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Summary

Tax is an important instrument for pursuing government's environmental goals, particularly getting to net zero greenhouse gas emissions by 2050. The potential of the tax system in this respect has long been recognised by government, academics and stakeholders, notably the Institute for Fiscal Studies in the Mirrlees Review published in 2011 and more recently the Climate Change Committee. We were therefore concerned that HM Treasury and HM Revenue & Customs (HMRC)—the departments responsible for the strategic oversight and administration of the tax system—have taken a very limited view of the role of tax so far. They could not explain clearly to us how the tax system is used in achieving the government's environmental goals.

At present HMRC and HM Treasury only recognise four environmental taxes as these are the only ones with specific environmental objectives. They have limited understanding of the environmental impact of these taxes because their management has focussed on the revenue these taxes raise. The departments have not kept track of the impact of other tax measures with environmental objectives, such as tax reliefs to support energy saving and clean technologies, or the impact of tax measures affecting the consumption of fossil fuels. We were encouraged to hear that the departments have started to assess the impact of fuel duty freezes on the environment, but environmental assessments should be made for all taxes.

We see a lack of leadership and coordination, which mirrors findings in our recent reports on *Achieving government's long-term environmental goals and Achieving net zero*. The tax system interacts with environmental policy areas which are the responsibility of other government departments. These interactions risk being overlooked without greater monitoring and transparency of tax measures affecting the environment. Given HM Treasury's cross-government remit, it is disappointing to see silo thinking, which we often see in other Whitehall departments, extending to the Treasury itself. HM Treasury is still considering how tax should fit within a comprehensive programme for funding net zero. It acknowledges that further action is needed to hit the 2050 target.

Given the scale of the climate emergency, HM Treasury and HMRC need to act now. We are concerned that the departments have yet to plan for the impact of the government's environmental ambitions on tax revenues, including on fuel duty which raised £28 billion in 2019–20 but will decline as people change to electric vehicles. The two departments need to be clear and transparent on the role that tax will play so that: taxpayers can make informed decisions; other government departments can plan; and Parliament has the information it needs to hold government to account. With the UK hosting the UN Climate Change Conference in November 2021, we look to HM Treasury to lead by example.

Introduction

The government has ambitious environmental objectives. The UK is legally committed to bringing all greenhouse gas emissions to net zero by 2050, and the government's overall ambition is to leave the natural environment in a better state. Tax measures are an important tool in implementing environmental policy. Taxes can be levied on goods or services which harm the environment and thus incentivise businesses and people to change their behaviour. Tax reliefs can also encourage taxpayers to use environmentally friendly products or services. Tax measures can be used alongside other policy tools such as regulation to achieve environmental objectives.

Ministers decide on whether to use tax measures to support environmental goals. Where measures are used, HM Treasury and HM Revenue & Customs (the exchequer departments) are responsible for designing the measures to achieve objectives set by ministers, and for monitoring and evaluating their impact. HM Treasury is responsible for the strategic oversight of the tax system and HM Revenue & Customs (HMRC) is responsible for administering the system.

HM Treasury and HMRC administer four taxes with explicit environmental objectives (referred to as environmental taxes throughout this report). Two are taxes on energy. The Climate Change Levy is paid by businesses and public sector organisations on consumption of energy through their energy suppliers. The Carbon Price Support is paid by electricity generators on the fossil fuels they use. The other two tax the disposal of waste at landfill sites (Landfill Tax) and the extraction of rock, sand and gravel (Aggregates Levy). These four taxes raised £3 billion in 2019–20. Other taxes, such as fuel duty (£28 billion in 2019–20), have an impact on government's environmental objectives but do not have specific environmental objectives.

Conclusions and recommendations

1. **HM Treasury has yet to set out how the tax system can help government achieve the UK's net zero target.** HM Treasury has been slow to review how the tax system supports the government's environmental goals. In 2011, the Mirrlees review published by the Institute for Fiscal Studies said it was a pity there had not been a comprehensive assessment of how the tax system can help protect the environment. HM Treasury has still not made such as assessment. In 2019 it initiated a review into how the transition to net zero could be funded but this review has been delayed. HM Treasury published an interim report in December 2020 and the final report is expected soon. The interim report highlighted the importance of using tax alongside regulation, legislation and spending. HM Treasury has told us that the final report will provide an analytical framework to consider the economic and fiscal costs of moving to net zero. We are concerned HM Treasury's progress is too slow. With the UK hosting the UN Climate Change Conference (COP26) in Glasgow in November 2021, we urge HM Treasury to provide a clear vision on the role of tax in reducing carbon emissions and help the UK to provide global leadership.

