

Public Accounts Committee

Oral evidence: Environmental tax measures, HC 937

Monday 8 March 2021

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Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Barry Gardiner; Peter Grant; Mr Richard Holden; Craig Mackinlay; Sarah Olney; James Wild.

Gareth Davies, Comptroller and Auditor General; Andy Morrison, Director, National Audit Office; and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-95

Witnesses

I: Jim Harra, Permanent Secretary, Her Majesty's Revenue and Customs; Beth Russell, Director General, Tax and Welfare, Her Majesty's Treasury; Sir Tom Scholar, Permanent Secretary, HMT; and Ruth Stanier, Director General, Customer Strategy and Tax Design, HMRC.

Report by the Comptroller and Auditor General Environmental Tax Measures (HC 1203)

Examination of witnesses

Witnesses: Jim Harra, Beth Russell, Sir Tom Scholar, and Ruth Stanier.

Chair: Welcome to the Public Accounts Committee on Monday 8 March 2021. Today, we are looking at how taxation could help to deliver the Government's environmental ambitions. This is part of a series of sessions on the issue, following recent reports on how the Government aim to achieve their long-term environmental goals and their net zero target.

The Treasury has already highlighted that taxation is an option, in its recent review of how the path to net zero will achieve that. Although last week's Budget included no particular announcements on green taxes, the



Committee and the National Audit Office are keen to continue to look at this work. Today, we hope to hear from the Treasury and HMRC what discussions they are having about the options and how they will measure the success of environmental tax measures.

I welcome our witnesses: Jim Harra, who is the permanent secretary at HMRC; Sir Tom Scholar, the permanent secretary at Her Majesty's Treasury; Beth Russell, the director general for tax and welfare at the Treasury; and Ruth Stanier, the director general for customer strategy and tax design—very pertinent to this issue—at HMRC.

Before we go into the main session, I want to pick up on some of the issues around the Budget last week. I will ask Barry Gardiner MP, to start.

Q1 Barry Gardiner: Welcome to our witnesses. First, to look at the positive, many of us have been pleased to see the Bank of England updating its remit, or having its remit updated. Will you confirm that that will mean its portfolio will be realigned from the 3.5° of global warming that it is at currently, to 1.5°?

On the super-deductible, the 130% tax relief—perhaps the less attractive side of the announcements last week—will you confirm that it includes no environmental or green filter on what would be subject to having the deductible applied? In fact, oil and gas majors might be able to use it to put in new infrastructure, for example. Will you quantify that? I think the Chancellor said that it would be up to £25 billion in tax reliefs. That seems a heck of a lot without having any green filter applied.

Sir Tom Scholar: On the detail of the tax policy, I will pass the question to my colleagues, who are expert in that. On the question of the Bank of England, the change to the remit published last week I think speaks for itself. On the specific question of precisely how that is to be implemented and over what timeframe, that is for the Bank of England. I do not have the precise details of that with me today, but I can certainly check them and write to the Committee with further particulars.

Q2 Barry Gardiner: Sir Tom, the announcement said that it would be a “sustainable and balanced growth that is also environmentally sustainable and consistent with the transition to a net zero economy.” You will appreciate that the portfolio that the Bank has at present puts us on a 3.5° trajectory, and that is the specific question that I was asking you about. If you say, “There is no timeframe for a net zero economy,” the announcement seems to be without any substance to it. If it is open-ended, we are in a race against time, so we need to be specific about the timescale, what it will do to the Bank's portfolio and how it proposes to



achieve it.

Sir Tom Scholar: I am very happy to be specific when I have the specific details. I don't have a specific answer to that question with me now, but I am happy to write with all available details as soon as I can.

Q3 **Chair:** Thank you very much. Let's go to Jim Harra on the other issues around tax.

Jim Harra: Beth Russell or Ruth Stanier might want to give you the detail on the super deduction. It applies to all qualifying plant and machinery investment. There is no specific restriction of the nature that Mr Gardiner describes.

Q4 **Barry Gardiner:** Do you not see that as the potential problem, Mr Harra? We are talking about a Government that have said they were going to mainstream—

Chair: I think, Mr Gardiner, that is possibly for Ministers to decide. There might be an issue here. Unless Mr Harra has anything to add—

Jim Harra: What I would say is that within the tax system there are general reliefs, of which this new super deduction on capital allowances is one. Then there are specific reliefs targeted at specific objectives, including environmental objectives, and there are a number in relation to achieving environmental objectives, but this is a general relief that applies to all businesses in the tax system.

Barry Gardiner: I think £25 billion is a rather large lacuna to have in the system, if it means that we could see fossil fuel investments to the tune of £25 billion at the very time the Government are talking about greening up the National Infrastructure Bank—though it would be very welcome to see that—and other areas where they say that they want to see us move towards net zero. It seems a huge gap in thinking, but if that is all you can say about it, so be it.

Chair: I think we know, Mr Gardiner, that you and this Committee will pursue this in other areas for exactly the reasons you have just highlighted. Is there anything else, Mr Gardiner?



Q5 **Barry Gardiner:** Well, I would be interested to know why there was nothing on the green homes initiative, which seems to be failing to achieve the objectives that it set out to, which was 600,000 homes. I believe that at the moment it is only 48,000 homes that are incentivised by that, so it is surprising that there was nothing to see greater incentives for that scheme, or greater funds available to make sure that that scheme can operate as it was intended and as you had set out in the objectives.

Chair: Is that a question to Sir Tom?

Barry Gardiner: Indeed, or it could be to Ruth Stanier because she is the person who deals with customer focus. It seems the scheme is not able to deliver at the moment, and she might wish to comment on that.

Ruth Stanier: I am certainly happy to comment on it. However, the decisions for the Budget are for Ministers and not for me. In broad terms, both to this point and your questions earlier, what I would say is that we are certainly developing our approach to monitoring the environmental impacts of tax measures. This is of course challenging, but our analysts are working with other Departments to develop more effective ways of assessing the carbon impacts of different tax measures and tax reliefs.

For the new measures announced at Budget, we are putting in place monitoring plans and evaluation plans. I am also pleased that in this year's Budget we have been able, in our tax information and impact notes, to set out in a more thorough manner carbon impacts across a range of relevant measures.

Barry Gardiner: Thank you for that; that is helpful. I am sure we will be discussing the impact notes later on.

Chair: Just to remind anyone watching that, as I said at the top, the Committee has been doing a series of work on climate change, net zero and so on, and we will be hoping to pull some of those reports together into some conclusions at a later date. Richard Holden will pick up another matter touched on in the Budget.

Q6

Mr Holden: Thank you very much indeed, Chair. One of the issues that has concerned my constituents recently is access to cash. Cash in the economy, particularly in places like North West Durham, still plays a very important part in everyday life, particularly for those on tight budgets and older people. Sir Tom, given the uplift to £100 for using a card announced in the Budget, and legislation is talked about, could you give us a few more details on when that is likely to come forwards and what it is likely to include?

Sir Tom Scholar: We did, of course, have a PAC hearing specifically devoted to this issue in the autumn, and I am sure we must owe you our reply in the normal way to the Committee's recommendations. On the specific issue you raised, I do not have any timetable for the legislation, which obviously would be a matter for the business managers in the usual



way, but I hope that from everything we said at the hearing in the autumn and the various consultation papers that the Government has published, the Committee will appreciate the Government's commitment to making cash available to people who choose it as their means of payment.

Q7 Mr Holden: Given you just said it is for the business managers, does that mean that the legislation is essentially ready to go and it is just a question of timing for Parliament?

Sir Tom Scholar: Well, legislation always has to be prepared. I am afraid I cannot recall quite what the status of that legislation is.

Q8 Mr Holden: But it has gone to the business managers in Parliament for timetabling and to be kicked about, to see where it can fit in.

Sir Tom Scholar: I do not know the answer to that question, though I am happy to look into it and write to the Committee.

Chair: Thank you, Sir Tom. If it is just going to overlap with your Treasury minute response, we may want to wait till then, but let's keep in touch offline, because, as you could tell from that hearing, there is a lot of concern about this issue.

We now move into our main session to look at how the Government's taxation approach is supporting the Government's environmental ambitions. I am going to ask Sarah Olney to kick off.

Q9 Sarah Olney: Thank you very much, Chair. Sir Tom, when we are thinking about environmental taxation and using taxation to achieve environmental goals, how important a role does the tax system play in achieving environmental objectives?

Sir Tom Scholar: As we set out in the interim report on the transition to net zero, tax is one of a range of levers—there are obviously regulation, legislation, public spending tools and tax tools as well. The Report we are looking at this afternoon sets out in some detail the existing environmental taxes we have, which have been introduced at various points over the last 25 years. I think it is fair to say that each of them is directed to a particular issue.

Perhaps the most important thing to say is that the context is changing very rapidly. It is less than two years since the Government set an objective of net zero by 2050—obviously Parliament legislated for that in 2019—and it was two years ago that the Treasury was asked to prepare this report on the costs and benefits of net zero, which we are well advanced on and will be publishing in the spring.

To give a full answer to the question that you have raised is not something I can do today, because it is a very complicated question of both detailed tax policy and how tax policy fits with those other policy instruments. What I can say is that, this year, you will see the final Treasury report on the cost and benefit of net zero, which is expected in the spring. Later in the year, as you know, BEIS are publishing on behalf of the Government a broader



Government strategy towards net zero. I think you have had hearings with them recently.

What there will then need to be is a major cross-Government effort to turn that strategy into a proper plan for action. One of the things that we will have to think about in the Treasury—ultimately, these are ministerial decisions, but we will have to advise them on this—is how to dovetail the Government’s climate strategy into major fiscal events, such as spending reviews and Budgets. Clearly, the tax system has many objectives. Tackling climate change is one of them, but that needs to be considered alongside the others as well.

Q10 Sarah Olney: When you are considering environmental taxes like the ones considered in this Report, do you think the primary objective should be revenue raising or trying to change consumer behaviour or, indeed, business behaviour?

