Response from ICAS to the HM Treasury consultation

Reforming the business energy efficiency tax landscape

By 9 November 2015
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About ICAS

1. The Institute of Chartered Accountants of Scotland (ICAS) is the oldest professional body of accountants. We represent over 20,000 members who advise and lead businesses. Around half our members are based in Scotland, the other half work in the rest of the UK and in almost 100 countries around the world. Nearly two thirds of our members work in business, whilst a third work in accountancy practices. ICAS members play leading roles in around 80% of FTSE 100 companies. ICAS is also a public interest body.

General comments on the proposals

2. ICAS welcomes the opportunity to comment on the consultation issued in September 2015 by HM Treasury on reforming the business energy efficiency tax landscape. Environmental taxes have been part of the UK tax landscape since the introduction of the Climate Change Levy (CCL) on 1 April 2001 under the provisions of Finance Act 2000 and it is time to review their effectiveness.

3. ICAS supports the aim to simplify and improve the business energy efficiency tax landscape. The consultation document acknowledges that the current arrangements create issues for both Government and businesses with regard to compliance obligations and competing policy objectives. Business looks for certainty and stability in tax regimes to allow them to plan for the future and allocate their resources. It is worth taking time to make changes and consult fully on these so that any new regime is robust and will not be subject to constant change.

4. Many businesses will have visibility of the impact of CCL on overall energy costs from their bills from suppliers. However, the amounts charged as CCL are only a small part of the overall cost of power to the business as summarised:

<table>
<thead>
<tr>
<th>Type of power supplied</th>
<th>CCL from 1 April 2015 Average charge per kwh for a SME business</th>
<th>CCL as a percentage of average charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.554p per kwh</td>
<td>9.00p</td>
</tr>
<tr>
<td>Gas</td>
<td>0.193p per kwh</td>
<td>3.50p</td>
</tr>
</tbody>
</table>

The focus on CCL as a significant driver for reducing carbon dioxide emissions by business in the consultation document seems misplaced. Businesses are interested in reducing their energy costs as an end in itself and the savings that they make on CCL (and VAT) are incidental.

5. The design and operation of CCL is closer to a tax on energy consumption than a tax on greenhouse gas emissions as noted in the Mirrlees Report. There is no distinction in the rate of CCL between electricity generated from renewable sources and that generated from more traditional sources. Recognition of CCL as a tax on consumption will help the Government design and implement changes effectively based on its experience with other taxes of this type. The environmental and climate change policy objectives can be addressed separately.

Responses to questions raised in the Consultation

1. Do you agree with the principle of moving away from the current system of overlapping policies towards a system where a single/business faces one tax and one reporting scheme? Please provide evidence on level and types of benefits of an approach like this.

ICAS welcomes this proposal. It will reduce the compliance costs for business and allow a focus on the significant issues for business and Government. The current position of
overlapping policies and exceptions to exceptions creates complexity and does not address environmental concerns. The success of the revised tax system will rely on the input of the energy suppliers who charge the taxes to their customers and remit amounts to HMRC. Their comments on the design and operation of environmental taxes should be considered carefully as their input is the key to making the system effective. Energy suppliers are often the first port of call where customers have questions about changes to their bills and can find themselves justifying in the position of justifying policy changes imposed by Government.

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?

ICAS supports mandatory reporting of greenhouse gas emissions by companies on a clear and transparent basis. Public reporting increases transparency and incentivises business to reduce emissions. ICAS is aware that the requirement for public quoted companies to report on their greenhouse gas emissions has had an impact on suppliers to those companies. There is anecdotal evidence that this has led to reviews of greenhouse gas emissions in the supply chain.

3. Should such reports require board level sign-off and should reported data be made publically available? Please give your reasons.

We would support these reports requiring sign off at Board level as this will have the effect of raising the profile of these issues within the businesses. The Treasury will be well aware of the impact of the Senior Accounting Officer reporting requirements for tax on company boardrooms and this move has played a significant part in Board involvement and oversight of the tax affairs of the business.

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?

ICAS supports a single reporting scheme for greenhouse gas emissions to simplify the position for companies.

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?

We cannot comment on this issue

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.

ICAS supports a move to a single tax to simplify the system for businesses. Our reasons are outlined above.

7. How should a single tax be designed to improve its effectiveness in incentivising energy efficiency and carbon reduction?

Businesses will look to reduce their energy consumption to increase their own profitability and the tax savings are not a large part of this equation as noted above. Action to incentivise businesses to increase energy efficiency and achieve carbon reduction should be distinct from the CCL, which is effectively operating as a tax on consumption.
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 (EIIs) should pay lower rates?

Our experience suggests that taxes are most effective where these are designed to apply equally to all taxpayers. Increased complexity and compliance costs inevitably follow where there are exceptions to a general rule, and then further exceptions to those exceptions. Where taxes are structured in this way, this creates loopholes to be exploited by the well-advised or unprincipled and has consequential effects for the amount of revenue collected by HMRC.

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?

We cannot comment on this issue.

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?

We cannot comment on this issue.

11. Do you believe that the CCA scheme (or new scheme) eligibility should focus only on providing protection to those EIIs 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?

We cannot comment on this issue.

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?

We cannot comment on this issue.

13. Do you agree that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain why you agree or disagree.

There are existing incentives for investment in energy efficiency and carbon reduction in the form of enhanced capital allowances. It is difficult to ascertain if these measures have increased investment as the annual investment allowance available to companies and most partnerships has increased tax allowances available for all investment in plant and machinery and the 100% allowance is not limited to plant and machinery which increases energy efficiency or carbon reduction.

The benefits to businesses can be enhanced by tax incentives, but do not form the primary rationale for businesses to invest.

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?

We cannot comment on this issue
15. What impact would moving to a single tax have on the public sector and charities?

The move to a single tax would bring clarity to the position for the public sector and charities. The current arrangements are complex and there are many organisations within these sectors who are unaware of the exemptions and reliefs that they are entitled to claim.

16. How should the merged tax be designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities?

As noted above, CCL is a tax on energy consumption and does not incentivise energy and carbon savings in its current form. The issue for this sector is the overall cost of energy, and taxes form a small part of the total costs.

17. Should a new reporting framework also require reporting by the public sector?

ICAS supports the extension of reporting the public sector. The cascade effect of reporting on the suppliers to an organisation is particularly marked in the public sector and strengthens the message of consistency and comparability across both sectors.

\[\text{\textsuperscript{1}}\text{See paragraph 11.2.2 Tax by design – The Mirrlees Review}\]