   Recommendation: ***HM Treasury should aim to become an exemplar finance department in supporting government's environmental goals like net zero; and, by COP26 in November 2021, set out a clear vision of how it will work to help the UK achieve net zero.***

2. **HM Treasury cannot explain how it will manage declining revenues from consumption of fossil fuels, worth £37 billion in 2019–20.** HM Treasury has identified risks to £37 billion of revenue from taxes that are wholly dependent on the consumption of fossil fuels or the emission of greenhouse gases. In particular, the government's decision to end the sale of new petrol and diesel vehicles by 2030 will accelerate the transition to electric vehicles and reduce revenue from fuel duty. Fuel duty raised around £28 billion in 2019–20, equal to an increase of around 6p on the basic rate of Income Tax. The government said in November 2020 that revenue from motoring taxes would need to keep pace with the move to electric vehicles so that it can continue to fund public services and infrastructure. In its evidence to us, HM Treasury suggested that it had nine years to prepare for declining levels of fuel duty. But we disagree. The government, with the Department for Transport in the lead, is seeking to encourage people and businesses to move to cleaner vehicles now. Government typically needs several years to consult on major tax changes and HM Treasury will need to act soon to identify and consult on options for motoring taxes, and the impact on different parts of society and the levelling-up agenda.

   Recommendation: ***By the next budget, HM Treasury should set out a timetable for how it will consult on options for replacing declining revenues from fossil fuels including fuel duty; and ensure it plans for sufficiently early and broad consultation with different parts of society, particularly with the government's levelling-up agenda in mind.***

3. **We are concerned that immediate priorities have often outweighed action needed to support long-term environmental objectives.** Budgets in 2020 and 2021 froze the rate of fuel duty to help with the cost of living, while recognising that future rates would need to be considered in the context of the UK's commitment

to reach net zero emissions by 2050. HM Treasury told us that as net zero is a 30-year programme it needs to consider interventions over a long timeframe and not simply year by year. It also recognises that households and businesses need to understand the overall policy direction and where costs are likely to fall so they can plan accordingly. But HM Treasury has yet to provide a long-term view for taxpayers on the difficult action that will need to be taken to get the UK on the path to net zero. The Institute for Government has called for a tax road map to net zero to provide that long-term view, and the Treasury Select Committee has recommended a wider tax strategy including principles for meeting climate change and other environmental objectives.

Recommendation: ***HM Treasury should consider the pros and cons of publishing a roadmap that signals a clear trajectory to taxpayers for how tax measures will be deployed to contribute net zero. It should write to the Committee to set out its thinking before the next Budget.***

4. **Tax impact assessments do not sufficiently recognise the potential for every tax measure to affect progress towards environmental objectives.** The exchequer departments' current definition of environmental taxes covers just four taxes with specific environmental objectives. Other established tax measures can have significant environmental impacts, such as fuel duty and Air Passenger Duty which both increase the cost of polluting forms of travel. Tax changes announced in Budget 2021 may also impact on the environment significantly. The new temporary 130% super deduction on Corporation Tax, worth £25 billion, could encourage investment which harms the environment as there are no environmental restrictions on eligible companies. The exchequer departments rarely quantify in tax information and impact notes the environmental impact they expect from tax changes intended to alter behaviour. This prevents effective scrutiny of the environmental impact when Parliament considers tax changes.

Recommendation: ***From the next budget, HM Treasury should:***

- ***assess the environmental impact of every tax change considered; and***
- ***publish the expected environmental impact for each tax measure in the budget, including the extent of behavioural change, alongside forecasts for tax receipts.***

5. **HMRC has not done enough to evaluate how tax measures with environmental objectives have changed behaviour.** HMRC's monitoring of environmental taxes focuses on tax revenue, but this is not sufficient on its own. For example, falling tax receipts may mean that a tax is effective because businesses are changing behaviour, but it does not tell HMRC what businesses are doing instead and whether that is more or less environmentally harmful. HMRC has not monitored adverse outcomes sufficiently to understand the impact of environmental taxes. It does not monitor the effect of Landfill Tax on the export of waste, and it currently holds no information on levels of fly-tipping, although it had undertaken some analysis which found no correlation with Landfill Tax rates. The range of responses to a tax can be complex. In the absence of good monitoring data, evaluation is needed to understand the range of environmental impacts. HMRC has evaluated only one of the four environmental

taxes since 2010, in part because its research budget has been limited. HMRC is now planning to allocate an additional £2 million for evaluating tax measures in 2021–22.

