What is an environmental tax?

Indirect Tax

01 February 2016

An update from ETWG

The Environmental Taxes Working Group (ETWG) met on 17 December 2015 to discuss changes in the 2015 Budget, Autumn Statement and HM Treasury's consultation on a proposed single climate tax. The group also agreed its priorities for 2016.

Expressing concern about the impact on business of piecemeal changes and the apparent lack of a cohesive environmental tax policy, the ETWG decided it would seek greater engagement with HMRC and the Treasury to better understand the direction of this government's environmental taxes policy. The CIOT will also repeat its request more formally for an environmental taxes framework or 'roadmap' to help businesses gain certainty and clarity in this area.

The ETWG recalled that, in July 2012, the coalition government published its definition of an environmental tax to encourage effective policy making. It considered that, to qualify, an environmental tax should meet all of these three principles:

1. The tax is explicitly linked to the government's environmental objectives.
2. The primary objective of the tax is to encourage environmentally positive behaviour change.
3. The tax is structured in relation to environmental objectives, for example: the more polluting the behaviour, the greater the tax levied.

With recent changes, the 'green' credentials of the UK's environmental taxes appear to be moving away from penalising bad behaviour to focus more on revenue raising. Although recognising there is a balance to be struck between environmental and economic objectives, the ETWG is seeking reassurance from the government that the UK's environmental tax policy objectives are still being met.

We also believe it will be important that UK environmental tax policy, as it develops, takes into account the European Commission's Energy Union Strategy, which focuses on meeting the 2030 energy and climate package targets. The UK also needs to play its part in the global commitments made at the UN climate talks in Paris in December to reduce carbon emissions and increase investment in renewable technology.

The ETWG would welcome new members with an interest in environmental taxes and who are willing to contribute to its work. This would involve commenting on consultations and providing input to proactive submissions. If you are interested in participating, or you know someone who might be, email Angela Fearnside at afearnside@ciot.org.uk.

You can read more about the CIOT's response to the Treasury's consultation on a single climate tax here.