Electronic waste and the circular economy

Additional evidence on the impact of reductions in VAT on the creation of e-waste by Green Alliance

About Green Alliance
Green Alliance is a charity and independent think tank focused on ambitious leadership for the environment. Since 1979, we have worked with a growing network of leaders in business, civil society, academia and politics to stimulate new thinking and dialogue on environmental policy, and increase political action and support for environmental solutions in the UK.

This submission supplements our evidence from August 2019, April 2020 and an evidence session in June 2020. It presents thinking we are developing as part of our TransformTax project looking at the perversities of the tax system and how fiscal measures could better drive low impact living.

Summary
Expense is a major barrier to both the purchase of long lasting, resource and energy efficient products and to the uptake of repair activities. Therefore, VAT reductions to limit the generation of e-waste could be applied: at the point of sale on the product itself, with reduced rates for more efficient and longer lasting products; at the point of re-sale, to reflect the fact that VAT has already been paid on a product; or at the point of repair, reducing the cost of labour associated with fixing broken products.

Differential VAT rates for products based on environmental impact
Using the VAT tax system to drive more sustainable purchasing decisions has long been on the political agenda, including in 2008, when the EU examined using differential VAT rates to promote green products.[i] Part of the reason this was not taken forward was a lack of agreement on what 'green' meant, but this has changed considerably in the intervening years, especially in the realm of electronics, with ecolabelling and the possibility of using ecodesign standards to improve resource efficiency as well as energy efficiency.

In 2011, a Eunomia report suggested that reduced VAT rates could even be tied to extended warranties, which would increase lifespans and therefore decrease waste generation: "In order to encourage manufacturers to offer an extended warranty, the rate of VAT could be inversely linked to the duration of the warranty. There might for instance be a threshold, whereby if free warranties are of five years duration or over, the VAT rate will be reduced from the standard rate (e.g. 15%) to the reduced rate (e.g. 5%)."[ii]

There is some historical data to suggest the resulting price reduction – expected to be in the region of 10 to 15 per cent for the more sustainable, longer lasting products – could drive consumption of better products, especially for bigger purchases and if the discount is clearly explained to consumers. According to the 2008 study for the EU: "In the UK, in the spring of 2008 the retailer "Comet" announced a (temporary) price decrease equivalent to the removal of VAT on the most energy efficient household appliances (Comet, 2008). They report a drastic increase in sales for the product groups in question. After 2 weeks, sales of the energy efficient appliances included in the trial had almost tripled, whereas the sales of products not covered by the VAT exemption dropped 8%.... Although this only is a trial for a short period, it indicates that VAT reductions in practice may well be effective."[iii]

Green Alliance research also suggests this approach would find favour with the public. Compared to other policy measures aimed at radically changing lifestyles or patterns of consumption, the idea of using the tax system to reflect material or carbon impacts and encourage greater resource efficiency is popular. Our research with Cardiff University and the Centre for Industrial Energy, Materials and Products, found that 76 per cent of people in the UK would either support or are currently neutral about the idea of replacing VAT with material taxes.[iv] The research documented that, at the moment,

people feel like they have to pay a green premium and that activities and goods that are beneficial for the environment are too often detrimental for their pockets.

Eliminating VAT for resold products
In the UK at the moment, goods that are re-sold by charities or by people who certify that they intend to donate the money to charities are VAT exempt.[v] However, there is no reason why this should not be the case for all goods that are re-sold, including by the for-profit sector. This would be a relatively simple adjustment to make on the grounds that VAT has already been paid at the various stages of production and final sale for the product the first time around.

Reduced VAT for repair services
Zero rating or lowering VAT on repair services would be an easy first step towards incentivising uptake of labour intensive repair activities. This is an idea that is increasingly popular in other countries. Under the EU VAT rules (which are unlikely to apply to the UK from January 2021), the lowest VAT rate that can be charged for repair activities is six per cent, which has long been the case in places like Greece, Ireland, Luxembourg, Malta, Netherlands, Poland and Finland.[vi] In 2017, Sweden halved VAT on repair for some items (bicycles, clothing, shoes), as well as making labour costs for repairing white goods tax deductible (directly taking 50% of the labour costs off of the invoice). This was done explicitly for the purpose of discouraging the throwaway society.[vii] Although an evaluation of the change in Sweden has not been made public, Green Alliance understands that the approach is expected to be expanded to new areas in Sweden's 2021 budget.[viii] We understand this could include more electronics, like phones, tablets and computers, though the list has not yet been made public.

The arguments in favour of such reductions in VAT for repair activities for electronics are still largely theoretical in nature and predominantly relate to the preservation of resources it would encourage and the boost it would give to labour-intensive activities.

[There have been more concrete moves to quantify potential benefits from reducing VAT for repairs that occur to whole buildings which, at the moment, are charged at 20 per cent in the UK, while new build is exempt. In 2015, Experian suggested that a cut in VAT on housing renovation and repair in the UK could provide an economic stimulus of more than £15 billion over the five year period to 2020 while creating nearly 100,000 extra jobs in construction and the wider economy. Green Alliance has called for this imbalance to be ended as a priority, as have a number of influential bodies, including the Home Builders Federation, Historic England and the *Architects' Journal*.[ix]]

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[i] Instituut voor Milieuvraagstukken, 2008, *The use of differential VAT rates to promote changes in consumption and innovation*
[ii] Eunomia, 2011, *A comparative study on economic instruments promoting waste prevention: final report to Bruxelles Environnement*
[iii] IvM, 2008, op cit
[iv] Green Alliance, 2018, *By popular demand: what people want from a resource efficient economy*
[v] RREUSE, 2017, 'Reduced taxation to support re-use and repair'
[vi] Ibid
[vii] World Economic Forum, 27 October 2016, 'Sweden is paying people to fix their belongings instead of throwing them away'. Available at: https://www.weforum.org/agenda/2016/10/sweden-is-tackling-its-throwaway-culture-with-tax-breaks-on-repairs-will-it-work/
[viii] Personal correspondence with Eva Eiderström, Swedish Society for Nature Conservation, 2 July 2020
[ix] Green Alliance, 2020, *Smart building: how digital technology can futureproof UK construction*