Sir Tom Scholar: Quite often, those two can go together. If what the tax does is to raise the cost of something that has an environmental harm associated with it, as can be the case with carbon taxes, that tax can achieve several purposes. It changes consumer or business behaviour by changing prices, which in turn has an effect on environmental goals. There is also a revenue question there as well.

Q11 Sarah Olney: But don’t you think that if the purpose of environmental taxation is to try to change behaviour, ultimately you would expect to see revenue from that tax measure fall over time? Are you looking to maximise revenue from these taxes, or are you looking to change behaviour?

Sir Tom Scholar: The impact of a change in a tax rate on revenue will always depend on the response to that tax rate and on how high it is in the first place. For example, how much of the final price of the good is accounted for by the tax? The answer to that question depends on the context. It is certainly true—to take one example—that the Office for Budget Responsibility have identified falling fuel duties as one of the fiscal risks facing the Government as cars become less dependent on—

Q12 Sarah Olney: We are going to talk a little bit more about fuel duty later, so I am asking you more broadly, in relation to the four taxes that we are looking at, whether you think we are trying to raise revenue or achieve environmental change. To come back to what you were saying about the net zero objective, do you think the tax regime will have a role to play in helping Government to achieve net zero?

Sir Tom Scholar: It will certainly have a role to play. That is going to be a very complicated question, though, and it will evolve over time from Budget to Budget. I think we said in our interim report on net zero that tax is one of a number of levers that the Government has to achieve environmental goals.



Q13 **Sarah Olney:** Do you have any specific ideas that you can share with us at this stage as to how tax might help the Government to achieve net zero?

Sir Tom Scholar: There is a huge debate outside Government as to all the different taxes that people can imagine, and we are obviously keeping up with that and looking at that. Individual tax decisions are a matter for the Chancellor in each Budget.

Q14 **Sarah Olney:** When you are considering the environmental taxes or looking at the impact of environmental taxes, how are you working with other Government Departments to think about how taxes might work alongside other policy measures to achieve environmental objectives?

Sir Tom Scholar: We work a lot with other Departments. I can give you a couple of examples. As we were developing the plastic packaging tax a couple of years ago, we were working extremely closely with DEFRA, who shared the objective of reducing the amount of single-use plastic being used in packaging. We worked closely with them on the most effective combination of tax and regulation to achieve that.

Another example would be the work we did to prepare for EU exit. As a member of the EU, we were part of the European Union emissions trading scheme; as we approached the time of exit, we knew we would need something to replace that, and there was a question about what would be the most effective way of doing that. That, again, was something we talked to people across Government about. In the end, as you know, we adopted a UK version of that scheme, but we also looked at taxation possibilities at that time.

Q15 **Sarah Olney:** Are the Treasury being proactive in reaching out to other Departments that they know they will need to work with to achieve environmental objectives, where you know it will have a tax impact, or are the Departments coming to you?

Sir Tom Scholar: Both things happen. We are very open to proposals from other Departments, and then from time to time we have things on our own agenda that we are taking to them. I should say that there is a quite comprehensive set of cross-Government governance arrangements on climate and environment generally. There is a series of ministerial committees, supported by official-level committees; that is the formal bit, and then informally there is a great deal of discussion that helps people to prepare work that goes into those.

The actual decisions on tax, like other decisions on tax, are matters for the Chancellor at Budgets. We do not consult widely on the actual Budget decision, but we do consult widely, including publicly, on principles of tax design and we get a lot of contribution through that process on possibilities in the environmental taxation area.

Q16 **Sarah Olney:** May I ask the same question to Jim Harra as well, about how you are working with other Government Departments to ensure that tax and other policies are aligned to help to achieve environmental objectives?

Jim Harra: There are two key official-level governance bodies that go across Government in relation to this. There is the climate national strategy implementation group, which is chaired by the director general in BEIS, and there is a net zero strategy implementation group, which is cochaired by senior officials from BEIS and No. 10. The HMRC-Treasury policy partnership is represented on both those groups. Of course, we are feeding into the net zero review, which Treasury is leading, and that is dovetailing with BEIS, who ultimately have to produce the crossGovernment strategy on that.

In relation to the tax system, quite apart from evaluating new policy ideas and the impact of those, there is also evaluating how existing tax policies affect the achievement of the Government's objectives. In relation to what was said earlier about revenues, I would say that some of the environmental taxes that we will look at today are quite small revenue raisers in the great scheme of the tax system, so that is not primarily why we have them. However, like any tax or tax relief, they achieve their behavioural effects through a financial incentive, so tracking whether they are in line with your financial forecasts, whether that is the amount you collect or the amount you relieve, is very relevant to evaluating whether they achieve their objective, because that is the way they do it.

Q17 **Sarah Olney:** Thanks. We will come back to the evaluation later on. I want to ask both of you whether you think the tax system at the moment is supporting or detracting from the Government's net zero target overall. Sir Tom, I wonder whether you could answer that first?

Sir Tom Scholar: Certainly. To state the obvious, the tax system evolves over time, Budget by Budget. As the Report says, we have a number of taxes, both those specifically considered and referred to as environmental taxes and, picking up what Jim just said, others that are rather more important as revenue raisers, but that also tackle environmental goals. We also have a number of those that make a positive contribution to the goal of net zero. What the Government have not done—again, this reflects the context that I was referring to earlier—because the time has not come yet, is to take an overall view of that. That time is ahead of us, as I said earlier, when we take the Treasury study on the costs of the net zero transition and the BEIS strategy—I should say “Government-wide strategy”, because it will be a Government-wide publication on how to achieve net zero—and then consideration has to be given to how tax can best support that. The decision on tax is not going to be a one-off decision; it is a decision that will come back Budget after Budget, as Chancellors, Budget after Budget, look at the tax system and think, “Are we meeting the environmental goals? How do we balance environmental goals alongside other goals of the tax system, such as the distribution of income and competitiveness?”



Q18 Sarah Olney: I am slightly surprised to hear you say that you don't think the time has come yet. I get that you mean in terms of your procedures, processes and so on, but there is wide agreement that action on climate change and achieving net zero is urgent, and you are saying that you haven't yet considered how the tax system can support the Government's goals. We know that we are not yet on track to achieve the Government's short-term targets without further action, so do you not think this needs close attention sooner rather than later?

Sir Tom Scholar: We are giving it close attention in the Treasury through the cost of net zero transition study, which I mentioned, and across the rest of the Government they are also giving it close attention. If I gave the impression that this is something that we think we will come back to later and that we are not working on it at the moment, that was inadvertent; that is not the case at all.

The particular contribution that tax should make alongside legislation, regulation, spending and international agreements—the other tools—needs to be thought of in the context of an overall strategy. That is a very complicated sector-by-sector job that needs to be done right across the economy so that, for example, you have a clear idea of how much of the contribution, and over what timeframe, comes from domestic heating, as against energy-intensive industries, transport and so on. If you want to do a comprehensive job, you need that comprehensive strategy first and then to work out the role that tax plays within that.

Sarah Olney: Beth Russell, did you want to come in?

Beth Russell: I just want to add two things to that. As part of the cost of net zero review, we are doing a couple of things. One is, as we set out in the interim review, looking at the role that carbon pricing can play in helping us meet net zero. Now, that doesn't have to be through tax—it could be through trading—but potentially tax can play a role there.

The other thing that we are doing is looking, in particular sectors that we know are going to be important to the transition, at the current range of price signals that are being generated through Government intervention, including tax, to better understand that as the basis for helping Ministers make the next of decision about where to go next in those key sectors. We will say more on those things in the final cost of net zero report, which is coming shortly.

Q19 Sarah Olney: Thank you. Finally from me, I want to talk a bit about VAT. Obviously, we have a bit more freedom to set VAT rates than we used to, but I was a bit surprised not to hear more on that in the Budget last week, specifically around encouraging consumers to switch to more environmentally friendly alternatives. Something I am interested in is electric vehicles. I don't know whether this is a question for Jim Harra or



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Tom Scholar, but I wonder what you think about reducing the VAT rate on electric cars from 20% to 5% to try to encourage more people to switch to a less carbon-emitting form of travel.

Sir Tom Scholar: That is a policy question. It is obviously possible to vary the rates of VAT on different issues, and that has a price effect and, through that, a behavioural effect, but that is a policy decision for Ministers. We are ready to provide advice on those things and support Ministers as they think about those decisions. It goes beyond my role to explain what or was not in the Budget.

Q20 Sarah Olney: One final one. Since it is International Women's Day, I would like to talk about period products, in particular sustainable period products. For example, you can get period pants that are much better than using towels or tampons from a sustainable point of view, because they can be washed and reused. At the moment the VAT on them is 20%, whereas the VAT on disposable period products has now been reduced to 0%. This might be a question for Jim Harra—what do you think about reducing the VAT rate on period pants to zero?

Jim Harra: I think it is really similar to the point that Tom made about electric vehicles. You can use the tax system either to send a signal or to achieve an outcome. In relation to period products, we put that zero rate in recently having previously had a reduced rate. That needs to be evaluated, to see how much of that price saving has gone through to consumers, whether it is the most effective policy intervention to reduce period poverty, for example, or whether there could be other interventions.

The same goes for sustainable products. Again, that could sit alongside a broader policy about how sustainable products are treated in the tax system. There are a number of responses you can make: regulatory, spending and tax. Tax will sometimes be the best one, or a useful complementary one, but it will sometimes not be an effective way of achieving your objective.

Chair: Thank you, Ms Olney. Over to Richard Holden MP.

Q21 Mr Holden: Before I go to my questions, I wanted to pick up briefly on something you mentioned to Ms Olney in the questions about working across Government. One of the big issues that I know will be picked up later has been the landfill tax. In my constituency, we saw two tips closed at Stony Heap, near Leadgate, and at Todhills, near Willington, and we have seen a massive increase in fly-tipping over the last few years. What conversations have you had about the landfill tax with MHCLG in recent months and about the impact this is having in terms of ensuring that people aren't putting stuff into the local community? The impact is huge locally. Ms Stanier, would you care to answer as you are in charge of the tax design strategy?