Recommendation: ***HMRC should ensure that it has sufficient information to assess whether environmental taxes are achieving their objectives and whether they are having wider impacts, including unwanted behaviour change.***

6. **We were concerned that HM Treasury and HMRC seemed to view the consequences of environmental taxes as the responsibility of other government departments.** The Department for Environment, Food & Rural Affairs (Defra) has lead responsibility for all environmental policy areas apart from climate change mitigation, including net zero, on which the Department for Business, Energy & Industrial Strategy (BEIS) leads. HM Treasury, HMRC and other departments contribute to Defra and BEIS's environmental objectives. Taxes are blunt financial instruments which HMRC accepts can have adverse consequences as well as disincentivising behaviour that is damaging to the environment, but it seems to us it leaves managing these consequences to other departments. The risk of adverse consequences, combined with the lack of transparency around the environmental impact of tax measures and limited evaluation, should require a high level of engagement across government which the exchequer departments have not persuaded us is the case. Recommendation: The exchequer departments need to:

- ***consider and describe the expected impact of taxes on other departments' responsibilities for environmental objectives, for example within tax impact and information notes; and***
- ***by autumn 2021, agree with other departments robust approaches for assessing and monitoring the effect of tax measures on government's environmental goals.***

1 The relationship between the tax system and the government's environmental objectives

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Treasury and HM Revenue & Customs (HMRC).[1]

2. The government has ambitious environmental objectives. It has committed to bringing all greenhouse gas emissions to net zero by 2050 and to leave the natural environment "in a better state than we found it".[2] Tax measures are an important tool in implementing environmental policy. Taxes can be levied on goods or services which harm the environment and thus incentivise businesses and people to change their behaviour. Tax reliefs can also encourage taxpayers to use environmentally friendly products or services.[3] Tax measures can be used alongside other policy tools such as regulation to achieve environmental objectives.[4]

3. Within government, the Department for Environment, Food & Rural Affairs (Defra) has lead responsibility for all environmental policy areas apart from climate change mitigation (including net zero emissions), on which the Department for Business, Energy & Industrial Strategy (BEIS) leads. Ministers decide on whether tax measures are used to support environmental goals. Where measures are used, HM Treasury and HMRC (the exchequer departments) are responsible for designing the measures to achieve objectives set by ministers, and for monitoring and evaluating their impact. HM Treasury is responsible for the strategic oversight of the tax system and HMRC is responsible for administering the system.[5]

4. HM Treasury and HMRC administer four taxes with explicit environmental objectives (referred to as environmental taxes throughout this report):

a) Climate Change Levy – a tax collected by energy suppliers and paid by businesses and the public sector to encourage them to become more energy-efficient and thereby reduce greenhouse gas emissions.

b) Carbon Price Support – aims to drive electricity generators to invest in low-carbon electricity by increasing the cost of the fossil fuels they use. The Climate Change Levy and Carbon Price Support raised £2.0 billion in 2019–20.

c) Landfill Tax – a tax on landfill operators to divert waste from landfill to other less harmful methods of waste management (raised £0.6 billion in 2019–20).

d) Aggregates Levy – a tax to encourage the use of recycled materials over the extraction of rock, sand and gravel which can damage the environment (raised £0.4 billion in 2019–20, including from quarry operators).

1 C&AG's Report, *Environmental tax measures*, Session 2019–21, HC 1203, 12 February 2021
2 C&AG's Report, para 1
3 C&AG's Report, paras 2, 5
4 C&AG's Report, para 1.7
5 C&AG's Report, para 3

Other taxes, such as fuel duty (also known as hydrocarbon oils duty, £28 billion in 2019–20), have an impact on government's environmental objectives but do not have specific environmental objectives.[6]

The role of tax in achieving net zero and other environmental objectives

5. In 2011 the Mirrlees review published by the Institute for Fiscal Studies described taxes as "among the most important economic instruments available to deal efficiently with pollution and thereby help protect the environment". It also noted that "it remains a pity that no serious, comprehensive and public review and analysis of the potential options in this area have been undertaken". In May 2020, the Climate Change Committee set out six principles for a resilient recovery to COVID-19, one of which was to "strengthen incentives to reduce emissions when considering tax changes".[7]

