

A greener tax system

The people's verdict



“green
alliance...”

Summary

The climate and nature emergencies are the defining challenges of the 21st century. They will require governments to use all the tools at their disposal to enable businesses and the public to play their full role in solutions. The tax system is one of the most powerful ways to meet policy aims and shape the world we live in but, so far, it has barely been used in the service of driving a green economy.

There is clear public enthusiasm for a tax system which makes greener choices the easiest choices. But people will not automatically accept any changes made. Greening tax, and particularly consumer facing taxes, will only be successful if policy makers understand the public's views and work to build trust and acceptance of both short and long term reforms.

As part of our TransformTax project, we worked with BritainThinks to understand public attitudes to greening the tax system. In spring 2021, following a representative survey of the UK population, we brought together a citizens' jury to explore the issues in more depth, to develop criteria that would build public support for environmental tax changes and to give their verdict on specific reforms the government could consider.

Our jury supported environmental taxes, under the following conditions:

Fairness: There was a desire for those who cause the most damage, whether businesses or the public, to pay the highest costs, in line with the 'polluter pays' principle. Jurors also wanted a system that enables environmentally beneficial behaviour, rather than one that simply punishes damaging behaviour.

Effectiveness: Jurors thought a greener tax system should mainly aim to improve the environment, not raise revenue. Many also felt that the revenues should be ring-fenced for green projects and to help low income households, who may be disproportionately affected.

Transparency: Jurors felt they had limited knowledge of how their choices affect the environment and expressed a desire for visible tax measures as guidance.

Administration: Jurors preferred taxes that are easy to understand, administer and collect.

The jury concluded that the government needs an overarching vision and plan for tackling the environmental crisis that specifically highlights the positives. And, while they supported greening the tax system, they strongly believed taxes should not be the only measure. Instead, they thought they should be used as part of a wider package that also includes regulation, international co-operation and other support, to make the adoption of greener options more common.

Greening VAT emerged as the clear favourite in this deliberative process for three reasons: its simplicity to administer; that it could clearly help people make more environmentally beneficial choices; and that it could end perversities that contradict national climate and nature targets.

Some of these perversities have been made worse by the UK being tied to EU VAT laws since 1973. The government can now take advantage of its sovereign power to adjust VAT in line with its domestic environmental priorities. It should do so at the earliest opportunity, announcing a package of green VAT adjustments in the forthcoming budget. This should offer a mixture of tax rises and tax reductions, which will have a strong narrative effect, communicating a wider intention to transform the tax system for a green economy.

The government should continue to widen public acceptance of environmental tax reforms by ensuring consistent action and creating the long term vision that has so far been lacking. It can enable behaviour change by ensuring reasonable alternatives are in place, such as adequate public transport to avoid the charges associated with driving. And it should explain the benefits of greening tax to the public, which include warmer homes, fewer traffic jams, less waste, healthier lifestyles and cleaner air.

Success in creating a greener tax system, one that guides the public towards decisions that benefit the environment and their wellbeing, will build enthusiasm and sustain public engagement in the urgent task of addressing the climate and nature emergencies.

Introduction

The UK has made good progress on cutting carbon, reducing its emissions to 40 per cent below 1990 levels. This has been achieved almost entirely through decarbonisation of the power sector, as well as the shift to a service based economy, which meant some manufacturing moved to other countries.¹ These changes have been largely invisible to the public and have not significantly affected the lives of individuals or households, so many people have not yet had to consider substantial lifestyle changes in the effort to prevent the serious consequences of the climate and nature emergencies.

From the government's perspective, the easier stages of decarbonising the economy have been done. What remains will be more politically challenging if it is not approached in the right way. According to the Climate Change Committee (CCC), only 38 per cent of the additional emission reductions needed by 2050 can be

achieved by technological change alone. The rest will require at least some degree of societal and individual behaviour change.² This means new strategies for active public participation.

While concern about the environment has grown rapidly, the dominant narrative on behaviour change has focused on the small personal steps people can take to lessen their environmental footprint. But greater shifts are needed, including in high impact sectors like transport, home heating, resource use and diet.

Inspiring and enabling more ambitious change will require a different narrative, focusing on the benefits to health and quality of life that it can bring. Just as significantly, it will also need adaptations in the physical environment to allow change to happen and, crucially, in the financial incentives that drive consumer and business behaviours.

Just asking people to alter the way they live will only have limited results in an economic system that currently drives unnecessary waste and global emissions.³ The government has a responsibility to intervene, not least because it must meet its legal obligation of net zero emissions by 2050. The upcoming Environment Bill means it will soon face legally binding targets for other environmental measures too.

Meeting these commitments will require the government to use all its powers, not only regulations and funding, but also carefully designed tax changes to act as the guide rails to steer everyone and every decision in society towards building a low carbon, sustainable economy for a prosperous UK in future.

“So far, the government’s announcements have focused on technologies and largely ignored the potential for changes in consumer choices to reduce emissions. These are particularly important to limit emissions in ‘hard to abate’ sectors, such as aviation and agriculture. There are a wide range of levers available to promote low-carbon choices, including enabling measures and nudges, ensuring supporting infrastructure is available, as well as more interventionist measures using regulations and the tax system.”

Climate Change Committee, *Reducing UK emissions: 2019 progress report to parliament*

The tax system is not being used for environmental benefit

The tax system is used for three reasons: to raise revenue, to be able to redistribute money in society and to change behaviour. Taxes on environmentally damaging activities are primarily focused on the latter, though they can also have redistributive and fiscal results.

Taxes like VAT, meanwhile, are predominantly used for revenue raising but can have positive and negative environmental impacts, by either stimulating spending in green sectors or encouraging harmful activities through lower rates or exemptions. Taxation is a powerful tool for effecting change but is not currently being used to its potential to achieve environmental objectives.