Ruth Stanier: I am really happy to come in on that. It is absolutely the case that our environmental taxes team, who work out of Manchester, are

in contact with a range of different Government Departments and agencies, including in particular the Environment Agency. There are also discussions, as you say, with CLG on relevant issues.

We have done a great deal of work with the Environment Agency in particular over recent years, focusing on unauthorised waste sites. We keep a watching brief on broader impacts related to implementation of the landfill tax. Often, fly-tipping is raised in that context. We have looked carefully at whether there may be any correlation in the trends that there have been between changes to the landfill tax rate and fly-tipping over time. In fact, we have not established such a correlation.

Landfill tax is necessarily a relatively blunt tax instrument and it has been successful in reducing levels of landfill. We look at the broader impacts, but we haven't established a firm correlation with fly-tipping.

Q22 Mr Holden: It might be good at reducing landfill, but we don't know where it is going or the environmental costs of it going elsewhere, and that is part of the broader issues that we will come on to in this session as well.

We have seen a massive reduction in the tax take from landfill tax, which had been pretty stable until 2013 or so, at £1.3 billion. Now it has fallen to £700 million, so we have seen a decrease of about a third in the tax take, yet I am aware from the local communities that I represent that we are seeing fly-tipping on an unprecedented scale. Often, that isn't picked up by local authorities but is dumped in farmers' fields, and is therefore their responsibility to deal with. Are you engaging with other organisations like the NFU? Are any of these debates happening at ministerial level—with respect, you know, at the high level and DG level between the Departments?

Ruth Stanier: Yes. We do a great deal of work on those issues, and they are of significant concern. The first thing to say is that, yes, you are absolutely right that receipts from landfill tax have reduced over time, but that is precisely because levels of landfill have reduced by 65%, as set out in the NAO Report, since the tax was first introduced. That was, after all, the objective of the tax.

Yes, we absolutely do work with other agencies, particularly the Environment Agency, to make sure that we are taking action, where appropriate, on broader impacts. I think one of the most important examples of that was that about four or so years ago, we saw a significant increase in the use of unauthorised waste sites, and we worked with the Environment Agency on potential solutions to that. That resulted in our proposing a new legislative measure to bring unauthorised sites into the scope of the landfill tax, which was introduced back in 2018. That is one example of the sort of action that we have taken to address the issues. Also, recently a new joint waste unit has been set up so that we can work in



partnership with organisations such as the National Crime Agency to deal with some of the criminal gangs who are now engaged in this area.

Q23 Mr Holden: It is all very well to reduce landfill here, but this is part of the offshoring question that we are also concerned about. Do we know whether more is being exported, and are there any figures on that? It is all very well to reduce landfill here, but if we are shipping it halfway around the world to be landfill somewhere else, it is hardly going to have the impact that we want it to have. Has an impact assessment been done on whether the burning of waste has increased on a domestic or smallscale commercial basis?

Ruth Stanier: We have undertaken a full evaluation of the landfill tax. That set out significant evidence that it had had a range of positive impacts in encouraging waste disposal in more positive and less environmentally harmful ways. For example, as well as a 65%—

Q24 Mr Holden: But Ms Stanier, those are the ones that you are measuring, because they are being done by local authorities. What about the stuff that is not being done by local authorities?

Ruth Stanier: I was about to specifically answer your point about exports, but I wanted to set out that we have seen recycling rates increase threefold since the tax was introduced. In respect of exports specifically, the remit of the joint waste crime unit that I mentioned certainly includes looking at that area, and we are supporting work in that area, although it is the lead of other Government Departments.

Q25 Mr Holden: Wasn't the evaluation of the landfill a qualitative exercise, and not a data-led exercise?

Ruth Stanier: The approach that was taken was primarily qualitative in nature—you are right—but I believe that that was an appropriate approach to take given, as you have brought out in your questioning, the very broad range of impacts and the complex overall system that the tax operates within. It was supported, however, by drawing on the data that is available.

Q26 Mr Holden: I think that is something that definitely needs to be looked at in the Departments, because there are real concerns, not just in my area but across the country.

We will go back to the main thrust of my questions now, on the impact of this taxation on the taxes being put forward across the piece. First, Sir Tom, we all know that there is a shift to electric vehicles. That is very welcome, and is huge for the north-east, with Nissan and so on. What are you doing to ensure that revenue from motoring taxes, particularly fuel duty, is not counteracted by the reduction in petrol and diesel vehicles, and what are the projections for that over the next few years?

Sir Tom Scholar: If you look 10 or 20 years ahead, fuel duty receipts are bound to fall very sharply indeed, not least because the Government have



announced—this is a regulatory measure—that they will ban the sale of new petrol and diesel engines from 2030. Obviously, there will still be a large stock of existing cars and other vehicles, but that will decline over time.

Q27 Mr Holden: Sir Tom, I think we are all aware of the context, but on the specifics, what are you doing at the moment? What planning do you have to counteract that? It is 37 billion quid a year: that is about, what, 5p or 6p on the basic rate of income tax? That is a huge tax gap to find.

Sir Tom Scholar: A number of us have spoken about the report that we are finalising on the cost of net zero. That looks both at the cost to the economy and at the fiscal cost. One obvious part of the fiscal cost is the fall in, and eventually elimination of, fuel duty receipts.

The Government have not set out a plan for what precisely to do about that, because that is all wrapped up with the things I was talking about earlier: the broader tax strategy, which needs to achieve all of the things that the tax system does, definitely including environmental goals and revenue raising, but also with an eye on the distributional consequences and the impact on competitiveness. These are obviously always difficult issues in any one tax, but taken together across the whole of the tax system they are very complicated, and those are things we are working on now. We will obviously be giving advice to Ministers, both on the overall strategy and then on the implementation of the strategy Budget by Budget.

Q28 Mr Holden: So at the moment, basically, there is no plan to fill this enormous black hole in the finances. At the moment, it is basically something that you are starting to have a look at, Sir Tom.

Sir Tom Scholar: It has been flagged and under review for several years.

Mr Holden: But there is no plan yet.

Sir Tom Scholar: As I said, it is 2030—nine years away—when this regulation will take effect.

Q29 Mr Holden: It is, but obviously there is an impact of the regulation before it happens, including falling petrol, moving to hybrid sales and that sort of thing. We are expecting to see that impact happening now, and between now and then. It is not going to just happen in 2030 and beyond then, so it would seem logical to me that you have a plan to deal with that tax gap.

Sir Tom Scholar: In the run-up to every Budget, we review the performance of taxes, including fuel duty, and we set out for Ministers the options as to what they can do about that, and they make their decisions.

Q30 Mr Holden: Indeed, but there is no long-term plan to fill this black hole at the moment. You are doing it Budget by Budget, essentially.

Sir Tom Scholar: Well, tax policy is always set Budget by Budget.



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Q31 **Mr Holden:** Okay, that is fair enough. What other revenues do you consider at risk at the moment in the tax system, alongside fuel duty?

Sir Tom Scholar: That is not something I can remember off the top of my head.

Q32 **Mr Holden:** Ms Russell, do you want to come in as director general of tax and welfare?

Beth Russell: In the interim net zero report, we set out the £37 billion that you cited earlier. That is fuel duty, vehicle excise duty, landfill tax, the emissions trading scheme receipts, and the carbon price support tax, so that is across those taxes. Obviously, the timing for those will differ, but that is the £37 billion.

Q33 **Mr Holden:** I know, but the massive overall bulk of that comes from petrol and diesel, doesn't it?

Beth Russell: Yes.

Q34 **Mr Holden:** We know those are the ones at risk, so similarly to the question I asked Sir Tom on fuel duty, do you have any plans in place to look at replacing these as we decarbonise the economy more broadly?

Beth Russell: I do not have anything to add to what Sir Tom said, really. Obviously, it is an issue that we are thinking very much about, but it will be for Ministers to decide what to do on it.

Q35 **Mr Holden:** The issue for many of my constituents on both sides of this is who is going to be impacted by these changes. It is quite clear that something is going to have to happen over the next few years. We have massive inputs from the levelling-up agenda, transport infrastructure and things like that, which are very welcome.

However, what is the actual impact going to be and who is going to be impacted, especially if we are looking to raise these taxes in order to fill that black hole temporarily, and then we have the impact of having to buy new products and so on down the line? If you do not even have a policy yet, you cannot possibly have an impact, I take it, on who will be affected and how this will play with the levelling-up agenda.

Sir Tom Scholar: Let me answer first, and then Beth might want to add to it. As I said earlier, any change to a tax rate can be expected to have lots of effects. When we look at, for example, fuel duty or carbon taxes, certainly they would have environmental impacts, but they would also have impacts on people's income, and therefore distributional impacts and impacts on competitiveness of the economy. It is the job of the Chancellor, every Budget, to weigh all those up and make a balanced judgment, and it is our job to provide advice to the Chancellor as he or she does that.

Q36 **Mr Holden:** Indeed, Sir Tom, but what you are telling me is that you cannot provide that advice at the moment, because none of the legwork has been



done on the background to these long-term issues, which will have massive impacts on the economy: a £37 billion black hole within a few years. Certainly, on the fuel duty side, we are heading to that very rapidly. But none of this long-term planning has been undertaken, whether on the impact on small to medium-sized businesses, many of which will be reliant on a vehicle as their main method of transport, the regional impact of that, and then obviously the knock-on impact for issues like levelling up. None of that work been done, so how can the Chancellor make informed decisions at this stage?

Sir Tom Scholar: That is not what I said at all. That work has been done and is done in the run-up to every Budget. You will see in Budget speech after Budget speech that when Chancellors announce their decisions on fuel duty one of the things that they make specific reference to is the distributional impact, the impact on incomes and the impact on small businesses.

