Association of Accounting Technicians (AAT) response to the Public Accounts Committee inquiry into environmental tax measures

1. Introduction

1.1. Association of Accounting Technicians (AAT) welcomes the opportunity to comment on tax measures which have an environmental impact and act alongside government's wider environmental objectives and agrees with the Committee assertion that as these objectives have become more ambitious, and that the role of the tax system is becoming more important.

1.2. In September 2019, AAT surveyed its Members' Assembly and Council members, as well as AAT Licensed Accountants, on the issue of reaching net zero by 2050. 100% of AAT Council and Assembly members think it's important, as do 88% of AAT Licensed Accountants. There are few issues that can achieve such high levels of agreement.

1.3. Areas of particular concern to AAT are the Plastic Packaging Tax, Road Pricing, and the Deposit Return Scheme.

2. Executive summary

2.1. **AAT supports the introduction of a single threshold to assess plastic packaging tax liability but does not believe its application to plastic packaging with less than 30% recycled content is sufficiently ambitious and cannot be considered "world leading" as Government suggests.**
Instead AAT suggests that a threshold of 40% be used, with a further increase to 50% in 2030 to ensure momentum is not lost.

2.2. **AAT believes that Vehicle Excise Duty, VAT on fuel and fuel duty could all be scrapped in favour of pay as you drive technology which would protect revenue and have various positive environmental benefits.**
This is explained further below at 3.11 -3.34.

2.3. **The Deposit Return Scheme due to be introduced in 2024 must be set at a reasonable level of at least 20p and exemptions for some of the very smallest businesses, in limited circumstances, should be considered.**
This is explained further below at 3.35-3.40.

2.4. **Tax policy in the UK must support environmental objectives such as reaching net zero rather than hinder them as is currently the case.**
This is explained further below at 3.41-3.45.

2.5. **Greater enforcement to close environmental tax gaps is essential both to protect revenue and limit environmental damage.**
This is explained further below at 3.47-3.49.

3. AAT response to the consultation document

3.1. PLASTIC PACKAGING TAX

3.2. Association of Accounting Technicians (AAT) wholeheartedly backs the Plastic Packaging Tax due to come into force in April 2022 because it could play a very significant role in reducing plastic waste, positively changing producers' behaviour and ultimately benefit all consumers, the environment and economy. However, there are a number of improvements that could still be made.

Threshold

3.3. Both the 2019 and 2020 Government consultation documents frequently referred to the UK's Plastic Packaging Tax as "world leading". Indeed, Treasury Ministers continue to refer to it as such[1]. However, many other countries have gone considerably further than is planned here in the UK.

3.4. As AAT highlighted in its 2019 response[2], global food brands such as Kraft Heinz, have committed to making 100 percent of its packaging recyclable, reusable, or compostable by 2025 on a world-wide basis; the American Chemical Council's Plastics Division is working towards 100% of plastic packaging being recyclable or recoverable by 2030; in 2017; the European Commission confirmed it would work towards the goal of ensuring that all plastic packaging is recyclable by 2030 and in September 2018 the Australian Government pledged that i) 70% of plastic packaging will be recycled or composted by 2025 ii) 30% average recycled content will be included across all packaging by 2025 and iii) problematic and unnecessary single-use plastic packaging will be phased out through design, innovation or introduction of alternatives.

3.5. Considering this international context, introducing a tax with a 30% threshold appears to lack ambition on a global scale. Government should therefore take effective action by increasing the threshold to ensure the tax is genuinely "world leading".

3.6. In 2019 AAT suggested a 40% threshold would be more appropriate to meet government's stated ambition of being both "*world leading*" and "*ambitious*" with a further increase at specific point in time to encourage ongoing innovation and commitment to increased recycling e.g. 50% by 2030 and to ensure that a roadmap for ongoing action exists. Nothing that has occurred in the past three years provides any reason to alter this original recommendation.

