

ENERGY TAX REFORM



22ND MARCH 2016

DAVID READE



OVERVIEW

H.M. Government wishes to simplify the regime of systems which tax and regulate energy use.

A consultation document “**Reforming the business energy efficiency tax landscape**” was published in September 2015. The closing date was 9th November 2015.



A large number of responses were received from interested parties.

This presentation attempts to collate the general opinions expressed and predict government’s likely reaction.

Consultation Document - Government Objectives

Improving the productivity of UK businesses by encouraging long term investment in economic capital

Meeting our environmental targets without imposing unnecessary burdens on business.



Encouraging business energy efficiency to boost business productivity, and support growth and competitiveness.

- **Through a a simpler and more stable environment for business with reduced administrative costs and improved incentives to invest in energy efficiency.**

Consultation Document

Existing schemes:

- **CCL – Climate Change Levy –**
 - Renewable Sources included after 1/8/15
- **CRC - Carbon Reduction Commitment - Energy Efficiency Scheme**
- **Tax on heating fuels**
- **CCA – Climate Change Agreements**
- **GHG - mandatory greenhouse gas reporting**
- **ESOS - The Energy Saving Opportunity Scheme**
- **ECAs - Enhanced Capital Allowances**
- **EDR - The Electricity Demand Reduction pilot**



Other schemes:

- **EU/ETS – outside scope**
- **EU non-financial reporting directive 2014 – environmental reporting?**

Consultation Document

Their purpose:

- **CCL** – Levied on the supply of energy to business and public sector consumers.
- **CRC** – Purchase of allowances for every tonne of carbon dioxide they emit.
- **CCA** – Discounts off CCL/CRC on basis of improvement schemes
- **GHG** - Mandatory greenhouse gas reporting as part of annual Directors' Report.
- **ESOS** - mandatory energy measurement and auditing scheme.
ECAs - Let businesses set 100% of the cost of certain assets against taxable profits in a single tax year.
- **EDR** – DECC fund to reward energy saving projects

Consultation Document

- Government Proposals In principle

- **One tax (based on CCL) and one reporting framework?**
 - Abolish CRC
 - Extend CCL
 - So CRC (Carbon-focussed) merges with CCL (Usage focussed)
- **ESOS as reporting framework**
 - Not fully implemented
 - Needs further development in reporting process (compliance reports not sufficient)



Consultation Document - Questions

- 1. Do you agree with the principle of moving away from the current system of overlapping policies towards a system where a single business/organisation faces one tax and one reporting scheme? Please provide evidence on level and types of benefits of an approach like this.
- 2. Do you agree that mandatory reporting should remain as an important element of the landscape in driving the uptake of low carbon and energy efficiency measures? If not, why not?
- 3. Should such reports require board level sign-off and should reported data be made publically available? Please give your reasons.
- 4. Do you agree that government should develop a single reporting scheme requiring all ESOS participants (and potentially the public sector (see paragraphs 4.21 – 4.23) to report regularly at board level? If so, what data should be included in such a report?
- 5. The government recognises the importance of ensuring market actors have access to transparent, reliable and comparable information to support financing and investment in energy efficiency and low carbon measures. How best can a streamlined report achieve this? To what extent does your response apply to other large companies (as defined in the Companies Act) that are not listed companies?

Consultation Document - Questions

- 6. Do you agree that moving to a single tax would simplify the tax system for business?
Should we abolish the CRC and move towards a new tax based on the CCL?
Please give reasons.
- 7. How should a single tax be designed to improve its effectiveness in incentivising energy efficiency and carbon reduction?
- 8. Should all participants pay the same rates (before any incentives/reliefs are applied) or should the rates vary across different businesses? For example, do you think that smaller consumers and at risk Energy Intensive Industries (EIs) should pay lower rates?
- 9. Do we currently have the right balance between gas and electricity tax rates? What are the implications of rebalancing the tax rate ratio between electricity and gas? What is the right ratio between gas and electricity rates?
- 10. Do you believe that the CCA scheme (or any new scheme giving a discount on the CCL or on any new tax based on the model of the CCL) eligibility should only focus on industries needing protection from competitive disadvantage? If so, how should government determine which sectors are in need of protection?