Environmental damage is usually a result of market failure, where polluters face little incentive to reduce the amount they pollute because the costs are borne by wider society and, in many cases, by future generations. These

negative impacts are known as ‘externalities’, and, because they are unaccounted for, it means that the true cost of environmentally damaging options are not reflected in their price. This distorts markets and makes it harder for people and businesses to make greener choices. In some instances, the current tax system actually exacerbates this problem. This is notable in the case of VAT, where reduced rates are sometimes applied to environmentally damaging activities, while more beneficial alternatives face higher charges.

Addressing this problem is not the only way that the tax system as a whole could be used to encourage more sustainable decisions. And taxes’ environmental impacts are increasingly coming under scrutiny. In a damning report released in April 2021, the Public Accounts Committee reported that HMRC and the Treasury, the

departments responsible for tax administration and strategy, have a disappointing lack of engagement with the topic. The report heavily criticised the Treasury for failing to evaluate the effectiveness of existing environmental taxes in changing behaviour or environmental outcomes, or to consider the environmental impacts of other taxes. The report concluded, shockingly, that Treasury and HMRC officials are unable even to explain “how the tax system is used in achieving the government’s environmental goals”.⁴

There are currently only four UK taxes with an explicit environmental objective, all levied on businesses, as is the UK emissions trading system (ETS). In a similar way to tax, the ETS puts a price on carbon to contribute to government’s targets on emissions. Although the taxes and ETS have some effect on consumer prices, it is opaque to the public. With interest in the

environmental impact of taxes growing, the government has an opportunity to embed environmental principles throughout the tax system. Indeed, there is considerable untapped potential to use tax to enable the behaviour shifts needed to tackle the climate and ecological emergencies.

Existing taxes with an explicit environmental objective	
Climate Change Levy	A tax on energy delivered to businesses and the public sector to encourage energy efficiency
Carbon Price Support	A top up tax to the Climate Change Levy that increases the cost of fossil fuels for electricity generators to encourage decarbonisation
Landfill Tax	A tax on material sent to landfill, to encourage disposal methods that are considered less harmful
Aggregates Levy	A tax on the extraction of rock, sand and gravel to encourage greater use of recycled aggregates in construction

Our citizens' jury

Greening the tax system must be approached carefully, as a strong backlash could lead to delays in tackling climate and other environmental problems, as was seen with France's 'gilets jaunes' protests. These were triggered by a fuel tax that was considered unfair, not least as it was introduced following the scrapping of a wealth tax.⁵ To be truly effective, policies must gain the public's consent or at the very least avoid counteractive public backlash.

Our previous research with BritainThinks showed that there is considerable public appetite for greening the tax system, at least in principle.⁶ The nationally representative survey of 2,076 adults, conducted in March 2021, found that around six in ten people support the ideas that taxes should be used to make environmentally damaging behaviours more expensive and environmentally beneficial behaviours less expensive, and only around one in ten oppose them.⁷

The survey also showed people were in favour – again, at least in principle – of tax changes like greening VAT, carbon taxes and material taxes. Following these findings, we wanted to understand the conditions that would make actual changes acceptable.

Working again with BritainThinks, we brought together a group of 18 people from across the country, aged between 19 and 81, to take part in a deliberative process, discussing evidence and options on environmental taxes.⁸

Over three weeks in May 2021, our jury met online to discuss the environment, the economy and how the tax system could help or hinder the transition to a net zero carbon, sustainable society.

Our focus was on identifying changes that would most help individuals and wider society make more environmentally beneficial decisions, not only in relation to carbon but other impacts as well.

After hearing evidence about potential tax changes, including the likely advantages and challenges of each approach, the jurors deliberated over features they would like to see in their ideal green tax system. They discussed trade-offs and tensions and delved into the detail on a few selected tax proposals that could deliver environmental benefits. The deliberative approach allowed jurors, many of whom had limited prior knowledge of tax and the environment, sufficient time to learn, reflect and come to an informed conclusion.

The results, which we summarise here, are accompanied by verbatim statements from the jury members explaining their thoughts, supplemented with findings from our earlier survey work.

What worries people and who do they think is responsible?

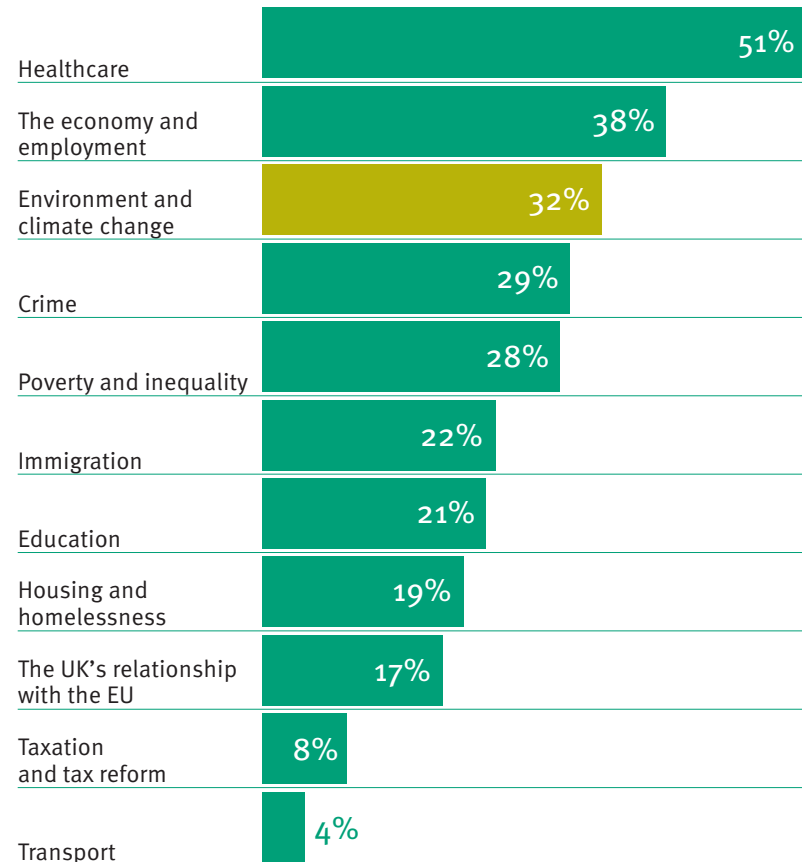
Concern about the environment is widespread