3.7. In considering whether or not to press Government on this issue, the Public Accounts Committee may be interested to note that two thirds of respondents to the original Government consultation wanted a higher threshold target than 30% recycled content, just 30% thought it ambitious enough and of course some packaging manufacturers wanted the threshold to be even lower.

Excluding plastic packaging used to facilitate the transport of imported goods

3.8. Given the environmental objectives of the Plastic Packaging Tax, AAT is uncomfortable with exclusions and exemptions but similarly accepts that there may be limited records of transport packaging used on imports, such as pallets, crates and pallet wrap, and that transport packaging is often applied and removed a number of times at different stages of the supply journey. As a result, AAT reluctantly agrees that this exemption currently makes sense. However, the government must honour its commitment to keep this under review so that that the exclusion can be ended if and when practicable – an area where the Public Accounts Committee could perhaps hold their feet to the metaphorical fire.

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[1] **Hansard, July 2020:**
https://questions-statements.parliament.uk/written-questions/detail/2020-07-14/73797

[2] **AAT response to the Plastic Packaging Tax consultation, 3 April 2019:**
https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-plastic-packaging-tax.pdf

De minimis threshold

3.9. The decision to exempt all businesses that manufacture or import less than 10 tonnes of plastic packaging annually means that considerable efforts will need to be made to estimate and monitor tonnage. It will also require potentially costly enforcement. AAT continues to believe that, as set out in its response to the 2019 consultation on this subject[3], a more sensible way forward would be to exclude companies below the VAT registration threshold. This would avoid the need for estimating, monitoring and enforcement and furthermore would enable the utilisation of Making Tax Digital and the requirement for quarterly reporting on a digital basis without having to create anything new.

3.10. The Government's second consultation document questioned the intended use of third-party agents to help meet the obligations for the tax and whether or not their responsibilities are likely to include filing returns.[4] It also asked about the expected costs to businesses of registering for the tax, and any expected one-off and on-going costs of completing, filing and paying the return[5]. Again, these are questions that would not need to be asked and concerns that would not be raised if government was simply to adopt AAT's suggestion, acknowledged in the government response to the first consultation, to impose a threshold that mirrored the VAT registration threshold of an annual turnover of £85,000 or less and to therefore utilise the existing MTD for VAT system.

3.11. **FUEL DUTY, VEHICLE EXCISE DUTY & VAT ON FUEL**

3.12. AAT has long believed there is a strong economic and fiscal case to be made for the introduction of a pay as you drive (PAYD) approach to more effectively tax car usage. In its 2018 report, "Alternatives to Tax Rises" AAT stated;

3.13. "The OBR suggests revenue from car usage could be up to £23bn less by 2030 based on the switch to electric vehicles.

3.14. Replacing fuel duty, VAT on fuel and Vehicle Excise Duty with a tax on usage modelled on existing pay as you drive (PAYD) insurance systems would therefore appear worthy of consideration.

3.15. PAYD currently bases insurance costs on the distances travelled, the time of travel and the type of roads used e.g. a motorway vs quiet country roads.

3.16. The technology already exists, was trialled by thousands of Aviva customers between 2005-2008 and is now being offered by several start-up insurance companies such as Just Miles, who provide drivers with a free onboard telematics box.

3.17. There would be costs involved in providing telematics boxes, although this is something Government could require car manufacturers to provide in the future, but PAYD is likely to be a good way of protecting this much needed revenue whilst also being fairer than the existing blanket approach.

3.18. The Department for Transport and HM Treasury would need to undertake detailed analysis but PAYD could be set at a level that protects however much is likely to be lost from changing driving habits and would thus save £9- £23bn.[6]"

[3] AAT response to the Plastic Packaging Tax consultation, 3 April 2019:
https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-plastic-packaging-tax.pdf
[4] Q31, Plastic Packaging Tax Consultation 2020:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871559/Plastic_Packaging_Tax_-_Consultation.pdf
[5] Q32, Plastic Packaging Tax Consultation 2020:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871559/Plastic_Packaging_Tax_-_Consultation.pdf
[6] AAT Alternative to Tax Rises, September 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf

International evidence

3.19. Italy made it compulsory to have telematics boxes fitted as standard in all new cars almost a decade ago and whilst being insured in this way is not compulsory in Italy, PAYD insurance is legally required to be cheaper than any other form of car insurance, making it more attractive to consumers.