6. We received written evidence from stakeholders in which they identified tax measures which they said were hindering rather than supporting environmental objectives, including net zero. The Association of Accounting Technicians said there had been several seemingly perverse tax decisions that discouraged the greening of the British economy while raising some revenue. It gave the example of VAT being increased from 5% to 20% on some low carbon items, including most solar panel installations and heat pumps, although VAT on coal to residential properties remained at 5%.[8] The energy supplier, OVO Energy, was also critical of the 2019 VAT increase on some products. It said that environmental taxation needs to be implemented in a way that incentivises and rewards electric heat consumption rather than gas consumption.[9] The Green Alliance argued that the current tax system is driving environmental perversities. It said there were three major areas - construction, household energy, and repair - where adjusting VAT could have clear environmental and social benefits, while helping the government to revive the economy.[10]

7. We asked HM Treasury why it had not undertaken the comprehensive public review of the options for environmental taxation that the Mirrlees Review had called for. HM Treasury said that in the past 10 years, it had done an enormous amount of internal analysis, as part of its 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.[11]

8. HM Treasury also said that two years ago it had been asked to prepare a report on the costs and benefits of transition to net zero.[12] This report was due in autumn 2020 but has been delayed.[13] An interim report was published in December 2020.[14] HM Treasury

6 C&AG's Report, paras 4–5; HM Revenue and Customs, *Annual Report and Accounts 2019 to 2020*, HC 891, November 2020, pages 185, 191
7 C&AG's Report, para 2.19
8 Ev 1, The Association of Accounting Technicians, paras 3.41–3.45
9 Ev 3, OVO Energy, pages 2–3
10 Ev 2. Green Alliance, page 1
11 Qq 39–40
12 Qq 9, 17
13 HM Treasury, *HM Treasury's review into funding the transition to a net zero greenhouse gas economy: terms of reference*, November 2019, https://www.gov.uk/government/publications/net-zero-review-terms-of-reference/hm-treasurys-review-into-funding-the-transition-to-a-net-zero-greenhouse-gas-economy-terms-of-reference, accessed 6 April 2021
14 C&AG's Report, para 2.21

said the interim report set out that tax is one of a range of levers, including regulation, legislation and public spending, the government has to support transition to next zero. HM Treasury now expects to publish the final report soon.[15]

9. HM Treasury told us that the final report will provide an analytical framework to consider the economic and fiscal costs of moving to net zero.[16] HMRC said the final report would dovetail within a broader cross-government strategy on how to achieve net zero which BEIS is due to publish later in 2021.[17] HM Treasury said that the particular contribution tax should make to net zero, alongside other tools, needs to be thought of in the context of this overall strategy. It also said that there was a need for a comprehensive strategy first and then government would work out the role that tax would play within that strategy.[18]

10. The UK is hosting the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021. COP26 provides the opportunity for the UK to work with all countries and join forces with civil society, companies and people to inspire climate action.[19]

11. We asked whether by the time we get to COP 26 everybody will have a good idea of exactly how the government is going to meet its net carbon target by 2050. HM Treasury told us this was really a matter for BEIS. It explained that net zero would require an "immensely complicated" programme of work over nearly 30 years, and which will depend on things that are unknowable today, for example future technological change. While HM Treasury was clear that current and future governments would need to change the strategy, for example, as new evidence comes along, it acknowledged that it was critical for businesses and households to have "the best idea that they can have of the future" to reduce the whole economy cost. HM Treasury told us that the cross-government strategy was intended to set "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."[20] It also told us that the government accepted that further action, beyond the current range of tax, regulation and other instruments, would be needed to hit the 2050 net zero target.[21]

The impact of environmental policies on tax revenue

12. HM Treasury's December 2020 interim report on net zero said that "the transition to net zero and consequent structural changes in the economy will also have implications for the UK's public finances and fiscal sustainability. As some sectors grow and others shrink, the mix of tax revenues will change." The report also said that much of the current tax revenue that is wholly dependent on individuals' and businesses' consumption of fossil fuels or emission of greenhouse gases is likely to be eroded during the transition to a net zero economy. In 2019–20, £37 billion of revenue came from taxes on fossil fuels

15 Q 9
16 Qq 27, 47
17 Qq 9, 16–17
18 Q 18
19 UN Climate Change Conference (COP26) website, https://ukcop26.org/, accessed 6 April 2021
20 Q 76
21 Q 77

and greenhouse gases. Around £28 billion of this comes from fuel duty: the equivalent of around 6p on the basic rate of Income Tax.[22] The remaining £9 billion came from Vehicle Excise Duty, Landfill Tax, emissions trading scheme receipts, and Carbon Price Support.[23]