Q37 **Mr Holden:** Exactly. On an individual basis, that is absolutely true, and the fuel duty freeze this year is very welcome, but the long-term issue that we are looking at here is a massive tax gap. It seems to me, and I think to the rest of the Committee now, that we are looking at an issue

here where it is very important to deal with the environmental issues, but the tax revenue is the flipside of that coin. It does not seem that any of the long-term planning has gone in, especially when we have a hard deadline of 2030 for new petrol vehicles.

Sir Tom Scholar: I think that what you are doing is asking me to say what decisions the Chancellor, or future Chancellors, will make in future Budgets. Of course, I cannot do that.

Q38 **Mr Holden:** No, I am not. I am asking if you provided comprehensive advice on the options available.

Sir Tom Scholar: We have provided a huge amount to Ministers on longterm tax options, as we look at long-term fiscal projections. That is just a standard part of our policy advice.

Chair: I think one of the things that you can do, Mr Holden—I am sure that you are capable of doing it—is to push Ministers for what that vision is. I think perhaps Sir Tom has reached the end of what he can say at this point on that issue, but we will come back to some of these points later on.

Q39 **Mr Holden:** I think that is fair enough. I have pushed Sir Tom quite a way on that. Why has the Treasury not set out a “serious, comprehensive, and public review and analysis of the potential options” for environmental taxation, as set out in the Mirrlees review in 2011?

Sir Tom Scholar: Decisions on what analysis to publish are not decisions for officials; they are decisions for Ministers. We may not have done a single study of the sort that the Mirrlees review called for, but in Budgets over the

last decade, and through other things such as reviews of specific taxes, such as the one that Ruth referred to earlier, we have undertaken a lot of analysis and published a lot of it. As I said, in a few months' time, we will publish a review into the costs and benefits of the transition to net zero.

Q40 Barry Gardiner: Sir Tom, I think most people will be extremely worried to hear your response to my colleague's question, because isn't it fair to say that you have now had almost 10 years since the Mirrlees review, which set out that taxation was among the most important economic instruments available to deal efficiently with pollution and thereby help to protect the environment, and said, in the words that my colleague just quoted to you, that "it remains a pity that no serious, comprehensive, and public review and analysis of the potential options in this area have been undertaken"?

That was reinforced by a report from the Committee on Climate Change and by a report from the Institute for Government. So you say, "Oh well, at each Budget the Chancellor mentions impacts," but no comprehensive report such as Mirrlees called for in 2011 has been conducted by you in the past 10 years. Why not?

Sir Tom Scholar: In the past 10 years, we have done an enormous amount of internal analysis, as part of our policy advice to Ministers, on environmental taxation and the environmental impacts of tax decisions, and on the role that tax can play in achieving environmental objectives. We have done an enormous amount of internal advice. There have been—

Q41 Barry Gardiner: Internal advice is not a "serious, comprehensive and public review and analysis", is it?

Sir Tom Scholar: If I could finish my answer—over those 10 years, there have also been some very significant developments in environmental taxation policy, which we can talk more about; I am sure that my colleagues would be able to give some good examples of that.

I think that the Climate Change Committee report that you are referring to is the one they published in 2019, when they made a recommendation that the Treasury should prepare and publish a comprehensive analysis of the cost and benefit of the transition to net zero. We, or rather the Chancellor of the day, immediately accepted that recommendation, and we have been working very hard on that for the last two years. We have published an interim report and will be publishing a final report very shortly.

Q42 Barry Gardiner: Okay. Let's move to the issue of transparency. Earlier, your colleague was talking about the information and impact notes. Why is it not a requirement for tax information notes to include quantification of the expected environmental impacts of those measures?

Sir Tom Scholar: If I may, I will turn in a moment to my HMRC colleagues for more information on the detail of tax implementation notices. The most important thing to say, though, is that, as in general with the publication of analysis and evaluation, those decisions are matters for Ministers and what



gets published in those tax notices is also a decision for Ministers. Perhaps I can turn to my HMRC colleagues to give some further particulars.

Q43 Barry Gardiner: Before we do, there are two points. When the TIINs were introduced, the Government said they would support effective scrutiny by Parliament; that was the whole point of introducing them. This is about transparency; it's about scrutiny. And yet they don't include the very information necessary to aid that scrutiny of the environmental impact of the tax changes, do they? That's exactly what the Report found. Sorry—Ms Stanier.

Ruth Stanier: Yes. It is the case that in tax information and impact notes we include environmental impacts and we work to quantify them, wherever we can. We recognise that we have more work to do on this. It depends, critically, on our analysts having models and methods to do this.

As I was setting out earlier, however, I am pleased that we are making progress in this area. To pull out just two examples from the notes that we published at this Budget, for the red diesel measure we were able to quantify that the measure has 9.4 million tonnes of carbon-worth of fuel in its scope, and that is fuel that will now be taxed at the standard rate rather than at the rebated rate. If you look at the note for the plastics packaging tax, we have been able to quantify an estimated impact of 200,000 tonnes of carbon—a reduction in the emissions forecast for 2022-2023.

We are making progress, but I absolutely recognise that there is more to do, and both Beth Russell and I are very much committed to continuing to lead improvements in this area.

Q44 Barry Gardiner: Thank you for that. That is a positive note. Of course, there is no requirement for the Exchequer Departments to monitor or report them publicly. You have helpfully given us examples of where you have done that, and we welcome that.

Sir Tom also said that it is a matter for Ministers to decide what is published on the impact of tax changes. Just as you have given us examples of where you have published those details, perhaps you could give us examples of where Ministers have said that, even though you have conducted such work, they did not wish you to publish those details.

Sir Tom Scholar: I think that goes beyond— **Barry**

Gardiner: I was asking Ms Stanier, actually.

Sir Tom Scholar: Yes, but I will just say something in advance, if I may? As you know, it is long-standing practice that civil servants do not disclose policy advice to Ministers, which has always been considered confidential.

Barry Gardiner: I am not asking for policy advice to Ministers, Sir Tom, as you well know.



Sir Tom Scholar: I don't think we can talk about examples of analysis where it has been decided not to publish them.

Barry Gardiner: As you well know, Sir Tom, I am not asking for the policy advice that you gave to Ministers. I am asking about when Ministers told you that they did not wish to have published the work that you had done on quantifying and elaborating on the environmental impact. That is not policy advice to Ministers. If you cannot give me the specifics of where that has happened, perhaps you could at least give me the number of areas in which that has happened in a follow-up note.

Chair: Mr Gardiner, we are straying into the relationship of policy advice to Ministers, including Ministers refusing or deciding not to pursue policy advice. I think we can perhaps take up some of this outside the Committee Room. I think we are pushing Sir Tom and his colleagues into a place that is not appropriate for them to answer. If you would like to rephrase the question, perhaps, there may be something that Sir Tom can reveal.

Q45 **Barry Gardiner:** I think it is clear what I am asking for, and that is the number of areas where, although this work has been done in relation to the impact and information notes, it was specifically precluded from entering the public domain to do what Ministers originally said these notes were to do, and that is to aid scrutiny by Parliament.

Let us move on, then. Sir Tom, I want to ask you about the net zero review, but first of all, have you read the Dasgupta review?

Sir Tom Scholar: I have not read the whole 600 pages of it; I have read the preface, the early chapters and the concluding chapter, but not the entire review.

Barry Gardiner: I appreciate that it is, as you say, 606 pages; it is a lot to get through. Given that you read the early chapters, the conclusion and, presumably, the interim review before it, you will know that one of the fundamental points that Dasgupta makes is that our economy is embedded in nature and is not external to it, and as such all our fiscal measures have an environmental impact, in so far as they either encourage or disincentivise different behaviours. Dasgupta talks about consumption, but he also talks about reproductive health. All aspects of fiscal policy impact on what he calls the biome, and our economy is embedded in that.

Chair: Question, please.

Q46 **Barry Gardiner:** Yes, indeed. When you have the net zero review, how will it take into account that all our taxes are to that extent environmental taxes? How will it set out in greater detail the role of tax not only in funding the transition to net zero but in taking account of the fact that all aspects of the environment are influenced by the tax decisions that we take?



Sir Tom Scholar: I should perhaps distinguish between the two different types of review that we are looking at. The Dasgupta review, of course, was an independent review by Professor Dasgupta. We provided a secretariat to support him, but it is very much his review and that was published just a few weeks ago. The Government needs to consider its response to that, and we are working on that and will be providing advice to Ministers on that.

I should say that some of the issues that Professor Dasgupta raises, and the framework that he adopts—in particular looking at broader concepts of sustainability: those are things that there are also some other interesting international examples of people looking at. In particular I would cite the work being done in New Zealand where the Government has done some very interesting work indeed in looking at different concepts of sustainability including within an overall fiscal context. I think we discussed those previously at this Committee when talking about the whole of Government accounts. So that side, the fiscal side of it, we have been looking at for a while. We have now got the Dasgupta review and the Government will need to respond to that.

The net zero review, of course, is a Government review, and we are in the final stages of preparing it, but it does need proper discussion with Ministers. I cannot answer your question today. I do not know precisely what form that will take in the final report. Nor do I know quite how the response to the Dasgupta review will sit alongside the net zero; but they are obviously things that we are working on right now.

Q47 Barry Gardiner: Of course you are correct. The Dasgupta review is an independent review, although it was commissioned by the Treasury. Just focusing, then, on the net zero review, will it establish environmental objectives? Will it quantify the anticipated revenues? Will it identify environmental impacts, quantify behavioural change that it wishes to achieve, quantify emission reductions and quantify natural capital impacts, so that in every aspect the review should be saying “These are the things that we need to establish around our fiscal framework so that for every measure we know the answers to these questions”?

