Green taxes road map essential before introduction of single climate tax

Indirect Tax

01 January 2016

The CIOT has backed the idea of a single climate tax on businesses in the Treasury consultation, *Reforming the business energy efficiency tax landscape*. But it warned that an environmental taxes 'road map', along the lines of the business taxes plan adopted in the last parliament, was needed to rebuild confidence in the objectives and direction of the government's environmental tax policy.

Are there clear environmental objectives?

Consistent and long-term policy goals would boost support among businesses for a single coherent climate tax as long as it would be simpler to administer, understand and pay than the present range of disconnected taxes and financial obligations. However, for it to remain an environmental tax there must be clear green objectives. John Cullinane, CIOT Tax Policy Director, said: 'We seem to be moving away from green taxes that try to reduce energy use to them becoming just another revenue-raising mechanism. We understand that there are different objectives to be balanced here, but the government needs to be transparent with business and the public about where the balance is to be struck.'

The CIOT remains of the view that environmental taxes can play a significant role in a modern tax system and in enabling the government to meet its statutory obligations under the Climate Change Act 2008. However, it is fundamental that they are implemented with close attention to sound principles to ensure they are effective. Green taxes should ideally be easy to avoid (by a change in behaviour), but hard to evade. They should aim to be self-consuming as the desired behavioural change is produced, rather than being merely revenue-raising.

For environmental taxation to be fully effective in changing behaviour, the CIOT feels it is important that the government also gives taxpayers confidence that measures will be in place for a long period because businesses require certainty and stability. This is particularly the case with environmental tax because acting in a ‘greener’ way often requires substantial upfront investment.

A global issue

The CIOT believes it is also important that UK environmental tax policy takes into account the European Commission’s Energy Union Strategy which is included as a priority in its work programme for 2016. There is to be a focus on bringing forward actions to meet the 2030 energy and climate package targets. The UK’s road map must also take account of the November 2015 United Nations Climate Change Conference.