As the effects of climate change and the destruction of nature become more visible, public concern has grown.⁹ Our jurors reported speaking to their friends and family about the environment more frequently. Their connection to nature has also increased during the succession of Covid-19 lockdowns. They strongly believed that reaching net zero carbon emissions will have positive effects on health, wellbeing and the economy.¹⁰

I've become more aware of the environment since the pandemic happened and learnt to appreciate it.

North West England,
suburban

Q. Excluding Covid-19, which of the issues below are most important to you? (Limited to three choices)



The public want more consistent leadership from the government

Our survey in March 2021 found that 80 per cent of people believe the government should be responsible for improving the environment, but a clear majority recognise they also have a role to play as individuals.¹¹ Our jurors thought that, despite ultimate responsibility lying with the government, there was a lack of leadership on the issue and that, as consumers, they were often least able to effect change. Without direction, and in the context of a system lacking clear signals on environmental impacts, they were confused about what changes they should make.

Government, political leadership, must have the biggest responsibility.

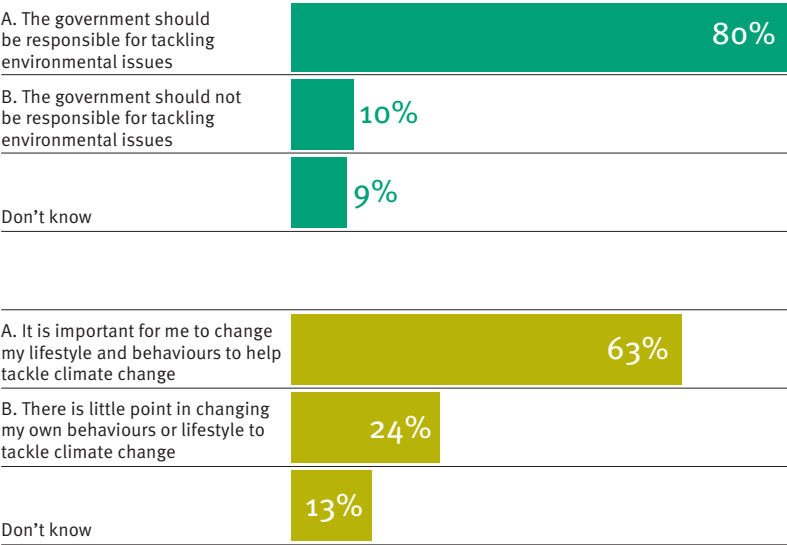
North West England, suburban

I think the government is responsible. I don't know what they should be doing but I think they should be doing something.

South West England, urban



Q. Please select which statement of the following pairs of statements best matches your own view



What would make a green tax system acceptable?

Our jurors worked together in groups to explore the conditions that would make changes to the tax system easier to accept. They strongly supported the following conditions:

Fairness



The ‘polluter pays’ principle was widely supported. This is where those who cause damage, whether businesses or the public, pay the highest costs. However, it is worth noting that cynicism about tax avoidance gave jurors little faith that big businesses and high earners would pay their fair share.

The jurors were positive about using taxes to encourage behaviour change, but only if change was possible. They thought increasing taxes on essential items or those without decent substitutes (eg adequate public transport to avoid having to pay road charges) would be punitive and unfair. The jurors spoke of the need to create an environment that

enabled behaviour change, rather than just punishing environmentally damaging behaviour.

At the same time, they acknowledged that environmental taxes can have a disproportionate impact on low income households, which have to spend a greater share of their income on essential goods and services. The jurors thought protecting these households was important, through grants, exemptions or by facilitating behaviour change.¹²

Create an enabling environment, consumers have to have reasonable alternatives to avoid the tax.

North West England, suburban



Effectiveness



Environmental taxes have the potential to raise substantial amounts of revenue, but the jury strongly thought their primary objective should be to improve the environment, as a successful environmental tax will eventually erode its own base.

Many felt that revenues should be ring-fenced for green projects, such as home energy efficiency improvements, to reinforce the effectiveness of the tax and drive environmental progress as fast as possible. They also thought some of the revenue could be used to help low income households cope, including by improving options like public transport or providing home insulation to reduce energy costs.

Jurors were concerned that the effectiveness of taxes could be undermined if domestic businesses were undercut by foreign competitors that avoid the charges. The jury said that, for a tax to be effective, it needs to be designed to avoid this. Otherwise, pollution would just move overseas, taking jobs with it.

I think it's really important to keep manufacturers in the UK. We will start losing jobs otherwise... It's already difficult to get a job here.

Wales,
rural

[The] goal isn't raising revenue; the goal is climate impact in the shortest possible time.

North West England,
suburban

Transparency

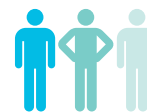


A common theme throughout the discussions was the importance of the visibility of taxes to influence behaviour change. Our jurors had limited knowledge of how their choices impact the environment and expressed a desire for tax measures to be visible at the point of transaction. They thought one of the most useful features of greening tax would be the ability to signal which purchases are more damaging than others, which people are already looking out for.

Scepticism about the tax system was common, though, with many expressing frustration at not knowing where their taxes went and asking where revenues from taxes on environmentally damaging activities would be spent and who would benefit.