Consultation Document - Questions

- 11. Do you believe that the CCA scheme (or new scheme) eligibility should focus only on providing protection to those Ells exposed to international competition and at risk of carbon leakage? If so, how should the government assess which CCA sectors are at risk of carbon leakage?
- 12. Do you believe that the targets set by the current CCA scheme are effective at incentivising energy efficiency? Do you believe that the current CCA scheme is at least as effective, or more effective, at incentivising energy efficiency than if participants paid the full current rates of CCL? How could CCAs be improved? Are there alternative mechanisms that may be more effective?
- 13. Do you agree that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain why you agree or disagree.
- 14. What is the best mechanism to deliver incentives for investment in energy efficiency and carbon reduction (e.g. tax reliefs, supplier obligations, grants, funding based on competitive bidding)? Are different approaches needed for different types of business? If so, which approaches work for which business types? What approaches should be avoided?
- 15. What impact would moving to a single tax have on the public sector and charities?
- 16. How should the merged tax be designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities?
- 17. Should a new reporting framework also require reporting by the public sector?

Responses – a good summary



The business energy tax review

1. Simplify the policy landscape to minimise compliance costs and rationalise overlapping policies.
2. Develop a single reporting framework that reduces compliance costs.
3. Abolish CRC and raise revenue through the CCL. 
4. Open to views on rebalancing tax costs across fuels.
5. Protect competitiveness of Energy Intensive Industries while incentivising carbon saving, and seeking views on effectiveness of CCAs as a vehicle to achieve this.
6. Open to considering options for new energy efficiency incentives – these would need to be funded through increases in tax and demonstrate VFM.
7. Understand impact of proposals on public and third sectors, including potential extension of any new reporting framework to the public sector.

Response summary

Q	EI	BBP	BPF	CDP/IIGCC/ UKSIF	CCCEP	EIUG	Tax Inst	REA	FOE	Solar Trade
1	Y	Y	Yes but	Yes but ETS	Y	Y	Mixed	Yes but	Y	Yes but
2		Y	Y	Y	Y	Y	Y	Y	Y	Y
3	Y	Y	Y	ESOS + GHG	Mix	Y	Y	Y	Y	Y
4	Y	Unsure	ESOS + GHG	ESOS + GHG	Y	Qualified	Y	Y	Y	Y
5		Proposal		ESOS + GHG	No		Y	Y		
6	0.48	Y			No	Y	New CCL	Y		CCL v CRC
7	Mix				Y	Recycle as grants	?	Y		Carbon
8		Y			No	Carbon leakage		LECs		Y
9					Y	N	N	N		Y
10						Y	Review			
11	Y					Y	N			
12						Y				
13	0.85	Y					Mixed	Subsidies		Y
14	Mix							Subsidies		FITs
15										
16										
17	Y	Y	Y			Y	Y			

Consultation Document - Responses

- **CONSENSUS – Favouring simplicity**

- CCL as single tax
- CRC goes
- ESOS as reporting standard
 - Debating choice : To Tax Carbon or Energy Use

- **DIVERGENT VIEWS – Tending to reintroduce complexity**

- Subsidies
- GHG role within ESOS
- CCAs to prevent Carbon Leakage
- Lobby groups fighting for specific market sectors

Conclusion

- **What will government do?**
 - Consolidate taxation based on Climate Change Levy
 - Abolish CRC
 - Develop ESOS as main monitoring & reporting platform
 - Integrate with GHG for company reporting
 - Will resist complexity but some cases will succeed
 - Some protection for Energy Intensive Industries
 - No doubt there will be lobbying for more special cases
 - Will resist re-introduction of Climate Change Agreements