13. The transition to cleaner vehicles in the UK will reduce the demand for petrol and diesel and thus affect the amount of fuel duty raised. In November 2020, government announced its ambition to stop the sale of new cars that are powered solely by petrol or diesel by 2030.[24] The government also said that as the UK transitions to electric vehicles the government needed to ensure that revenue from motoring taxes keeps pace with the change, to ensure it could continue to fund public services and infrastructure.[25]

14. We asked what planning HM Treasury had undertaken to counteract the reduction in revenue from taxes on fossil fuels and greenhouse gases. It said that the government did not have a plan, but the reduction in revenue had been flagged and under review for several years, with ministers advised on long-term tax options. HM Treasury also said that the new regulation banning sales of new petrol and diesel cars would not take effect for another nine years in 2030.[26]

15. We pointed out that the ban on new petrol and diesel cars from 2030 is likely to have an impact on both the type of vehicles and volume of fuel purchased well before then.[27] Under the lead of the Department for Transport, the government is using a range of levers to incentivise consumers to move to electric vehicles now. The levers include: the plug-in car grant scheme; support for home, destination and on route charging; lower rates of Vehicle Excise Duty and Company Car Tax for cleaner vehicles; and raising consumer awareness. The cross-government Office for Zero Emission Vehicles, which ultimately reports to the Secretary of State for Transport, spent a total of £1.1 billion between April 2010 and March 2020 on funding the plug-in car grant, charging infrastructure schemes and other schemes. The government's intention to stop the sale of new petrol and diesel cars by 2030 will require a rapid growth in the number of zero-emission cars over the next decade.[28]

16. It may also take time for government to introduce tax changes needed to make-up for the reduction of fuel duty. The government normally consults on tax changes as it has recognised the importance of engaging with individuals, businesses and other organisations on possible tax measures.[29] Tax changes are often announced two years or more before they are introduced. For example, the new Plastic Packaging Tax being introduced in April 2022 was first announced in the October 2018 Budget.[30]

22 Q 32; HM Treasury, *Net Zero Review: Interim report*, December 2020, paras 2.37–2.39, Chart 2.E; Office of Budget Responsibility, *Economic and Fiscal Outlook*, March 2020, page 72; HMRC, *National Statistics: Income Tax liabilities statistics: tax year 2017 to 2018, to tax year 2020 to 2021*, June 2020, Table 2.6

23 HM Treasury, *Net Zero Review: Interim report*, Chart 2.E

24 C&AG's Report, *Reducing carbon emissions from cars*, Session 2019–2021, HC 1204, 26 February 2021, para 3

25 HM Government, *The Ten Point Plan for a Green Industrial Revolution*, November 2020, page 14

26 Qq 27–28, 38

27 Q 29

28 C&AG, *Reducing carbon emissions from cars*, Session 2019–2021, HC 1204, 26 February 2021, paras 7, 1.4, 1.11–1.12, 1.14

29 HM Treasury, *The new Budget timetable and the tax policy making process*, December 2017, section 3.1, https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process/the-new-budget-timetable-and-the-tax-policy-making-process, accessed 6 April 2021

30 HM Treasury, *Budget 2018*, HC 1629, October 2018, para 3.56

17. We raised the potential impacts of changes to taxes, to address the reduction in revenue from fuel duty, on small and medium-sized businesses, on different regions and on the levelling-up agenda. HM Treasury said decisions on taxes, such as fuel duty, include consideration of distributional impacts and the impacts on the competitiveness of the economy. It also said that, in their Budget speeches, Chancellors have covered the impact of changes to fuel duty on incomes and on small businesses.[31]

Environmental tax measures and the Budget

18. The March 2021 Budget took place the week before our session with HM Treasury and HMRC on environmental tax measures. The Budget did not include any particular announcements on green taxes. It did however freeze fuel duty rates for the eleventh year. The Budget said the freeze would support hard-working people across the UK, particularly in more rural communities. The Budget also signalled that fuel duty rates for future years would be considered in the context of the UK's commitment to reach net zero emissions by 2050.[32] The previous Budget in March 2020 had also said that fuel duty rates will be considered alongside measures that are needed to help meet the UK's net zero commitment.[33] The government's decisions on fuel duty rates highlights a key tension. There is a need for long-term planning, but Budgets are annual and led by day-to-day politics and issues.[34]

19. When we asked HM Treasury whether the tax system would have a role to play in achieving net zero, it said the role of tax would evolve over time from Budget to Budget.[35] However, HM Treasury also recognises that as net zero is a 30-year programme, it needs to think about interventions over a long timeframe and not simply year by year.[36]