Make it visible! Make a fuss about the new tax so people know about it. Make it easy to understand what you are taxing, and what you are supposed to do instead.

South West England,
urban



Administration



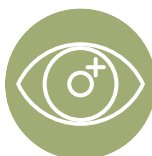
The jury preferred the idea of taxes that are easy to understand, administer and collect. They thought a simpler tax would be more efficient and easier for the public to back. With this in mind, reforming existing taxes, such as VAT, was more appealing. The jurors recognised there was a tension between their desire for a tax to be simple and for it to be fair across income groups, and also for it to be able to tackle multiple environmental impacts.

Being simple and easy to calculate means it can be done quickly and efficiently.

Wales, rural



An overarching vision



Jurors expressed a strong desire for an overarching government vision and plan for tackling the environmental crisis, and one that specifically highlights the positives. And while they supported greening the tax system, they strongly believed taxes should not be used alone. They spoke about the need for taxation to be part of a wider package of measures, including regulation, international co-operation and support to make greener options common. They also recommended that communication around greening the tax system should emphasise the important benefits it would bring, including healthier lifestyles, greater wellbeing, cleaner local areas, lives lived more locally and community engagement.

In the educational role of green taxes, we could actually point to the benefits of it. For example changing people to healthy lifestyles, to living more sustainably, locally. There are upsides to it, which in the long term will benefit society.

North West England,
suburban

We can't rely on green taxes to solve climate change – it's got to be in tandem with clear government policies.

North West England,
suburban



What the jury thought of individual tax proposals

Five tax reforms

We asked the jury to consider five different types of taxes that could bring environmental benefits. Some of these would have a direct impact on costs they faced and, therefore, their behaviour. These were: 'green VAT', a carbon tax on consumption and road pricing. They also considered a carbon tax on producers, where the impact on their choices would not necessarily be as strong. And, finally, they considered material taxes which could be directed at either businesses or the public. Some of these potential changes, like road pricing, have already been mooted by policy makers. Others, like a carbon tax on consumption, have only been discussed academically.

We provided jurors with basic information about each tax, including the potential positives and negatives about how it would be administered, who it would affect and what impact it would have on the environment. The jurors also heard from experts who

explained how the taxes would work and possible benefits and drawbacks.¹³

In line with the findings of our earlier survey, the jury saw merits in all the tax reforms and, in fact, noted the benefits of adopting a suite of measures. We present them here in the jury's order of preference, exploring what they thought about each and the concerns policy makers should bear in mind to make sure reforms are successful.¹⁴ We focus, in particular, on green VAT, the jury's favourite change to the tax system.

Most popular: Green VAT

What the jury was told

Green VAT is an adjustment to the current VAT system, which already influences consumer decisions and purchases and, as such, is not a new tax. This tweak to VAT would increase the prices of environmentally harmful products for manufacturers and consumers, and decrease the price of environmentally beneficial products.

VAT currently taxes spending and is the third largest source of tax revenue in the UK. Currently, the UK VAT system has exemptions for some products

which are environmentally harmful (eg household gas, aviation and construction) whilst many products which have low environmental impacts face high VAT charges. Green VAT is an opportunity to realign the tax system to influence greener purchases and production, making prices of some environmentally harmful goods go up and some environmentally beneficial goods go down, without requiring a whole new tax system or process for producers and consumers.

The jury thought that green VAT most aligned with their values and what they currently want to see from a green tax system, including the fact that, as a tweak to an existing tax, it would be relatively easy to administer and understand. They were also encouraged by the idea of VAT reductions for environmentally beneficial products, like home insulation, but there were concerns about the impact of rising prices of domestic gas and food, especially for low income households.

To overcome their concerns, jurors wanted targeted measures to allow low income households to use less gas, such as grants for improving home energy efficiency, which they considered a necessary step if gas prices were to rise. The jurors also wanted more reassurance that reducing tax on building renovations would lead to more affordable, high quality housing becoming available.

Greening VAT: initial changes that could be made quickly

Construction and renovation

New builds are zero rated for VAT but renovation and refurbishment pays the standard rate (20 per cent). This is an incentive to demolish buildings before the end of their useful lives and squanders the carbon and resources expended in their construction. The construction, demolition and excavation sector is also responsible for producing 62 per cent of the nation's waste. Early demolition is particularly problematic for residential buildings, where the carbon associated with construction makes up more than half of the emissions over a building's lifecycle. This proportion is expected to increase as energy becomes less carbon intensive.¹⁵

Repair services

Keeping products in use for as long as possible is crucial for reducing material use and carbon emissions. However, repairing a product, whether it is a mobile phone or a washing machine, can be almost as expensive as buying a new one. In the UK, repair is currently subject to 20 per cent VAT, though this is not the case in many European countries, where a six per cent VAT rate is applied.¹⁶ As the UK no longer has to follow EU VAT rules, it could go further than EU counterparts and boost the market by zero rating all repair services.

Meat and dairy

Most foods purchased in stores are zero rated for VAT, apart from those considered to be luxuries which are taxed at the standard rate. The Climate Change Committee's central decarbonisation scenario for the UK suggests meat consumption will have to fall by 20 per cent by 2030, and a further

15 per cent to 2050.¹⁷ Although any change would need to be approached with caution over distributional impacts and an eye on additional ethical considerations like animal welfare, the case could be made to apply the standard rate to some meat and dairy. This is especially the case given the growing awareness of their production impacts, overconsumption across all income groups and the increasing availability and, often, affordability of lower impact alternatives.