Sir Tom Scholar: We will aim to answer some of that, but some of what you are saying goes beyond the scope of this review and falls more naturally into the scope of the BEIS strategy which will pull together, as I said earlier, a whole series of sectoral studies in order to set out an overall Government strategy for achieving net zero. As we said in the interim report, the costs of the transition depend to a large degree on policy choices. It is not the job of this report to make all those choices. That is a much broader cross-Government work. The main intention of this report is to give an analytical framework within which to think about the costs. That then needs to be taken with the overall strategy. Finally, to state the obvious, this is certainly not the last word on the subject. These two reports, taken together, will be a major step forward in terms of the analysis that the Government publish

to guide debate and inform decisions on this; but there will be an awful lot still to do.

Q48 **Barry Gardiner:** Sir Tom, are you not concerned about the timescale?

Chair: We know there is a tight timescale. Sir Tom.

Sir Tom Scholar: We have been working as hard as we possibly can on this report. I think doing this entire exercise, of a sort that I do not think has been attempted by any other Government in the world—so it is very much thought-leading—I think given the scale of the task the timeframe is reasonable. It is a big job and we are trying to keep the rest of the Government in touch with it, so that it informs very quickly the broader review and strategy prepared and led by BEIS.

Q49 **Barry Gardiner:** Finally from me, the Institute for Government has called for a tax road map to net zero that sets out for taxpayers what changes there will be, when they will come and what their impact will be. Will you commit to publishing your plans so that taxpayers may prepare—in the way that my colleague Richard Holden was talking to about—for how and when taxes might need to change in order to achieve net zero? Will that be published so that people may plan their lives on this road map?

Sir Tom Scholar: They won't be my plans or decisions; they will be the Chancellor and the Government's plans and decisions. I am sure that, in setting out their plans, the Government will be very conscious of the need to give everybody—all economic actors, households and businesses alike—proper time to understand the nature of the transition and where the likely costs might fall, and to plan accordingly. That is very well understood, but I cannot get beyond that to anticipate what precisely might get the green.

Chair: This hearing has highlighted one of the tensions: we need longterm planning, but Budgets are annual and very led by the day-to-day politics. We all need to chew over that as we pick up on the challenges that Mr Gardiner has so ably highlighted. I will now ask Craig Mackinlay, MP, to take up the questioning.

Q50 **Craig Mackinlay:** I come with a little scepticism on some of the environmental taxes, because some of them are not that environmental; they are just very good taxes, often taxing things in a fairly inelastic way. Mr Harra, you and I go back a very long way in the tax system, so let us go back into the annals of taxes on company vehicles, if we may. Back in the '80s, there were always progressive taxes on bigger engines. It was often on cc or expensive cars. What was the purpose behind that, in those days? Environmental issues were not really on the agenda and to me they seemed to be just a wealth tax in many ways—if you could afford a big or expensive car, you would pay more tax. Back then, was there anything more behind it than just revenue raising?



Jim Harra: I would need to check back to the policy papers of the 1980s, but I think you are right as a general matter: very many taxes do not have their origins in environmental objectives, albeit that they have environmental impacts. Fuel duty and car taxation would be examples of that—they pre-date concerns about environmental objectives in the tax system. Obviously, over the years, car taxation has changed considerably and very much so to reflect environmental objectives, but you are probably right that, in the 1980s, the cc size was a proxy for the cost of the vehicle and therefore the wealth of the taxpayer.

Q51 Craig Mackinlay: Indeed. Current company car taxation is very much based on CO₂ outputs, and a proportion of value gives the benefit in kind. That has had one very serious effect, which is that very few company cars are now being purchased, because it is not a good deal any more— there are other means of replacing remuneration. Do you think that that tax has made cars more efficient technologically, so it has had the effect desired, or has it just pushed people away from the company vehicle? What do you think the effect has been? To add to that, the individual of course has to pay a bigger VED every year for their more polluting vehicle, but the effect is not that substantial. What do you think the effect of the taxes will be?

Chair: VED is vehicle excise duty.

Jim Harra: If you look historically at the changes, they probably had two consequences, one of which was not really related to environmental objectives but to make the tax system more neutral between different methods of remuneration. As you say, the tax system is less skewed towards giving cars as a form of remuneration compared with other methods. That is not really environmental; it is just about trying to achieve neutrality in the tax system. Beyond that, we have changed the rules for tax on vehicles, whether it is VED or in the income tax system, in favour of more environmentally friendly cars. That will have an incentive effect, but it has to be backed up, as Sir Tom mentioned earlier, by regulation. Ultimately, to remove petrol and diesel from road transport, the Government has opted for regulation as the way of achieving that, because there are limits to what tax incentives can do.

Q52 Craig Mackinlay: That is very interesting, because the internal combustion engine manufacturers and technical wizards who put the new ones together—the environmental taxes, higher fuel rates, higher VED and the company benefit-in-kind rates have all pushed manufacturers to make leaner, better engines. One of my concerns about the hard closure in 2030 is that those technological advancements will simply now stop, because Ford or anyone else are not going to invest billions on the new Euro 7, Euro 8, Euro 9 or whatever they might have been. My worry is that, perversely, the barrier of 2030 may make our current decade rather dirtier than it might have been. Any thoughts about that, Mr Harra?



Jim Harra: Some of that is beyond my area of expertise. What we are focused on is the existing incentives in the tax system that continue to favour the more fuel-efficient models of car, but there are also now incentives in the tax system that support the regulatory change that will come into force in 2030—for example, incentivising the creation of electric charging points, which are all designed to ease in that regulatory change and be complementary to it.

Q53 Craig Mackinlay: Ms Stanier, we had a little discussion earlier with my colleague Mr Holden regarding landfill tax. That has been progressively increased year on year—it goes only one way. I can imagine that there were certain benefits that were envisaged in raising landfill tax. Do you know what they first were? What were the goals?

Ruth Stanier: The objectives of landfill tax are twofold. The first is to reduce landfill. As I have set out in my evidence, we have seen a 65% reduction in landfill since the tax was introduced. The second leg of the objective is to encourage less harmful disposal. As I set out earlier, we have seen recycling rates going up threefold.

Q54 Craig Mackinlay: Years ago, there was encouragement of waste-to-energy plants, which are not exactly flavour of the month now. It is strange, isn't it? Perversely, as an economy, we want the public to spend on new kitchens and new bathrooms. Those old units that have to be ripped out have to go somewhere, so in some ways, the landfill tax has not helped that type of advancement. I remain unconvinced that we really know the true cost to the environment—and in pounds, shillings and pence to the public and local authorities—of the amount of dumping. Have we tried to put a figure on that? My worry is that it is actually more than the landfill tax receipts now.

Ruth Stanier: As I set out in my earlier evidence, we have done a lot of work with the Environment Agency looking at unauthorised waste sites, and we have taken action to tackle that. We have some data about that, which supported the measure. If you are referring primarily to fly-tipping, that is the lead responsibility of DEFRA and local authorities, and we do not hold information about that, I am afraid.

Jim Harra: I would add that while there is evidence that fly-tipping is a growing problem, there is also no clear correlation between fly-tipping and rates of landfill tax. That is something that we have looked at. However, as a general rule, whether we look at landfill tax or any other form of environmental tax, it is a relatively blunt financial incentive. It will hopefully incentivise more positive behaviours like recycling or incineration, which is regarded as better than landfill, but it can incentivise negative behaviours such as waste crime—whether that is illegal dumping or illegal export—and it therefore needs to be complemented by regulation and effective enforcement of that regulation. That is something on which HMRC collaborates very closely with the Environment Agency through our joint unit for waste crime.



Q55 Craig Mackinlay: I have doubts about some of these so-called environmental taxes actually doing what they are meant to do. In the UK we have some of the highest rates of air passenger duty in the world. The country is very big on aviation and has some of the biggest airports in the world, and we Brits love going abroad. Has it not just become a very easy cash cow taken out of very easy-to-collect places that has really got nothing to do with the environment at all? It has just been a very good cash raiser. Let's have some honesty about what APD really is.

Jim Harra: When you go back to the introduction of APD in 1994, it was not professed to have an environmental objective. It is a tax that raises revenues from a sector that is otherwise, as a rule, undertaxed compared with other parts of the economy because there is no VAT on fuel, for example, or on ticketing. But you are right: it did not set out to achieve an environmental objective.

Q56 Craig Mackinlay: Ms Stanier, you discussed red diesel earlier. I find it very difficult, knowing the building sector, because the diesel engine provides a lot of grunt, as it were, quite easily in places that are often remote—where you need it. What are your ambitions environmentally on the red diesel rebate not being available to the construction industry when it is trying to lay a cable in the middle of nowhere, perhaps across my colleague Mr Grant's constituency? How will that be replaced? What are you trying to achieve? What do you hope that businesses will do?

Ruth Stanier: In our work on red diesel, we have looked very carefully with Treasury colleagues at all the evidence that we have in this area, and it is clear that the use of red diesel we have at the moment is triggering a lot of carbon emissions and also having a significantly negative impact on air quality in places like London and other cities. The case for change and action is well made and has been set out in the publications that the Government has issued in this area. Essentially we are saying that, for a range of industries, the rebate for red diesel will no longer be available in the way that it is at present.

Q57 Craig Mackinlay: I understand what you are doing with it, but if we are to have an environmental tax to do something good for the environment, it will try to create a behavioural change. You tell me: what are you hoping one of the big construction companies might do when it is asked

to lay a cable across a bit of rural Britain? What are you hoping the contractors that are going to be paid by the Government to build HS2—with, obviously, diesel diggers—will do to make an environmental improvement because of this tax?

Jim Harra: The removal of rebated fuel will tend to increase costs for the least efficient diesel engines and therefore it should create an incentive for the construction industry, or any other part of the economy that used rebated fuel, to adopt more fuel-efficient and therefore cleaner and environmentally better diesel engines or alternatives. That was the view of



people who contributed to the consultation in the run-up to the decision to remove the rebate. That rebate actually acts as a disincentive to the transition to cleaner alternative technologies.

Q58 Craig Mackinlay: Right, finally we got there. That is what we are looking for, Mr Harra, but I'm not entirely sure that was initially very clear. It sounds to me like a money raiser.