20. In September 2020, the Institute for Government called for HM Treasury to publish a tax roadmap to net zero, showing taxpayers how and when taxes might change.[37] More recently, in February 2021, the House of Commons Treasury Committee recommended that the government should draw up a tax strategy for consultation that contains principles including for meeting climate change goals for net zero and other environmental objectives whilst giving consideration to those who are on lower incomes.[38]

21. Against this background, we asked HM Treasury whether it would publish its plans so that taxpayers may prepare for how and when taxes might need to change in order to achieve net zero. HM Treasury said that it was sure that in setting out its plans the government will be very conscious of the need to give households and businesses proper time to understand the nature of the transition and where the likely costs might fall, so that they can plan accordingly.[39]

31 Qq 35–36
32 HM Treasury, *Budget 2021*, HC 1226, March 2021, sections 2.85, 3.16
33 HM Treasury, *Budget 2020*, HC 121, March 2020, section 2.37
34 Q 49
35 Q 12
36 Q 85
37 C&AG's Report, para 2.19
38 House of Commons Treasury Committee, *Tax after coronavirus*, Twelfth Report of Session 2019–21, HC 664, March 2021, page 5
39 Q 49

2 Managing environmental tax measures

Environmental impacts of tax measures

22. The exchequer departments define 'environmental taxes' as those with explicit environmental objectives.[40] There are currently four that meet this definition (paragraph 17).[41] Other taxes can have environmental impacts. Indeed the 2021 Dasgupta Review on the Economics of Biodiversity (commissioned by HM Treasury in 2019) argues 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.[42] The exchequer departments recognise that both Air Passenger Duty and fuel duty have an environmental impact by increasing the cost of polluting forms of travel. These taxes do not have environmental objectives and thus the exchequer departments' primary measure for assessing the taxes' performance has been the revenue they raise. However, HM Treasury told us they do advise Minsters on environmental impacts, including of previous fuel duty freezes, before decisions are taken on tax rates.[43]

23. The March 2021 Budget does not include any new tax measures with environmental objectives but it does include other tax measures that are likely to have an environmental impact.[44] In March 2021 the Office for Budget Responsibility (OBR) said the most significant contributor to the economic recovery measures in the Budget was the introduction of a time-limited 130% capital allowance super deduction from Corporation Tax that will be in place in 2021–22 and 2022–23. The OBR said the deduction provides a very strong incentive to bring investment forward from future periods, supporting economic recovery.[45] The deduction is forecast to cost a total of £25 billion in 2021–22 and 2022–23.[46] HM Revenue & Customs (HMRC) told us that the capital allowance was available to all businesses in the tax system. We are concerned that the capital allowance is not subject to an environmental or green 'filter' and it could lead, for example, to an increase in fossil fuel investments.[47]

24. If Parliament is to be able to effectively scrutinise the environmental impact of tax changes it needs good quality information. For each tax policy change, the exchequer departments publish a Tax Information and Impact Note (TIIN) explaining the objective of the change, and its revenue and other impacts. The NAO found that for tax changes with an environmental objective, TIINs described but rarely quantified environmental impacts.[48] We asked the exchequer departments why they did not require the expected environmental impacts of tax measures to be quantified in TIINs. HM Treasury told us that decisions on what analysis to publish were for ministers. However, HMRC told us its analysts quantify impacts whenever they can, and that work depended on analysts having

40 C&AG's Report, para 1.6
41 Q 87
42 Q 45; The Dasgupta Review, *The Economics of Biodiversity: Headline Messages*, February 2021, page 2
43 Qq 50, 82: C&AG's Report, para 2.5
44 Q 1
45 Office of Budget Responsibility, *Economic and Fiscal Outlook*, CP 387, March 2021, paras 1.34, 3.11
46 HM Treasury, *Budget 2021: policy costings*, March 2021, page 18
47 Qq 1, 4
48 C&AG's Report, paras 1.15–1.16

models and methods to do this. It said that progress was being made in quantifying impacts, citing the quantification of expected carbon reductions from the new plastic packaging tax, but it also recognised that it had more to do.[49]

Monitoring and evaluating tax measures

25. The NAO found that HMRC monitors tax receipts for the four environmental taxes it administers but it collects little other data to understand changes in behaviour.[50] Monitoring Landfill Tax receipts enables HMRC to collect and report data on the volume of waste going to landfill sites, which declined by 65% between 1997 and 2014. But monitoring revenue alone does not enable HMRC to understand how the diverted waste is disposed of and whether that is more or less environmentally harmful than it going to landfill.[51]