Domestic gas

Domestic gas and other heating fuels are charged the reduced VAT rate of five per cent. Household use of gas accounts for ten per cent of carbon emissions in the UK but continues to be heavily subsidised.¹⁸ Although poorer households spend a larger proportion of their income on energy, the benefits of this subsidy in cash terms accrue mostly to the wealthy, with the wealthiest ten per

cent of households saving £233 on their annual energy bills, compared to a £128.50 saving for the ten per cent on the lowest incomes.¹⁹ Increasing VAT on gas would encourage innovation in what is considered to be one of the hardest to decarbonise sectors and provide an incentive for those able to pay to for low carbon heating. Some of the revenue should be ringfenced for redistribution and improvements to low income homes.

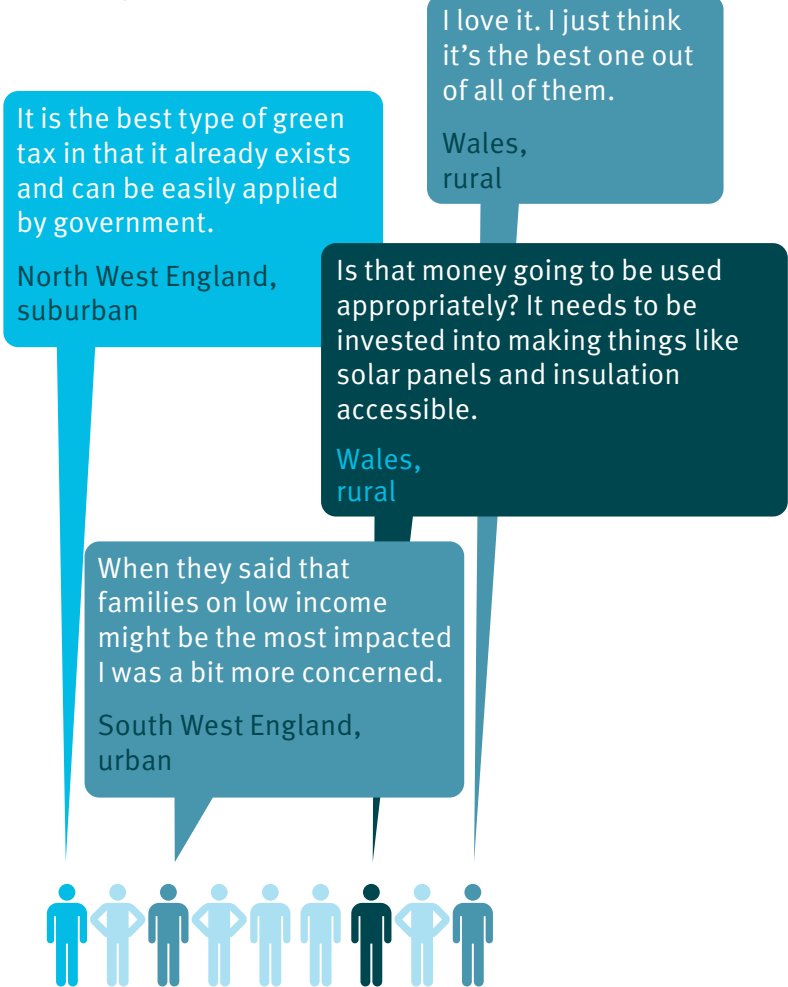
Aviation

Air transport is exempt from VAT on tickets and kerosene, saving most money for the highest earning quartile of households who spend five times more on international flights than the lowest earning quartile.²⁰ Taxing kerosene is complicated by international aviation agreements, though the EU is now looking to end exemptions on internal flights, and the UK could do the same.²¹ The prospect of adding VAT to tickets for flights that cross borders was held up by EU negotiations on complicated ‘place of supply’ rules while the UK was a member, but the UK now has the freedom to align VAT on tickets with its own environmental objectives.²²

Energy saving materials

The installation and supply of energy saving materials, like insulation, solar panels, heat pumps and double glazing, is subject to the standard rate of VAT in many cases. This follows a 2015 ruling by the Court of Justice of the European Union, which judged that the UK had allowed a reduced rate of VAT that did not comply with the EU’s VAT directive which the UK is no longer bound by. The status quo deters improvements to home energy efficiency, but there are increasing calls to overturn this environmental perversity and apply no VAT on energy saving products.²³

What the jurors said



The jury's verdict

Strengths	Concerns
 Transparency: easy to notice and understand	 Fairness: impacts on low income households would have to be countered
 Administration: an easy tweak to an existing tax	 Administration: difficult to determine what is 'essential'
 Effectiveness: promoting renovation in particular seems like an easy win	

Other tax reforms:

A carbon tax on consumers

What the jury was told

A carbon tax on consumers is a new tax that, unlike a carbon tax on producers, would ensure the environmental cost of a product is reflected in the price consumers see. This environmental cost would make goods or services that emit more carbon in production more expensive and goods or services that emit less carbon cheaper, encouraging more 'green' purchases.

The tax is designed to influence consumer purchases and could be introduced alongside additional measures to help consumers transition to more sustainable products and solutions (eg investment in better public transport).

Jurors liked the idea of a new tax with a clear remit. They thought it would make it obvious to consumers what had changed and why, and would provide a transparent signal about the impact of their choices. Carbon emissions were recognised as an important metric because of the difficulty consumers have in knowing the embedded carbon in the products they buy. However, some were sceptical that certain behaviours, such as diet, would change with price. They thought it was important that suitable alternatives to high carbon products were accessible and available for this tax to be fair.

What the jurors said





If I saw on a product how much carbon it took to produce and it was more expensive, then I would just choose a cheaper, more environmentally friendly product.

North West England, suburban

If I'm offered an alternative which is available, then I think it might have a positive effect.