Finally, on the plastic tax—recycled versus virgin plastic—of £200 per tonne, a couple of things come out of this. Is it cheaper to pay the tax and use virgin plastic, rather than go down the route we are trying to go down and manufacture what I imagine is more expensive plastic with a sufficient amount of recycled? The other thing that comes out of this is that 200,000 tonnes of CO₂ represents one twentieth of 1% of the UK output of 350 million tonnes of CO₂. Is it all a bit tokenistic, Ms Stanier?

Ruth Stanier: It is certainly not tokenistic at all, I hope. Again, we have done a great deal of work with industry in considering the level at which to set the tax. From all that work, we believe it will have the positive impact that we have set out. We are expecting it to drive a 40% increase in the use of recycled plastics, and we have collected a great deal of evidence in advising Ministers on that. We have set out our forecasts, and we will now be monitoring the impact. In designing this tax, we have been particularly careful to make sure we will be able to collect the data we need to monitor those changes in recycling rates that we are hoping to see over time.

Q59 Sarah Olney: To what extent are you satisfied that environmental taxes are raising the amount of revenue that they should?

Chair: Who is that to?

Sarah Olney: Sir Tom. Are they raising the revenue that you are expecting them to raise?

Sir Tom Scholar: Sorry—I understand the question. I wasn't quite sure what you meant by "should". If I understand correctly, I think you are referring to the tax gap and whether all the money that should be being paid is in fact being paid. If that is the question, I ought to pass it on to my HMRC colleagues, who take the lead in monitoring the tax gap.

Jim Harra: Assuming that is what you mean, we publish as comprehensive a picture of the tax gap every year as we possibly can, and we have a tax gap for these environmental taxes. A significant one is the landfill tax, where the gap runs at about 28% of the theoretical total liability. That is in particular as a result of the policy change we made a couple of years ago, in 2018-19, which Ruth Stanier mentioned earlier. We brought unauthorised waste sites within the tax, and therefore they came within the tax gap. As you might expect, initially at any rate there was a very high gap in relation to that.



It is important that we understand that gap and focus on it, because if these taxes are to have the behavioural effects that we want them to have, they have to create the financial incentives that we want them to create, which means that they have to be collected. Of course, it also means that through measuring the tax gap, we can to some extent look at how they might be incentivising other behaviours that are undesirable and need to be tackled. The most serious gap in all these environmental taxes is the landfill tax gap. There is quite a high level of waste crime, which is why we have a joint waste crime unit with the Environment Agency.

For some of the other environmental taxes, the design means that they have, we believe, a very low tax gap. For example, for the climate change levy and the carbon price support, we have placed the obligations as high up the supply chain as possible, and therefore there is a relatively small number of large taxpayers, whose compliance we can monitor quite closely.

Q60 Sarah Olney: Ms Stanier, did you want to come in? No. Mr Harra, do you know how much of the tax gap on the landfill tax is due to waste being exported, rather than disposed of in this country?

Jim Harra: I cannot tell you offhand. I can look at whether we have got that kind of breakdown. The main change in recent years has been as a result of bringing illegal waste sites in the UK within the scope of the tax.

Q61 Sarah Olney: But there is a danger that, as you were saying before, the landfill tax is not necessarily incentivising the right behaviours.

Jim Harra: It can incentivise exports, both legal and illegal. Certainly in the case of illegal waste exports, there is a regime in place which makes sure that if you can catch that, the originating country has to pay the cost of repatriating the waste. But I will look at whether we have information.¹

Q62 Sarah Olney: Ms Stanier, you do not have an accurate estimate of the tax gap on the other three taxes, do you?

Ruth Stanier: We do have an estimate of the gap, which is 4.3%. You are right that we do not attempt to calculate estimated gaps for those smaller taxes individually. Obviously, we keep under review our exact approach to the tax gap, but, based on the evidence that we have, we believe that this is an appropriate approach at this time, not least as Jim Harra has set out. The taxes that we are talking about have relatively small numbers of taxpayers, predominantly larger businesses with tax points very high up the supply chain, and therefore the compliance risks are relatively lower.

Q63 Sarah Olney: But you only have an illustrative estimate of the tax gap. Why has more work not been done to try and get a better picture?

¹ Note from witness: exports of waste (legal or illegal) are not within the scope of Landfill Tax and so do not form part of the tax gap estimate.



Ruth Stanier: That estimate draws on the best intelligence that we have within the Department from the compliance teams, the analytical teams and our policy teams. We are at the moment progressing further work on our compliance approach to the aggregates levy and the climate change levy. As I say, we continue to keep this under review and to work on it.

Sarah Olney: Thank you, and thank you, Chair.

Chair: Thank you, Ms Olney. Over to Peter Grant MP.

Q64 **Peter Grant:** Sir Tom, some of my questions might be to do with the responsibilities of your colleagues at BEIS, but given that the Treasury team has more than a passing interest in the health of the UK economy, I hope you will answer them as best you can. To what extent, when the Treasury are designing tax systems applied to energy generation and distribution, do you take into account the cumulative impacts of decisions taken by the Government on the tax incentives and the influences of market pricing across the UK?

Sir Tom Scholar: I will do my best to answer. My colleagues who deal with the detail of taxes might want to add to this. Whenever we look at a tax change, we give our best advice on the impact of that change— obviously on revenue, but also on prices, behaviour and the likely industry response— and we try to look not just at the particular tax or particular change being considered, but to put it in the context of the overall taxation of that sector and regulation in that sector, including other things that might be happening elsewhere in the Budget or elsewhere in Government policy. We would certainly try to look at things in the round.

Q65 **Peter Grant:** Thank you. The United Kingdom is a net importer of electricity. About 6% of electricity used in the UK has to be imported, most of it from continental Europe. Is that a matter of deliberate Government policy, or is it simply that the Government have not been able to balance up the generation and consumption of electricity within the UK?

Sir Tom Scholar: I'm afraid I don't know the answer to that question. I am sure somebody in the Treasury does, but energy policy is a BEIS lead, so I will have to look into that and come back to you, if I may.

Q66 **Peter Grant:** Okay. On taxation policy as it relates to energy, there is one of the very few taxes that is officially described as an environmental tax in the carbon price support. Am I correct in thinking that that tax is levied on electricity that is generated within the UK, but it is not levied on electricity that is imported into the United Kingdom from overseas? Is that correct?

Sir Tom Scholar: Perhaps I could ask my HMRC colleagues if they would like to answer that.

Ruth Stanier: My understanding is that that is how it operates—it is a taxation on electricity generation. Its objective is to incentivise lower carbon investment in the power industry.



Q67 **Peter Grant:** But would you accept that it also incentivises the distributors and customers to buy their electricity from abroad rather than from within the United Kingdom, if they can get it cheaper?

Ruth Stanier: We have not undertaken an assessment to look at that. I have not seen any evidence on the point that you raise.

Q68 **Peter Grant:** Have you not looked at any impact assessment because nobody has identified that as a matter of concern? Is it a matter of concern to HMRC or to the Treasury generally that the system may incentivise businesses or distributors to import something that we are perfectly capable of producing here in the United Kingdom?

Sir Tom Scholar: Perhaps I can say something about the general approach, and then Beth might want to add on that particular case. On the general approach, when looking at a carbon tax, for example, we would look at the revenue impact certainly, but also at the international competitiveness impact. In this case, as you have pointed to, Mr Grant, the tax change would make a difference in the relative price of domestically generated and overseas-generated electricity. We would look at that, and there is then a policy decision, to weigh up all those different considerations and strike a balance in the decision that is made. We would certainly look to cover that in the analysis, as a general point.

Beth Russell: To add on the specifics, that is information that we have. I do not have it with me, but we do have it. You are right that the CPS does, in theory, make imports economical. Our understanding is that the main impact of the tax has been a very significant reduction in coal-powered generation over the period since it was introduced—something like 80% over the 2013-to-now period. That has been the main impact of the tax.

Q69 **Peter Grant:** Given that we have to see a significant increase in the production of renewable energy in the not-too-distant future, many parts of Scotland—the north, in particular—have brought unimaginably large resources of tidal power, wave power or wind power. At the moment, it is very often not economically viable for businesses to invest in generating electricity in the north of Scotland because of the punitive regime, which admittedly was put in place by the companies themselves. The transmission network use of system charge effectively means that somebody producing electricity in the north of Scotland has to pay twice as much per unit to put it into the network than somebody producing the same energy in other parts of the United Kingdom. Does the Treasury have a view on whether that is desirable? Is the Treasury quite happy to carry on importing electricity, leaving untapped our huge reserves of renewable energy in the north of Scotland and elsewhere?

Sir Tom Scholar: Again, I am afraid I do not know the answer to that question. I would need to consult our experts working on energy policy. Obviously, energy policy is a lead for BEIS, as you know, but we certainly take a very close interest in it. I would need to check with them.



Peter Grant: Finally, Sir Tom, I appreciate that energy policy is led by a different Department, but the decision about where the energy is produced and where the power stations are built has a significant impact on where the jobs are created, and ultimately on which Treasury the tax on those jobs and that investment will be linked to. Do you have discussions with BEIS on the desirability of changing the tax regime and, if necessary, changing the regulatory regime to encourage the development of renewable energy production in places such as the north of Scotland, given that producing the energy there creates jobs and investment within the United Kingdom, rather than elsewhere in Europe?

Sir Tom Scholar: We have an ongoing constant dialogue with BEIS on energy issues, including renewable energy. Obviously, as you said, there has been a big shift towards renewables already in recent years, but that needs to go a lot further, and that will be central to the net zero strategy. Tax is part of that. The precise contribution that tax can make is no doubt a complicated question. We do talk about tax as a lever alongside others. As I said earlier, an actual tax decision would be a Budget decision and would not be consulted on, but we would have a very good understanding of BEIS views on tax as we approached that decision. The broader question of strategy is one that, as I say, we talk to them a lot about.