26. We asked HMRC what it had done to quantify the impact of Landfill Tax on the exporting of waste and fly-tipping.[52] HMRC said that it knew there is a risk that Landfill Tax will incentivise illegal dumping or exports, but said other departments had lead responsibility for these forms of waste disposal, with local authorities also having responsibility for fly-tipping. HMRC said it did not hold information on fly-tipping. But it added that while there is evidence that fly-tipping is a growing problem, it had found no clear correlation between fly-tipping and rates of Landfill Tax. HMRC stated it was supporting the work of other departments on exports, including through the joint waste crime unit, but the witnesses did not know how much Landfill Tax was lost from waste being illegally exported.[53]

27. We also asked about the impact of the Carbon Price Support on the amount of electricity the UK imports. The Carbon Price Support is levied on around 100 electricity generators located in Great Britain on the fossil fuels supplied to them. The departments confirmed that the tax increases the price of domestically generated electricity from fossil fuels compared to imports. They also said they had not assessed the impact of the tax on imports.[54]

28. Evaluations can help the exchequer departments to understand whether environmental taxes are achieving their objectives and how they are changing behaviour. However, since 2010 HMRC has evaluated only one of the four environmental taxes, in part because it has not secured the necessary resources.[55] HMRC confirmed its 2014 evaluation of Landfill Tax was based on qualitative interviews rather than quantified evidence.[56] The NAO found that HMRC had only limited information on the impact of tax reliefs with an environmental impact. These include tax reliefs with environmental objectives, such as those which support energy saving and clean technologies, and large reliefs which are likely to affect the cost of producing or consuming products made from fossil fuels.[57]

49 Qq 42–43
50 C&AG's Report, paras 19, 1.21
51 Q 22: C&AG's Report, paras 13, 1.23, Case study 1
52 Qq 23, 54
53 Qq 23–24, 54, 60, 83
54 Qq 67–68; C&AG's Report, Figure 2
55 C&AG's Report, paras 1.30–1.31, 1.33
56 Q 25; C&AG's Report, para 1.31
57 C&AG's Report, paras 16, 2.9–2.10, 2.12, Figures 12–13

29. HMRC told us that it shared with this Committee and the NAO the ambition to evaluate more tax measures. HMRC said it had therefore secured an additional £2 million for evaluation in 2021–22. In 2020–21, HMRC's central budget for commissioning external research, including evaluations, was £2 million. HMRC also told us that it would be publishing a new evaluation framework later in 2021, to set out the overall principles and approach it will be applying.[58]

The impact of tax measures on other government departments

30. As we explain in Part One, the Department for Environment, Food & Rural Affairs (Defra) has lead responsibility for all environmental policy areas, apart from climate change mitigation on which the Department for Business, Energy & Industrial Strategy (BEIS) leads. The exchequer departments, HM Treasury and HMRC, are expected to consider the government's overall environmental objectives when undertaking their work.[59] Other departments also have a role. For example, the Department for Transport leads on the government's strategy to reduce carbon emissions from cars and make roads less congested and polluted by promoting lower-carbon-emitting transport.[60]

31. The NAO found that some recent environmental strategies mentioned tax measures which have an impact on government's environmental goals, and some of these strategies included a brief consideration of the impact of tax measures or their interaction with other policy measures. But the NAO also identified gaps, particularly relating to taxes which do not have an environmental objective, such as fuel duty.[61] HM Treasury stated that it worked with other departments when designing taxes, for example working with Defra on the most effective combination of tax and regulation to reduce use of single-use plastic in packaging.[62]

32. We found the picture for cross-government working on the operation of a tax was more complex when we looked in detail at Landfill Tax and the Carbon Price Support. Landfill Tax has had both positive and adverse impacts, and HMRC described it, and by extension all environmental taxes, as "a relatively blunt financial incentive".[63] A 2018 independent review of serious and organised crime in the waste sector said that since its introduction in 1996 the tax had "been transformational in commoditising waste as a resource, but a consequence of its introduction has been to increase the attractiveness of the market to organised crime".[64] HMRC estimates that the misclassification of waste at authorised landfill sites and waste disposed at unauthorised sites reduced Landfill Tax revenue by around £275 million in 2018–19 (28% of the tax due). This figure does not include tax lost from the illegal exports of waste and from fly-tipping.[65]

33. HMRC expressed the opinion that Landfill Tax "needs to be complemented by regulation and effective enforcement of that regulation" to deal with the negative