Wales, rural

The jury's verdict

Strengths	Concerns
<div>Transparency: a new, clear tax would make it obvious what was being changed and why</div>	<div>Fairness: impact on low income households could be disproportionate</div>
<div>Effectiveness: its design should help people understand their carbon impact</div>	<div>Effectiveness: behaviours, might not change in practice, eg diet</div>

Material taxes

What the jury was told

A material tax puts a price on new materials such as steel or concrete. This makes it more expensive to extract and use new materials, encouraging reductions in use, as well as use of alternative or recycled materials. The UK has a very limited number of material taxes already and could create taxes for more materials.

Collecting a tax on material extraction itself is highly complicated so, instead, a tax can be placed on the material itself. This makes the material more expensive to use driving greater use of alternative or recycled materials.

By taxing the material itself, this makes it more expensive to add to the current amount of material in existence. This means that material taxes have a knock on effect for the management and disposal of these materials (eg reducing the amount of materials that go to landfill).

Material taxes can raise money for governments to spend elsewhere (eg on environmental projects, general spending or redistribution of wealth).

A materials tax was hard to understand for the jury, perhaps because it is typically levied on businesses who can then choose to reduce their material use, absorb the costs or pass them onto customers.

Nonetheless, the idea appealed to an instinctive aversion to waste and enthusiasm for recycling. In our earlier survey, older people were especially supportive, with 58 per cent of over 65s saying that a materials tax is a good idea, compared with 45 per cent of 18-34 year olds.

The UK's main existing material tax on aggregates, applied to all extracted and imported sand, gravel and crushed rock used for construction at a flat rate of £2 per tonne, has been credited with

driving recycled and secondary aggregate content up to 29 per cent, compared to an EU average of ten per cent in 2016.²⁴

The plastic bag charge (which is not strictly a tax) provided an example of a consumer facing charge designed to reduce the use of materials and chimed with the many concerns jurors had about plastic and plastic waste.

The jury did feel, though, that there was a danger that a poorly designed materials tax could be ineffective if the target material was substituted with another which is potentially more harmful, as the jury was told about the increase in heavy 'bags for life' in response to the single use carrier bag charge.²⁵

There were also concerns that this tax could cause businesses to move from the UK to places where the tax did not apply.

What the jurors said

Pressure should be put on the producers to produce products which are not wrapped in plastic.

North West England, suburban




It does make sense to put tax on a material if it is not recyclable but based on that plastic bag example I am not 100% sure how effective it would be.

North West England, suburban

It could cause organisations to move manufacturing abroad to avoid paying the tax. I think that would inevitably happen... then we are talking about big job losses.

Wales, rural

The jury's verdict

Strengths	Concerns
 Effectiveness: reduction of visible waste and enabling recycling	 Effectiveness: potential to drive businesses outside the UK and encourage harmful alternatives
	 Administration: difficulty in collecting the tax from businesses



A carbon tax on producers

What the jury was told

A carbon tax on producers puts a price on carbon emissions and is already paid by some producers but could be extended to more types of businesses. This could ensure that organisations emitting carbon are paying for the full cost of their impact; this is called the 'polluter pays' principle.

The cost of a carbon tax is decided by policy makers to help drive the changes needed for a country to achieve its environmental targets. Placing an additional cost on carbon emitters encourages a reduction in emissions and helps to achieve emission targets.

The tax is collected at the point of emission (ie making production more expensive for firms the more carbon they emit).

They raise money for governments to spend elsewhere (eg on environmental projects, general spending or redistribution of wealth).

There is strong support for the principle that polluters should pay. This, combined with a belief that companies do not pay enough tax in general and that businesses are more responsible for negative environmental impacts than the public, made this tax option very appealing to the jury. They hoped it would be effective because it would make businesses compete to become more environmentally friendly and spur green innovation.

However, a lack of faith in the government's ability to deliver this potentially high impact approach lowered support for it. This was exacerbated by high levels of concern about the economy following the pandemic, with some worrying that domestic manufacturing businesses would be undercut by products imported from countries without the same level of carbon taxation. Global collaboration was suggested as an optimistic solution, while a minority

suggested a tax at the border to level the playing field would make this approach effective and fair.

In relation to how it might affect their behaviour, a priority judgement they were asked to make, some jurors also expressed concern that it would be less transparent than a carbon tax on consumers, with a weaker signalling effect.

What the jurors said

These costs will invariably be handed down to the consumer. It seems easy to do, I am concerned that it will come back to us at the ground level.

Wales, rural





For it to work, it needs to be a global initiative rather than a UK initiative. If every country is doing it then producers can't leave to avoid it.

North West England, suburban

I think this is the most effective of the five green taxes you've listed because it tackles the problem at source and helps, hopefully, to encourage producers to change their method and sourcing of materials for the products.

North West England, suburban

The jury's verdict

Strengths	Concerns
 Fairness: accords with the 'polluter pays' principle	 Transparency price signals to the public would be weak if it is not clear what prices are passed on
 Effectiveness: competition to be green should spur innovation	 Effectiveness: businesses could be driven away from the UK



Road pricing

What the jury was told

Currently, fuel taxes and vehicle tax are charged on petrol and diesel cars because of the carbon emissions they produce. These taxes on driving amount to around £40 billion of revenue (or £1 in every £20 of tax revenue) but are not charged on electric vehicles. As more people begin to drive electric vehicles, this tax revenue will decrease.

One potential way to replace this tax revenue could be road pricing, which would tax drivers when they enter areas of high congestion or based on the distance they drive.

Aside from carbon, there are other negative impacts from driving, such as congestion, traffic noise, and environmental impacts like plastic pollution from vehicle tyres. Road pricing would tax these impacts and would also apply to electric vehicles as they contribute to these negative impacts.

Road pricing inspired the liveliest debate of all the proposals. For many, driving does not feel like a choice but a necessity because of a current lack of viable and affordable alternatives. Road pricing has the potential to feel punitive, particularly for those with inadequate access to public transport, like those living in rural areas, although some road pricing scheme designs modulate fees based on location and whether roads are congested or not. Some jurors also thought introducing road pricing could move the goalposts, if the government promotes electric vehicles as an environmental solution and then later levies charges on them.

