



Chartered
Institute of
Taxation.

Climate Change Tax Policy Roadmap

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The Chartered Institute of Taxation

The CIOT is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.



The Chartered Institute of Taxation recommends that the UK Government produces a climate change tax policy roadmap to 2050

Meeting the 2050 net zero emissions target¹ requires major strategic investment and change. The urgency of a new strategy is demonstrated by a recent IPCC report².

Now is the ideal time for the UK Government to take the lead, with its role as host of COP 26³.

From the perspective of tax policy:

- This investment needs to be partly, maybe even wholly, funded out of taxation receipts
- Adding a “carbon price” to reduce carbon demand, stimulate greener supplies and encourage carbon sequestration generates revenues as well as influences behaviours. Other taxes can achieve a similar effect
- The overall tax base is likely to change during the course of the transition to net zero, in particular because current taxes on carbon and revenues from a carbon price diminish as the use of carbon falls



Why we need a climate change tax policy roadmap

- Businesses like certainty and taxpayers need to be persuaded of the need for increased or new forms of taxation
- A policy road map that sets out a clear direction of travel in relation to future changes helps to meet these aims and helps give an understanding of how long the changes will be around for
- This will enable individuals and businesses to plan ahead, but also encourage them to amend behaviours in a positive way, thus assisting the UK in reaching its net zero targets. It may also assist with buy-in and encouraging compliant behaviour⁴, as it should help taxpayers understand the rationale for the policies involved (tax and other) in achieving net zero emissions
- A road map may also help to build cross-party consensus, recognising that this is an issue that affects current and future generations and on a global scale – so is not one for political point-scoring

Although we recognise that there are many moving parts, and that priorities may evolve, we think a similar, medium- to long-term approach would be helpful in relation to climate change and tax policy.

Given the challenge of meeting the net zero targets, and the intermediary targets before then, it would appear that in order for the UK to be successful, a clear overarching strategy and framework is required. Climate change tax policies need to complement and reinforce the broad climate change strategy.

It is also essential that tax policies not directly related to climate change are at the very least neutral in their environmental impacts, and certainly do not work against the net zero targets.

The Corporate Tax Roadmap



It is generally agreed⁵ that The Corporate Tax Road Map⁶, published in 2010, was helpful in setting out a clear plan for corporate tax reform, with the aim of making the corporate tax system more competitive, simpler and more stable.

The document set out how the then UK Government intended to approach reform of the corporate tax system over the next five years – this approach helped to ensure stability and certainty, as well as a more consultative approach to policy making.

Developing a climate change tax policy roadmap

In developing a road map in relation to climate change and tax policy, it is important that the following points are borne in mind:

- All climate change mitigation policies (economic, fiscal, tax etc) need to be designed together, such that they provide mutual reinforcement and maximise their positive impact. It is unlikely that any one policy area can drive enough change alone. It is essential that policy areas do not work against one another. There is a clear need for a consistent and holistic approach
- The government should have a clear picture of what changes are needed so that tax policy can support its direction of travel. The solutions will vary sector by sector – e.g. domestic heating, agriculture, surface transportation, shipping etc – and the policies need to promote the development and take up of “alternatives” to the creation of emissions
- The government should ensure it has the best, detailed analysis of the climate change effects of key choices faced by individuals and businesses – this should help identify relatively ‘good’ choices etc – and a detailed analysis of past and current environmental tax policies, in order to understand what role they can play and what is most effective in driving behaviour
- The road map should set out key climate change mitigation tax policy principles – including:
 - whether carbon allowance schemes and carbon and wider environmental taxes should be used to generate revenue, influence behaviour, or both
 - whether hypothecation is appropriate
 - the place for changes to mainstream taxes to help reduce emissions
 - balancing simplicity with effectiveness
 - balancing “sticks” with “carrots”
 - the need for visibility of carbon price/environmental taxes
 - the need for visibility is particularly key if behavioural change is a policy aim
 - other general tax policy aims, including administrative burden, ease of collection and compliance
- Consideration should be given to how far the timetable of the road map should extend. In part this may depend on the parliamentary term, but equally, given the long-term target, ideally the roadmap would be similarly long-term, setting out overarching long-term principles, what broad policy levers could be used and where taxes may need to change over the period to 2050 as best it can, whilst recognising the need to respond to developments.

Developing a climate change tax policy roadmap

- The roadmap should set out the UK's approach to cross-border issues, such as carbon leakage and engagement with foreign countries to try to harmonise the carbon tax base. UK tax policy in respect of net zero needs to take into account international constraints and impacts. The UK should also seek to influence global policy, seeking to engage multilateral institutions and governments to introduce progressive tax policies that support the achievement of net zero.
- The roadmap should set out plans for updating the tax base to reflect that parts of the tax base – including any new measures introduced under the policy – will reduce or disappear as the economy decarbonises.
- While the main target may be net zero carbon emissions, the roadmap should take account of other environmental issues, such as plastics, pollution, and circular economy, recognising that climate change might be the most immediate issue but there remain other significant environmental problems to tackle.
- The roadmap should state a clear commitment to open and consultative policy making, drawing on input from a broad range of stakeholders. The setting up of working groups (and a framework / overarching / strategic oversight body for them to report into to) involving key stakeholders and the identification of areas for these groups to focus on would also be helpful.
- The roadmap should include development of an engagement and communications plan to ensure buy-in from stakeholders and the general public as well as good awareness and understanding of what the government is trying to achieve and why.
- Further consideration needs to be given to the distributional effects and social impact of the transition to net zero and what kind of support needs to be provided to ensure the transition to net zero does not create social and economic inequalities. By way of example, the EU Fit for 55 green strategy creates a social fund to address energy poverty and other inequalities.

Tax and Net Zero

The transition to net zero will require a stronger recognition of the various roles that tax policy can play, and the roadmap could reflect this. Examples include:

- Revenue raising – there needs to be recognition that the tax base will change. There will be a decline of revenue from hydrocarbons in particular, and this needs to be managed;
- Influencing behaviour – possibly the main aim of a true environmental tax should be to achieve behavioural change. As a result, it needs to include incentives;
- Encouraging transparency – it is undeniable that an increase in tax reporting will be needed to support other sustainability metrics in the quest to reach net zero.

References

1. The net zero targets are 2050 for England, Wales and Northern Ireland, and 2045 for Scotland. Each has also committed to interim targets by 2030.
2. [Sixth Assessment Report](#) (Intergovernmental Panel on Climate Change, 2021)
3. <https://ukcop26.org/>
4. [The tax education gap: Majority of the UK don't understand personal tax](#) (Deloitte press release, September 2019).
5. [Why we need a Corporate Tax Roadmap](#) (ICAS, Donald Drysdale, 28 September 2018)
6. [The Corporate Tax Roadmap](#) (UK Government, 29 November 2010)

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