3.20. The US similarly has millions of cars fitted with telematics boxes.

3.21. However, the prevalence of such boxes is no longer a good indicator as to the prevalence or otherwise of telematics usage because technology has moved on and several insurers no longer require a black box to be fitted. They are instead operating on the basis of a mobile phone app. With 95% of the UK population owning a mobile phone[7], this significantly reduces the likely costs of introducing PAYD here for taxation, in addition to insurance, purposes.

3.22. AAT is not aware of any country in the world that currently utilises PAYD for road tax purposes or indeed for any purposes other than insurance. As a result, this is an area in which the UK could legitimately claim to be world leading if it were to introduce such a scheme.

Safety

3.23. The amount of driving an individual undertakes can greatly influence the likelihood of a road traffic accident and so not only does PAYD enable insurers to make more informed risk assessments, by helping to reduce driving (and helping to reduce driving at peak times on busy roads) accident risk is concomitantly reduced.

Public Support

3.24. In recent years there has been an increase in congestion, a reduction in air quality and of course significant legislative changes, particularly in the form of a legally binding "net zero" commitment. There has also been a substantial shift in public attitudes towards technology and the environment and demonstrably towards the idea of pay as you drive schemes. As recent Ipsos Mori polling indicated, the public are now broadly supportive of PAYD[8].

3.25. The benefits of PAYD need to be effectively communicated to further increase such support.

3.26. There should be an emphasis on multiple benefits rather than focusing solely on the environmental or revenue raising aspects. For example, rather than justifying implementation on the grounds of revenue raising to replace that lost from duel duty, highlight that it will raise revenue to help fund public services or if possible, for what specific purposes e.g. the environment, public transport, and road maintenance. If merged with existing PAYD insurance technologies, the increase in actuarial accuracy that PAYD enables will also reduce insurance premiums for many drivers – a more personal financial benefit than appealing to the wider societal benefits of better funded public services.

3.27. There is little doubt that for many, environmental considerations will be key and so the likely reduction in congestion by discouraging driving at peak times and the overall reduction in emissions (both by disincentivising too much driving and by virtue of PAYD applicability to electric vehicles) will be important messages to communicate.

[7] **UK mobile phone penetration, 2018:**
https://www.statista.com/statistics/289167/mobile-phone-penetration-in-the-uk/
[8] **Ipsos Mori, December 2020:**
https://www.ipsos.com/ipsos-mori/en-uk/public-support-charging-motorists-use-roads-want-it-be-done-right-reasons

3.28. There is a very real risk that public acceptability will decrease in the next few years as the switch to electric vehicles increases and with it, taxation decreases. This means more and more individuals will become acclimatised to paying no VED and limited amounts for charging, effectively rendering car ownership and driving a low tax activity. This means the introduction of a new charging structure, whether PAYD or any alternative, will be particularly challenging because it will involve the introduction of charges where there were previously none or very little. This is another reason for the speedy introduction of an alternative system of taxation and is a point that the Committee could certainly reinforce with other policymakers.

Additional benefits and considerations

3.29. From a public policy perspective, merging any nationwide PAYD scheme with PAYD insurance systems would also help reduce uninsured driving. Given the Motor Insurers Bureau (MIB) estimates there are one million uninsured drivers in the UK (4% of all road traffic)[9] this would be a considerable benefit.

3.30. Some may argue that PAYD or any other form of road pricing may negatively affect the take-up of electric vehicles. This ignores the fact that the Government announced that it would end the sale of new petrol and diesel cars and vans by 2030 so there will be no choice but to take up an electric vehicle from that date onwards (second hand and private care sales excluded).