If the government invested in public transport, though, jurors indicated they would be interested in using these alternatives, as long as they are sufficiently convenient. Essential routine journeys, like commutes and school runs were cited as particularly important which may explain why, in

our earlier survey, road pricing was less popular with working age adults than it was with the over 65s. A few jurors suggested they would like to see active travel promoted as a way for people to avoid road pricing.

The jury also recognised that some negative impacts of driving would persist even with electric vehicles.

In our earlier survey, those who thought climate change was a priority were significantly more likely to support the idea of road pricing (48 per cent supported it) than those who did not think it was a priority (32 per cent). That survey also found that people overall were more likely to support than oppose the idea, with 37 per cent supporting and 24 per cent opposing.

What the jurors said



Other policy can be used to counterbalance it... if investment was to be poured into providing more public transport... that could balance it out.

Wales, rural

There needs to be more incentives, like the cycle to work scheme.

South West England, urban

The jury's verdict

Strengths	Concerns
 Effectiveness: tackles the negative impacts of driving, like pollution, congestion and noise, and could promote sustainable travel	 Fairness: a lack of viable alternatives and potential for ‘moving goalposts’ if electric vehicles are promoted then penalised



A new approach to tax

There is both a need and a strong public appetite to green the tax system, to align financial incentives with desired behaviour changes and demonstrate a coherent approach to solving pressing climate and environmental issues.

Specific reforms will require careful design. In addition to improving the data and evidence supporting changes, and addressing potential trade-offs between different environmental measures, the government should listen to, and engage with, people's concerns about how the changes will affect them.

The government should take an ambitious, multi-faceted approach which provides both clear leadership and the certainty about better environmental decisions which the public have so far found lacking.

We recommend:

1. Go for quick wins soon

Greening the VAT system emerged as a clear favourite in this deliberative process, though the other options were also seen to have significant merit. The jury liked 'green VAT' for three reasons: its simplicity to administer; that it could clearly help people make more environmentally beneficial choices; and that it could address the current perversities within the VAT system that contradict national climate and nature targets.

Some of these perversities have been exacerbated by the UK being tied to the EU's VAT laws since 1973, limiting its ability to set its own rules. But the government can now take advantage of its sovereign power to adjust VAT in line with its domestic environmental priorities.²⁶

Our jurors were especially keen to be told when tax changes are made for environmental reasons. The forthcoming budget, expected to accompany the comprehensive spending review, would be an early and powerful opportunity for the government to announce a package of green VAT adjustments, offering a mixture of tax rises and tax reductions. Announcing multiple adjustments in a single package will have a stronger narrative effect, communicating the intention to shift the tax system overall towards positive green purposes and starting to create a long term vision for the economy.

2. Improve acceptance

Our research has revealed clear public enthusiasm for a tax system in which greener choices are facilitated to be the easiest choices. In principle, our jury understood and supported the idea that polluters should pay for the environmental damage they create.

However, they were cynical about the fairness of the tax system and lacked faith in the government's ability to deliver on its environmental agenda and hold businesses to account.

The government could improve public acceptance of environmental reforms to the tax system in the following ways:

Establish a track record. Successfully implementing green VAT reforms initially would boost confidence in the application of other measures.

Ensure consistent action. Mixed signals, like plans to cut Air Passenger Duty on domestic flights, confuse people and undermine faith in the government's commitment to tackling environmental issues. Inconsistencies can damage trust while also discouraging individual action if others are seen to be freeloading.

Enable behaviour change. People are willing to make changes to their lifestyles if reasonable alternatives are

offered. This was especially true with road pricing, where many do not feel they can easily avoid driving, so providing viable alternatives, by expanding public transport and active travel facilities, would increase acceptability.

Explain the benefits. The benefits of greening tax and the wider economy will include warmer homes, fewer traffic jams, less waste, high quality job opportunities, healthier lifestyles and cleaner air, and these will all be more immediately evident and, in many cases, relevant to people's daily lives than the less visible fact of falling carbon emissions. The Public Accounts Committee has called on the Treasury to assess the environmental impact of all tax measures, and this should include quantifying all the benefits too. This will help to build enthusiasm and sustain public engagement in addressing the climate and nature emergencies.

3. Build support for more major reform

The government should continue to consult the public on environmental policies that will affect them and develop an understanding of the values that are most important to different groups within society. This is necessary for policy challenges that have complex solutions and affect a large proportion of the population, as is certainly the case with tackling the nature and climate emergencies at the speed necessary.

Although the government must also account for realities like the 'value action gap', where people's actions may not always reflect their stated beliefs, policies developed with active input from affected parties will be seen as more legitimate than those imposed from the top down, without consultation. Our jury expressed some support for environmental taxation at the beginning of the deliberative

process, although with reservations. But by the final session, they showed more assurance in their support and understanding of the potential impacts of a greener tax system.

The failed 2013 Green Deal energy efficiency scheme illustrates what can go wrong if the public is not appropriately engaged in the development of policies that affect them. The National Audit Office (NAO) condemned the government for the scheme, which cost £240 million and saved “negligible amounts of CO₂”, in part because it ignored target groups’ motivations. The NAO concluded that “testing designs with consumers to ensure policies have the desired impact on behaviours” was particularly important for success.²⁷

Communication is vital. One of our jury’s central desires was for more information to help them make better choices. People are more likely to get behind environmental tax reforms if they are well explained and visible,

guiding consumers towards what to buy and what not to buy, with revenue transparently spent on measures that benefit the environment or cushion the impact on low income households.

Increasingly ambitious environmental targets mean that the public will have to embrace more substantial changes to their lifestyles. This will require government to actively build support for a broader range of policy tools, including more radical changes to the tax system in the long run.

