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Indirect and environmental taxes

Andrew Leicester

Main indirect tax changes

- Excise taxes: to escalate or not to escalate?
  - Alcohol, tobacco: RPI+2% escalator until 2014-15 remains
  - Fuel: escalator abandoned
- Alcohol and tobacco: restructure rates to influence product choice
  - Beer: reduce tax on weak beer, raise tax on strong beer
  - Tobacco: restructuring to target duty rises on cheap products
- Main environmental measures
  - A ‘fair fuel stabiliser’?
  - Carbon price floor
  - Aviation taxes
- Implications for environmental tax receipts?

Oil, fuel duties and the 'fair fuel stabiliser'

- Major changes to fuel duty plans
  - RPI + 1p escalator to 2014-15 abandoned, immediate 1p cut in duties
  - RPI uprating for April 2011 deferred until January 2012
  - RPI uprating for April 2012 deferred until August 2012
  - Real duty 5p lower by April 2014 than before, pump prices 6p lower
  - Overall cost £1.9 billion in 2011-12, rising to £2.1 billion in 2014-15
- Increase in supplementary charge on North Sea oil and gas
  - Charge increased from 20% to 32%
  - Raises £1.8 billion in 2011-12, rising to £2.1 billion in 2014-15
- Policies reversed if 'sustained' fall in oil price below $75/barrel
  - 'Stabiliser': real duty rises resume if oil prices fall
  - Current price $115; forecast oil price above $75 every year ahead
  - Oil at $75 at last Budget when escalator maintained

A “fair fuel stabiliser”?

- Chancellor acknowledges no revenue windfall from high oil price
  - ‘Easing the burden’ for motorists is not a free lunch
  - North Sea oil producers have picked up the bill
  - Not for the first time: Budget 2002 and Budget 2005 both saw increases in North Sea oil taxes and cuts in fuel taxes
- Reform is not a ‘stabiliser’ in any meaningful sense
  - No direct link between oil price and the duty rate
- Formal stabiliser hard to implement, unclear economic rationale
- Government should think about longer-term reforms to motoring taxes

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Carbon price floor

- Tax (carbon price support rate) on fuel used to generate electricity
- Varies according to carbon content of fuel
- Initial rate £4.94/tonne CO_2 in 2013-14, raises £740 million
- ‘Tops up’ EU ETS carbon price
  - Aim to provide more certain path of carbon prices
  - Trajectory from £16 per tonne of CO_2 in 2013 to £30 in 2020
  - Could help improve incentives to invest in low-carbon fuel
- Will raise household and business electricity bills
- Moves a bit closer to consistent carbon price
  - But not much
  - And offset by energy taxes that don’t vary by carbon

Air Passenger Duty

- Deferred inflation rise in APD rates until next year
  - Costs £145m in 2011-12
- Coalition agreement pledged to reform APD into a per-plane tax
  - Similar policy consulted on and rejected by Labour
- Government now concerned about legality of per-plane tax
  - Looks set to reform existing APD again
- Aviation in ETS from 2012 – deals with carbon emissions
  - Residual role for domestic tax

Raising the share of green taxes

"Green taxes will increase as a proportion of our total tax revenues, as we promised."

— Budget statement

- Promise kept?
  - We estimate the target is on course to be hit
  - But margin down from £2.6 billion before the Budget to £1.4 billion
  - Fuel duty revenues down by £2.1bn
  - Offset by carbon price support

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“The greenest government ever”?