58 Q 74; C&AG's Report, para 1.33
59 C&AG's Report, para 3
60 C&AG, *Reducing carbon emissions from cars*, Session 2019–2021, HC 1204, 26 February 2021, para 2
61 C&AG's Report, para 2.14, Figure 14
62 Q 14
63 Qq 21, 54
64 Serious and organised waste crime review, *Independent review into serious and organised crime in the waste sector*, November 2018, page 1
65 C&AG's Report, para 13

behaviours incentivised by the tax.[66] When we asked HMRC about both exports of waste and fly-tipping, it told us that other departments had lead responsibility for these areas.[67] We asked HMRC with whom it had engaged on the impact of Landfill Tax. It said that it was in contact with a range of different departments and in particular it worked with the Environment Agency. It gave the example of how it had worked with the Environment Agency to react to the increasing use of unauthorised landfill sites that HMRC said had been seen around four or so years ago. HMRC said this joint work had resulted in a legislative change which from 2018 had brought unauthorised sites into the scope of tax. HMRC also referred to the new joint unit on waste crime that has been set up to work in partnership with organisations such as the National Crime Agency to deal with criminal gangs.[68] This unit was established in 2020 in the Environment Agency, in partnership with HMRC, the National Crime Agency and others, and was in response to a recommendation by the independent review into serious and organised crime in the waste sector in 2018.[69]

34. The Carbon Price Support is one of a number of policy interventions which has contributed to the large reduction in coal used by electricity generators based in Britain.[70] However, the Mineral Products Association told us that the environmental outcome of the Carbon Price Support must be set against its wider impact on competitiveness, especially considering the impact of carbon leakage (which is the offshoring of carbon generating activities in response to domestic policies to control emissions).[71] As explained above, the Carbon Price Support gives a price advantage to imports over domestic electricity generation from fossil fuels. As there are large untapped renewable energy resources in the UK, we asked HM Treasury whether it was happy for the UK to carry on importing electricity. HM Treasury said that BEIS lead on energy policy, and it had a constant dialogue with BEIS on energy issues, including renewable energy. However, it could not say what the government's position was on imported electricity or whether it had discussed with BEIS the impact of the Carbon Price Support on imports.[72]

35. The apparent lack of leadership and coordination on environmental tax measures, mirrors findings in our recent reports examining how the government is organised to deliver environmental goals. In our February 2021 report, Achieving government's long-term environmental goals, we found that Defra had not shown that it had the clout to lead the rest of government.[73] While in our March 2021 report, Achieving Net Zero, we found that government did not have a coordinated plan for net zero by 2050 despite setting the target almost two years ago.[74]

66 Q 54
67 Qq 24, 54
68 Qq 21–22; C&AG's Report, para 13
69 C&AG's Report, para 13; Department for Environment, Food & Rural Affairs, Environment Agency, HM Revenue & Customs, National Crime Agency, Natural Resources Wales, Press release, *Clock is ticking for waste criminals as new taskforce launched*, January 2020
70 C&AG's Report, para 1.28, Figure 8
71 Ev 4, Mineral Products Association, para 15
72 Qq 69–70
73 House of Commons Committee of Public Accounts, *Achieving government's long-term environmental goals*, Fortieth Report of Session 2019–21, HC 927, February 2021, page 3
74 House of Commons Committee of Public Accounts, *Achieving Net Zero*, Forty-Sixth Report of Session 2019–21, HC 935, March 2021, page 3

Formal minutes

Thursday 22 April 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Shaun Bailey	Barry Gardiner
Olivia Blake	Peter Grant
Mr Gareth Bacon	Sir Bernard Jenkin
Sir Geoffrey Clifton-Brown	Nick Smith
Dan Carden	

Draft Report (*Environmental tax measures*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 35 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Fifty-fifth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 26 April at 1:45pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 8 March 2021

Sir Tom Scholar, Permanent Secretary, HM Treasury; **Beth Russell**, Director General, Tax and Welfare, HM Treasury; **Jim Harra**, Permanent Secretary, HM Revenue and Customs; **Ruth Stanier**, Director General, Customer Strategy and Tax Design, HM Revenue and Customs Q1–95

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

ENT numbers are generated by the evidence processing system and so may not be complete.

1 Association of Accounting Technicians (AAT) (ENT0001)

2 Green Alliance (ENT0002)

3 Mineral Products Association (ENT0004)

4 OVO Energy (ENT0003)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685

Number	Title	Reference
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940