Q70 **Peter Grant:** I think, Sir Tom, the question is more whether BEIS, when taking their decisions on energy, are well enough acquainted with the Treasury's and HMRC's views on the tax revenue implications of the decisions that they have taken. Are you satisfied that, when BEIS take decisions on how to set up the energy market, they are fully acquainted with the impact that their decisions will have on the amount of tax that is generated for the United Kingdom Treasury, rather than for somebody else's Treasury?

Sir Tom Scholar: As I say, we have a very close dialogue with them. I would hope and expect that all these issues get covered there, but I would need to check, because it is not a discussion that normally would involve me directly.

Q71 **Sir Geoffrey Clifton-Brown:** Good afternoon, everybody. May I direct a few last questions to Ms Stanier? How far do you consider behavioural change when you introduce new taxes? I give you two examples: the switch from leaded to unleaded petrol and the plastic bags tax. Both had dramatic effects. How much further can you take this theory?

Ruth Stanier: As has already been set out in our evidence, when we introduce new taxes we certainly think very carefully about likely impacts on businesses and on individuals. We consult widely on that. We draw on the intelligence that we have. I certainly have teams who look at expected behavioural impacts. Once measures are in place, we obviously track carefully what actually happens in practice over time.



We have already discussed what we are hoping will be the impacts of the new plastics packaging tax. The design of that has been the product of a huge amount of work and discussion with all the different parts of the supply chain to really understand what we are playing into there. As with all of these tax measures, we are operating, as we have been bringing out, within a much broader overall regulatory environment. Of course, public and business attitudes to plastics, for example, are changing all the time, so trying to distinguish exactly what the impact of the tax itself is within all that is quite challenging.

Q72 Sir Geoffrey Clifton-Brown: I am glad that you mentioned the plastics tax. As I understand it, as it is being designed at the moment it is largely designed to fall on the producer rather than the end user, but I have to say that when I go shopping in the supermarket and when I eat that food I am appalled by the amount of plastic that I throw away. Wouldn't it be a good idea to put a little more pressure on the producers by making that tax fall at least in part on the consumers? They get charged ultimately anyway, because the supermarkets will simply put their prices higher if the plastic costs more.

Ruth Stanier: In designing the tax, we have been looking very much at how we can achieve the Ministers' objective to increase recycling, and we have designed it very much with that in mind, and done the consultative work with that in mind. Of course, as consumers, we are all probably changing our behaviour over time, but that is the approach we have taken to designing the tax.

Q73 Sir Geoffrey Clifton-Brown: Time is moving on very quickly. Can I just take you to case study 2 on page 29, and talk about the climate change levy and, in particular, the effect on mineralogical and metallurgical industries—big, heavy industries such as cement producing? The paragraph at the end of the table there says that we should not change the tax on these industries, because we want to remain competitive with similar EU producers. On the other hand, now that we have left the EU, isn't there a case? We are bound to diverge in some of our taxes, and surely we do need to change the behaviour of these very big, energy consuming industries.

Ruth Stanier: Treasury colleagues may also wish to comment on this, but we are keeping the climate change levy under review all the time, as with all our environmental taxes. Obviously, now that we have left the European Union, there are a wide range of implications for the tax system, and some flexibilities and freedoms in some areas that we did not have before, so that is the kind of area that we keep under review.

Q74 Sir Geoffrey Clifton-Brown: Can I finally take you to page 34, paragraph 1.34? It says, "The departments consider that further evaluation provides limited scope for practical benefits and, providing the taxes do not have a negative impact, they still represent an economically efficient way to raise revenue". That rather sounds to me as though you are going to rely on



existing taxes, rather than think about either how they could be reformed to cover off some of the loopholes, or whether there are more effective ways of introducing new taxes. This is surely going to be particularly necessary if we are going to meet the taxes we need to raise as we phase out the internal combustion engine.

Ruth Stanier: I do not disagree with what you are saying at all, and I think that has already come out through some of the previous discussion that we have had about fuel duty.

I would be very keen, though, to take this opportunity to say something briefly about our overall approach to evaluation, because we are very keen, as I know the Committee and the NAO rightly are, to see more evaluation work across our tax measures and tax reliefs. I am delighted that we have been able, in fact, to secure—of course, with the support of Treasury colleagues—an additional £2-million investment in the next financial year to undertake further evaluation work. We are currently developing our plans to get the very best use from that investment, but I think it is a very important development that I wanted to share with the Committee.

Just one final point, quickly: we have gone on public record that we will be publishing a new HMRC evaluation framework later this year, to set out the overall principles and approach that we will be applying.

Q75 Sir Geoffrey Clifton-Brown: Thank you very much, Ms Stanier. Can I just ask you one final question, Sir Tom, please? It says in paragraph 2.18 of the Report that “Our report on *Achieving net zero* found that the UK’s greenhouse gas emissions will exceed government’s shorter-term targets without further action to close the gap.” I know this is going to form part of your more comprehensive report later this year, which you already had an interim part of, but can you just give us a glimpse of some ideas of how you think you are going to take further action—what further action you are going to take—to close that gap?

Sir Tom Scholar: As you say, that will be covered in a lot of detail—not so much in the Treasury’s report, but more in the BEIS strategy. It will certainly look at a range of interventions, which will include tax interventions, regulatory and legislative interventions, and international negotiations. I cannot tell you yet what they will be, because that is subject to work that is happening right now, but it will be comprehensive, and it will look sector by sector as well.

Q76 Sir Geoffrey Clifton-Brown: Just to try and tie you down on this, once we have your Treasury report and the BEIS report, can we assume that by the time we get to COP 26, everybody in the world will have a really good idea of the Government’s path and exactly how it is going to meet its net carbon target by 2050?

Sir Tom Scholar: I am not the expert on all of that. That is really a BEIS lead, but I can say a few things. This will be a nearly 30-year, immensely

complicated programme of work. An awful lot will depend on things that are unknowable today, for example future technological change, the speed of developments in other countries and future international negotiations.

Without any doubt, even the best strategy set this year is something that this Government, and future Governments, will need to come back to time and time again as things change, people learn more and we all work out that some things that we thought were the case turn out not to be, or new evidence comes along. I can't imagine that it would be completely precise and answer every question, but the intention will certainly be that it sets out a very clear direction, next steps, plans and strategies, sector by sector, then an overall framework to try to pull all of those together.

To return to some comments made towards the beginning of the session by a number of your colleagues, it is critical in all this that economic actors, businesses and households have got the best idea that they can have of the future—maybe not the precise steps of what will happen when, but the overall direction of policy—because that will help them adjust and will ultimately reduce the whole economy cost.

Q77 Sir Geoffrey Clifton-Brown: A quick final question. Several times during this hearing, you have mentioned using all the tools in the box—taxes, regulations and other instruments. Do you accept that the current range of instruments that we have will not deliver us the carbon target by 2050, and that they will need to be increased? Behavioural change and everything else will need to be increased.

Sir Tom Scholar: I cannot comment on future tax policy, but it is clearly accepted by the Government that further action is needed to hit that target. There is no doubt about that at all.

Sir Geoffrey Clifton-Brown: Thank you very much.

Chair: Thank you, Sir Geoffrey. I will now turn to Richard Holden MP.

Q78 Mr Holden: Thank you, Chair. Sir Tom, what work have you done to examine the impact of the fuel duty and APD on the environment as a whole?

Sir Tom Scholar: We have done a great deal of work over the years. We look at it Budget by Budget, but that draws on a base of analytical work that goes back, no doubt, to when they were first introduced.

Q79 Mr Holden: Indeed, but as we pulled out earlier on, these were not introduced as environmental taxes with an environmental objective. Do we have specific environmental objectives for each of those taxes at the moment, Sir Tom?

Sir Tom Scholar: I stand ready to be corrected by my HMRC colleagues, but I think the answer to that is no.



Q80 Mr Holden: If that is the case, Sir Tom, how can we be in a position where we are calling them environmental taxes? Isn't this just a bit of greenwash in order to make the public buy into them a little bit more?

Sir Tom Scholar: The NAO Report is clear that the taxes that are considered environmental taxes are the climate change levy, carbon price support, landfill tax and the aggregates levy.

Q81 Mr Holden: I understand that. Throughout this, we have referred to their environmental impact. Isn't the real truth that however much these are talked about as green taxes or environmentally friendly measures that have been taken, if you've got no objective for them, they are actually just taxes?

Sir Tom Scholar: They are taxes. They raise considerable amounts of revenue, but they also have a positive environmental impact because they increase the price of environmentally harmful activities.

Q82 Mr Holden: We do not know about that if we do not have objectives for them. You could potentially end up offshoring some of that impact; I am thinking particularly about fuel duty. For example, in terms of climate change, it is all very well to say that we are reducing our emissions here or that we have a landfill tax, but if we are shoving them overseas—we have got no objective in terms of dumping waste abroad, what we are actually aiming for or in terms of mining new battery components, for example—it is very difficult. Doesn't that lead to a real issue? If we have no clear objectives for these taxes and we are greenwashing them, doesn't it undermine the broader agenda of what the Government is trying to do, Sir Tom?

Chair: I am going to bring in Beth Russell after Sir Tom.

Sir Tom Scholar: The question covers quite a number of different taxes as well, but I go back to what I said earlier: these taxes, as you say, were not introduced specifically or explicitly as environmental taxes. Take the example of air passenger duty, which was introduced in 1994. As Mr Harra said earlier, the aviation sector, in various respects, is taxed more lightly than others because of international agreements. Air passenger duty is one way of raising tax from that sector. It raises the price of aviation. By doing so, it no doubt has an impact on behaviour, and it therefore has an environmental impact.

Beth Russell: The only thing I want to add is that although these taxes do not have a specific environmental objective, in all our advice to Ministers before decisions are made, we would advise on the environmental impacts. For example, we have looked in the past at some of the previous fuel duty freezes and the impact that has had on carbon emissions, and we have incorporated that into our advice to Ministers.

