creators of the Woodland and Peatland Codes. Our hope is to reach a consensus which we can discuss with HMRC and HMT, with a view to persuading them to take a more active interest in this area and issue guidance as appropriate.

We are very keen to hear from members involved in these projects. We are interested not only in your views of the tax treatment, but also in understanding more about the practical, day to day issues of projects such as the legal structures involved and how project cash flow operates. The group also intends to consider similar schemes, including those involving biodiversity and nutrient credits, and we would be keen to hear from members who have clients involved in any of those areas. If you would be interested in commenting on any of these issues, please let me know direct on the email below, or contact atttechnical@att.org.uk.