Endnotes

- ¹ UK emissions fell 40 per cent between 1990 and 2019. They fell a further eight per cent in 2020, though this was as a result of the pandemic rather than structural changes and is expected to be temporary. See: Climate Change Committee June 2021, *Progress in reducing emissions: 2021 report to parliament*
- ² Climate Change Committee, May 2019, *Net zero: the UK's contribution to stopping global warming*
- ³ See, for example, Green Alliance, 2021a, *Targeting success: why the UK needs a new vision for resource use*, where we note that the average UK consumption of resources per person is roughly twice what the UN has suggested is sustainable.
- ⁴ Public Accounts Committee, April 2021 *Environmental tax measures. Fifty-fifth report of the session 2019-21*
- ⁵ See, for example, The Guardian, 7 December 2018, 'Who are the gilets jaunes and what do they want?' The protests began in opposition to an increase on a fuel duty that the government considered necessary to meet climate targets, but that the protestors viewed as unfair, not least as President Macron's tax policy was perceived to benefit the wealthy. It morphed into much wider opposition to government policies.
- ⁶ Green Alliance, 2021b, *The green light for change: what people think about environmental tax reforms*
- ⁷ Ibid. Fifty nine per cent of people supported the idea of "using the tax system to make environmentally damaging behaviours more expensive" and only 12 per cent opposed it. Sixty two per cent supported the idea of "using the tax system to make environmentally beneficial behaviours less expensive" and only nine per cent opposed it.
- ⁸ A full methodology, including more information on the jury composition, is available at: green-alliance.org.uk/resources/A_greener_tax_system_methodology.pdf
- ⁹ See, for example, Pew Research Center, 2020, *Summer 2020 global attitudes survey*
- ¹⁰ Survey by the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (Defra), April 2021, 'Climate change and net zero: public awareness and perceptions'. Participants were provided with a brief statement describing net zero and then asked for their views. Seventy six per cent believed there will be better health when net zero has been achieved, 74 per cent expect better wellbeing and 50 per cent believe the economy will be better.
- ¹¹ Green Alliance, 2021b, op cit
- ¹² Although our jury did not directly tackle this, it is worth noting that economists have previously highlighted that, while it may not be possible to ensure that each individual tax change is progressive and fair, it should be possible to ensure the tax system overall is progressive and fair. The Institute for Fiscal Studies (IFS) reviewed whether the UK tax system is fit for the 21st century and recommended considering the system as a whole, rather than focusing on the progressivity of individual taxes. See: IFS, 2011, *The Mirrlees review: conclusions and recommendations for reform*
- ¹³ A full methodology, including all the information the jury was presented with, is available at: green-alliance.org.uk/resources/A_greener_tax_system_methodology.pdf
- ¹⁴ The tax policies were ranked by BritainThinks, based on the jurors' answers to the questions "which tax sounds like it would be the most effective" and "which tax feels the most acceptable".
- ¹⁵ Defra, March 2020, *UK statistics on waste*
- ¹⁶ Countries with a six per cent VAT rate for repair services include Greece, Ireland, Luxembourg, Malta, Netherlands, Poland and Finland. See: RREUSE, 2017, *Reduced taxation to support reuse and repair*
- ¹⁷ Climate Change Committee, 2020 *The sixth carbon budget: The UK's path to net zero*
- ¹⁸ Energy Systems Catapult, 2019, *Near term options to address low-priced emissions: rethinking decarbonisation incentives*
- ¹⁹ Office for National Statistics (ONS), 2018, 'Detailed household expenditure by disposable income decile group'
- ²⁰ Between 2016 and 2018, the lowest quartile of households by disposable income spent, on average, £2.60 per week on international air fares. The highest quartile spent £12.88 per week. See: ONS, 2019, 'Average weekly household expenditure on international air fares, UK, financial year ending 2016 to financial year ending 2018'
- ²¹ European Commission, 14 July 2021, 'Making energy taxation greener', factsheet
- ²² Transport & Environment, 2018, *Passenger transport in the EU's VAT system*
- ²³ See, for example: *Daily Express*, 22 July 2021, 'Green Britain: sign our petition to scrap VAT on low and zero carbon products'
- ²⁴ HM Treasury, 2020, 'Review of the aggregates levy: summary of responses to the discussion paper and government next steps'
- ²⁵ Green Alliance, 2021a, op cit. Research from Greenpeace and the Environmental Investigation Agency (EIA) has shown that the average household now acquires 57 bags for life each year, and multiple commentators have observed that this means the single use carrier bag charge is likely to have driven an increase in plastic use. See, for example, Greenpeace and EIA, 2021, *Checking out on plastics III*
- ²⁶ Some environmentally beneficial changes to VAT – including increasing VAT on gas – could have been made regardless of the outcome of Brexit. Others – including zero rating VAT on all energy saving materials and repair services – were not possible under EU rules. In any case, Brexit provides an opportunity to review VAT in general in light of new sovereign powers and increasingly urgent domestic environmental targets. As well as considering changes that are now possible, the government should use the opportunity to address some longstanding problems with the domestic application of the VAT regime. As far as possible, economists favour simplification of the VAT system and the application of a uniform rate to reduce complexity and improve operational and economic efficiency. Given the high level of deviations in UK VAT, achieving this is politically challenging. In the near term, our recommendations will help to address the perversities of the current system.
- ²⁷ National Audit Office (NAO), 2016, *Green Deal and Energy Company Obligation*

A greener tax system

The people's verdict

by Zoe Avison and Libby Peake

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Green Alliance

Green Alliance is an independent think tank and charity focused on ambitious leadership for the environment. Since 1979, we have been working with the most influential leaders in business, NGOs and politics to accelerate political action and create transformative policy for a green and prosperous UK.

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