- Move to direct carbon pricing of electricity welcome
  - Missed opportunity to consolidate range of prices in different sectors
- Some new non-tax green measures
  - Green Investment Bank, carbon capture and storage pilots

- Fuel duty cuts reminiscent of Labour approach to ‘stabilisation’
  - Lower duty rates will raise transport emissions
- Substantial changes to aviation taxes appear unlikely
- Not much room left on green tax target
  - Still not clear what government thinks this means

Real-terms fuel duties

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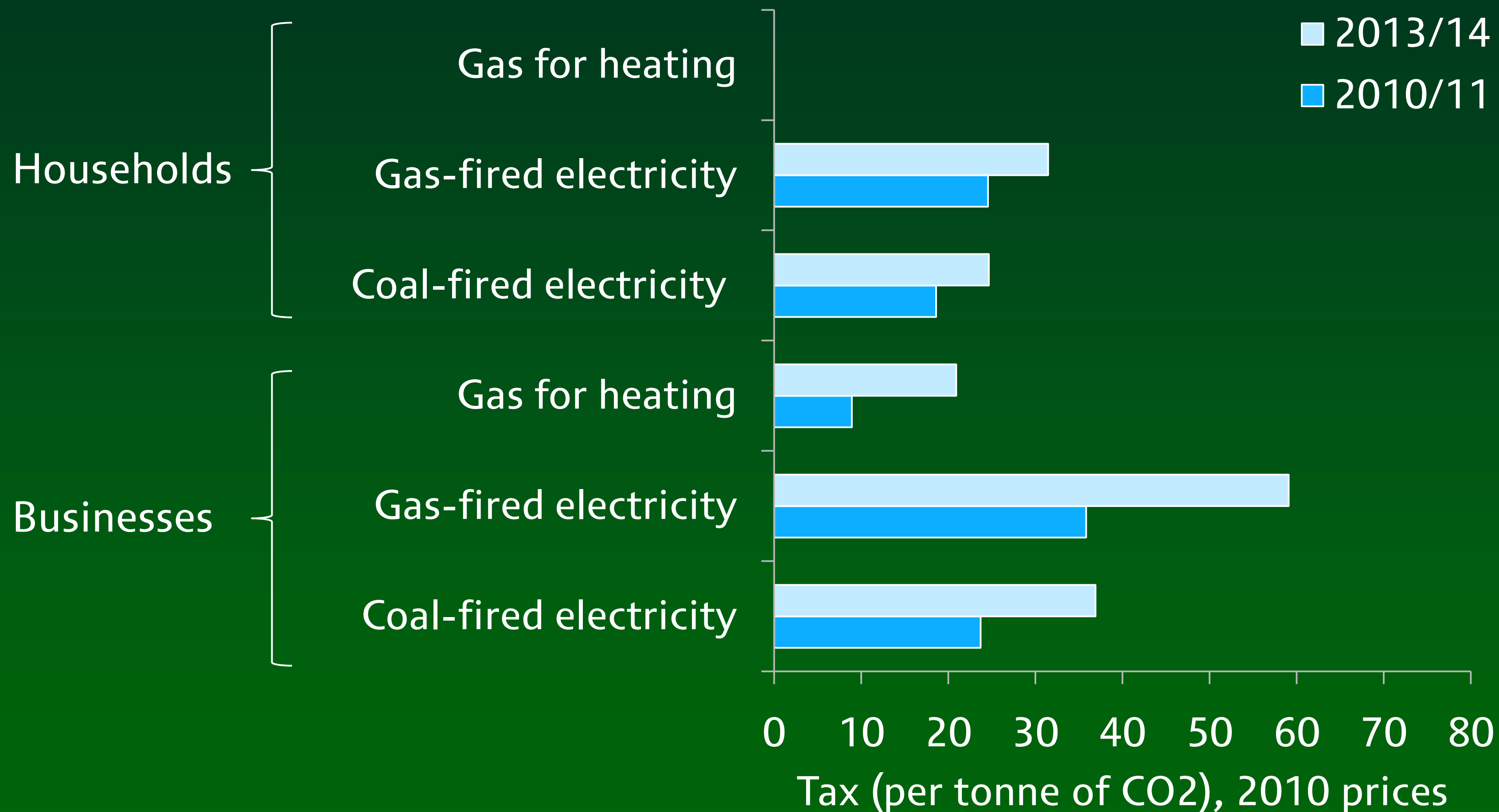
Implicit carbon taxes