Q83 Mr Holden: I understand that, but are we not essentially retrofitting these taxes with environmental objectives, in some ways? The real issue with



that is that because they are not starting from first principles, you are not capturing the broader impact of what you are doing. With the landfill tax, for example, there is a massive amount of export going on.

Jim Harra: If I can come in on the landfill tax, it is not correct to say that we are not taking account of those wider effects. We know that there is a risk that landfill tax will incentivise illegal dumping or exports, and there are regulatory controls over both of those. The Government has laws about where you are and are not allowed to export, and that is enforced. Similarly, there is enforcement against illegal dumping. It goes back to what I said earlier: it is sometimes important that alongside the broad incentive that the tax creates, there is also a complementary regulatory and enforcement regime, which is certainly there in the case of landfill tax. When it comes to fuel duty and the changes on red diesel that have been announced, both Departments seek to identify the environmental impacts as well as the fiscal impacts of policy options, and we make sure that those are laid before Ministers, who then have to take a decision in the round, based not just on the environmental impacts, but on the distributional impacts and competitiveness impacts.

Mr Holden: Thank you. That is enough from me for the time being.

Chair: Barry Gardiner MP, back to you for the almost final word.

Q84 **Barry Gardiner:** Thank you. Sir Tom, we have looked at understanding the impacts of environmental taxes, and we have just looked at identifying the environmental impacts of other tax measures. Isn't there a real problem around calling something an environmental tax? Can you think of any other taxes with a significant impact on the environment?

Sir Tom Scholar: Human activity—economic activity—tends to have an impact on the environment. It can be positive, and it can be negative. I suppose you could say that any tax that has an impact on economic activity also has an environmental impact. Obviously, some have more than others, including the ones we are looking at this afternoon.

Q85 **Barry Gardiner:** Indeed. If one was looking at specific taxes, one might talk about the valuation of properties for business rates—that had a huge impact on solar panels, you will remember—VAT on building materials, or water abstraction charges. They are very specific, but if I were to ask you, “Can you think of any other fiscal measures that have an impact on the environment?”, that brings into play a whole range of other things, such as tax reliefs. For example, the 75% allowances that we gave for fracking were the highest anywhere in the world, as I recall the Chancellor at the time boasting.

Sir Tom Scholar: You are quite right that other critical interventions also have an impact. You mentioned tax reliefs there, but of course there are many other impacts through public expenditure. One thing that I think you have heard in previous sessions from my Treasury colleagues is that in the



spending review last year, for the first time we asked Departments to include estimates of the greenhouse gas impact of various things that they were proposing. That was a good start. We felt there was a lot that could be improved there and we will look to improve it in the spending review this year.

That is an example of how, once we have a Government-wide net zero strategy, we will have the difficult challenge of working out how to integrate all those considerations into fiscal events, both spending reviews and Budgets, also recognising the point that you and others, including the Chair, made earlier that since net zero is a 30-year programme, we need to be thinking about all these interventions over a long timeframe and not simply year by year.

Q86 Barry Gardiner: I think that is helpful, and I want to stress that it is not just about net zero; it is about wider environmental impacts. We also have the 25-year environment plan, of course.

However, this distinction that the Treasury makes between taxes with environmental objectives and fiscal measures with environmental impacts is surely one that we need to do away with. To achieve the Government's commitment to net zero and the 25-year environment plan, doesn't it make sense to categorise taxes or fiscal measures by those that have an environmental impact, and then to look at those, and of course to assess the revenue-raising powers or other objectives that there may be, but to look at the impact rather than just asking, "Did we do this in order to change behaviour, or did we do this because it raised money?"

Very much as my colleagues Richard Holden and Craig Mackinlay were saying, we want to get away from greenwashing; we want facts. We want to know what we are actually achieving by this towards the Government's objectives, don't we? To do that, we need to stop talking about environmental taxes as if they are a solution here, and to realise that all fiscal measures can have an impact.

Sir Tom Scholar: The term "environmental taxes" is, I think, widely used. It is not a technical term. It is widely used by different people, no doubt to mean different things—

Q87 Barry Gardiner: The Treasury counts only four environmental taxes, don't you?

Sir Tom Scholar: Maybe the National Audit Office can help here. I am not sure that it is particularly the Treasury that defines these four taxes; I think it may refer to statements that were made by the Government at the time that they were introduced, which obviously goes back 25 years. I am not particularly clear that it is a Treasury taxonomy. As I say, maybe the NAO can shed some light on that.

To broaden out the narrow question of labelling, I would certainly accept that, as you say, a very wide range of fiscal interventions—tax, spending,



tax reliefs and indeed the fiscal framework—have environmental impacts. I would not want you to think that the Treasury and HMRC only think about the environmental impact when looking at these particular taxes, because that is not the case at all. We think about it whenever we believe there is an impact.

Chair: Sir Tom, you suggested that we ask the NAO to explain the rationale and impact behind the terminology, and that would be quite helpful. Andy Morrison is the responsible director at the National Audit Office. Perhaps you could come in, Mr Morrison, and explain.

Andy Morrison: The definition of environmental taxes—taxes with environmental objectives—is the definition that the Treasury used and published about five or six years ago, I believe. Clearly, that was a while ago and it has not been updated. I think it may well have changed as a result of the review into how net zero will be achieved and other things. It is the definition from a few years ago, which the Treasury had outlined.

Chair: That is very helpful. It is something that there is clearly confusion about.

Q88 Barry Gardiner: If there is movement on from that position, Chair, that would be very helpful. Sir Tom seems to have suggested that the Department is moving in a direction away from that very tight definition, which would be a great relief of all of us. Ms Stanier, how do you know if tax reliefs, such as those that aim to encourage the use of low emission vehicles, work?

Ruth Stanier: The Committee looked last year at the whole area of how we monitor the impact of tax reliefs. We have arrangements in place within the Department with a clear relief owner, and we have a framework that we share with the Treasury. The relief owners look at monitoring data and intelligence that we have from our compliance teams to see what is happening in practice. There are, of course, a range of reliefs that have environmental objectives, including those relating to home insulation, the lower VAT rate, the corporation tax allowances for low-carbon technology and a whole range of others. We monitor how those reliefs are operating against the objectives that they have been set.

Q89 Barry Gardiner: Last year, I think two of the reliefs were removed following a revaluation. Do you have any plans to evaluate the other eight environmental reliefs?

Ruth Stanier: We are looking all the time at how these reliefs are performing. In some cases, we notice that they overlap with new measures, which is why sometimes some rationalisation occurs. Some of these reliefs are fairly small-scale, so we would not necessarily prioritise them under the evaluation criteria that we published in response to this Committee's recommendation. None the less, we will certainly be doing ongoing monitoring work within the Department.



Q90 **Barry Gardiner:** Thank you. Mr Harra, what plans do you have to identify and understand significant tax measures that have an environmental impact?

Jim Harra: It goes back to the general approach around budgets. We have work where we evaluate as officials areas of the tax system that we think may require reform. Ministers will also have their objectives that they want to achieve from the Budget. In any event, in all our advice to Ministers on tax measures, we include the environmental impact of the tax. For example, as Beth Russell mentioned earlier, when giving advice about whether or not to continue freezing fuel duty, we included within that advice about the environmental impact of that, albeit the primary driver of that decision was the impact on families' finances at this time. It was not necessarily driven primarily by the environment.

Q91 **Barry Gardiner:** Indeed. Ms Russell, can you elaborate what you are doing to examine the environmental impact of the five large tax reliefs that the NAO identified as potentially affecting the Government's net zero target?

Beth Russell: As part of the next stage of the net zero review that we are doing, we will be looking, as I said earlier, across the different sectors of the economy that are going to be particularly affected by the transition— for example, household heating or transport. We will be looking at the existing range of measures and incentives that are currently in place, whether that is tax spending or whatever, and the price signals that they are sending. That is something that we will be doing as part of the next stage of our work on net zero to provide the context for Ministers to be able to make decisions on where to go next.

Q92 **Barry Gardiner:** Perhaps you could also elaborate on how you feel the environmental impact of the reliefs might sometimes outweigh the benefits that they are intended to achieve.

Beth Russell: That is not something I can comment on now because this is ongoing work, but that is the sort of thing that we would be looking at.

Q93 **Barry Gardiner:** Finally, Sir Tom, at the very beginning we spoke about the super deductible, and you very kindly said that you would get back to me with further details on that. Perhaps it might be helpful if the Treasury could, over the period, monitor what proportion of those tax reliefs are given for environmental objectives or infrastructure that has an environmental objective towards it, and those that are environmentally damaging.

Sir Tom Scholar: It falls to HMRC to monitor the operation of the tax system, so perhaps HMRC would like to comment on that.

Q94 **Barry Gardiner:** Mr Harra, the hospital pass is over to you, I'm afraid.

Jim Harra: We will be publishing later this year our evaluation framework, which sets out how we go about evaluating all tax measures. I will look at



whether there is something specific that I need to do in response to the Committee. Otherwise, we will certainly take that into account in our overall evaluation framework.

Q95 **Barry Gardiner:** Ms Russell?

Beth Russell: We will be looking to evaluate the super deduction. Obviously, one of the issues will be the information and data that we will have so that we are able to make the sort of assessment that you talked about. That data would not be routinely collected as part of the capital allowances system.

Barry Gardiner: I am really grateful for that, because I think it would marry up very well with what you said about other areas of infrastructure development and trying to make sure they are progressively greener. That is a very welcome response. Thank you.

Chair: Thank you very much, Mr Gardiner. I thank our witnesses very much indeed. As you will have gathered from the work we are doing, we are very interested in pursuing this issue. There are perhaps not members of the Public Accounts Committee who have been here for a 30-year period quite yet, but we do have a long tail of experience on this Committee, so we will be pursuing it possibly beyond your tenures in your roles—not that I am wishing you to leave too soon. We would love you to stay and see some of these things through. Thank you very much indeed for your time. The transcript of this hearing will be up on the website uncorrected in the next couple of days.