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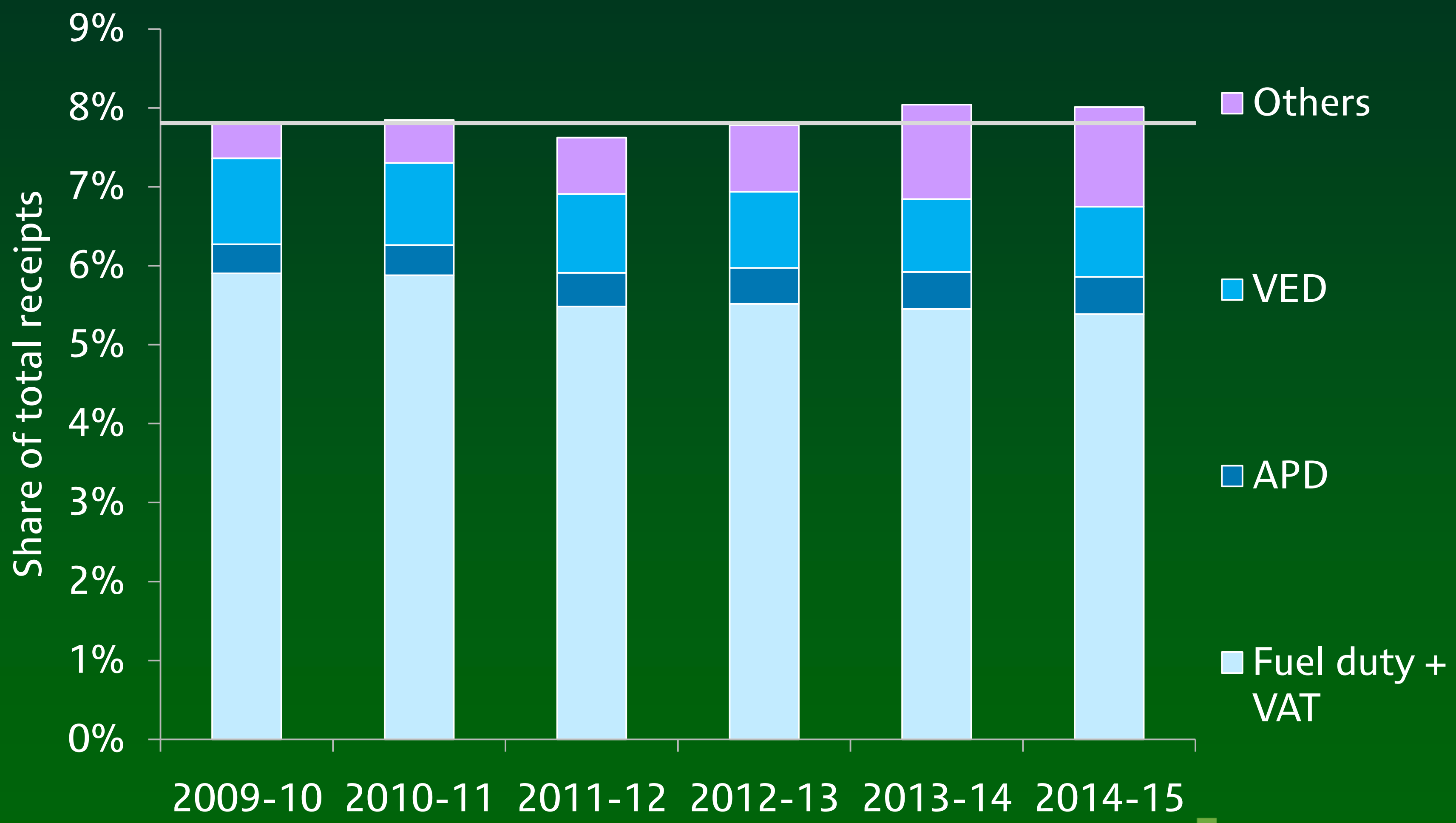
Raising the share?



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