3.31. This also ignores the very significant fact that electric cars, like any car, still have a considerably negative impact on the environment. Indeed, research from the European Commission has concluded that non-exhaust traffic-related sources of pollution (brake, tyre, clutch, and road surface wear) are estimated to contribute almost equally to traffic-related particulate matter emissions[10].

3.32. PAYD would be well suited to delivering straightforward exemptions to groups or individuals for whom policy makers deem it necessary e.g. emergency services and the disabled.

Road Pricing

3.33. It is important to distinguish PAYD from traditional road pricing systems in the form of tolls such as those operated on the M6 and Dartford Crossing and a dozen other UK roads, which AAT does not favour. This is because such systems are limited in coverage, more expensive to implement and maintain than PAYD, offer very limited, if any environmental benefits (as many road users will find an alternative route and continue to drive) and already have a rather negative image amongst the British public.

3.34. The Dartford Crossing serves as a useful example of the negative political and economic connotations of road pricing. Under the original agreement when the Dartford crossing (QEII Bridge) was constructed, charges were supposed to be scrapped when the bridge had paid for itself (2003) but to the dismay of many users, this has never happened, and it has gone on to generate hundreds of millions of pounds in profit for the Department for Transport. Further negative publicity was generated last month when it was revealed that there are over 70,000 dormant Dart Charge accounts containing over £1m of revenue that would not be returned to users[11]. Both problems that would not arise with PAYD.

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[9] **Motor Insurers Bureau (MIB) September 2016:**
https://www.mib.org.uk/media-centre/news/2016/september/one-million-uninsured-drivers-still-too-many/
[10] **Theodoros Grigoratos & Giorgio Martini, European Commission, October 2014:**
https://www.researchgate.net/publication/266974002_Brake_wear_particle_emissions_a_review
[11] **BBC, February 2021:**
https://www.bbc.co.uk/news/uk-england-kent-56131519

3.35. **DEPOSIT RETURN SCHEME (DRS)**

Small shops exemption

3.36. A DRS scheme could have a significant impact on small newsagents and the like due to a lack of storage space and similarly if significant numbers of cans and bottles are returned, this could potentially impact the effective running of their business given queues and the time taken to deal with returned items. However, it could also lead to increased business through increased footfall and the handling fee would represent an extra revenue stream. Furthermore, as a key source of the sale of many of these items, it is important that newsagents and convenience stores play some part in the successful operation of the scheme. One potential solution to the need to balance these competing issues would be to grant an exemption if the small store can demonstrate that an alternative collection point is available within a certain short distance of their store, say 400 metres.

Deposit size

3.37. The higher the amount, the higher the level of returns is likely to be but the higher the price, the less likely the consumer is to buy the item in the first place. As a result, again, a balance needs to be struck.

3.38. In Norway 10p (small bottles) and 25p (large bottles) is paid and appears to be successful whereas in Germany a flat rate of 25CT per item is paid.

3.39. Iceland (the retailer not the country) trialled a deposit return scheme in 2018-19, which recycled over 1m bottles and paid out tens of thousands of pounds to its customers in the form of a 10p money off voucher. They subsequently surveyed their customers and found that three quarters said they would support a national deposit return scheme for plastic drinks bottles if the deposit was set at 20p per container - the same rate due to come into force in Scotland next year.

3.40. In setting a fixed, national rate for deposits it should be sufficiently high to encourage behaviour change in all sectors of society. A 20p deposit does not appear unreasonable and would likely reduce litter and increase recycling rates. This deposit could of course be increased or decreased based on effectiveness in future years and so flexibility needs to be built into any DRS system.

3.41. **TAX POLICY vs THE ENVIRONMENT**

3.42. The Committee will be aware of a number of seemingly perverse tax decisions that whilst raising some revenue, actively discourage the greening of the British economy. Perhaps the most notable recent example of this was the October 2019 decision to increase VAT from 5% to 20% on numerous low carbon items, including most solar panel installations, domestic wind turbine systems and heat pumps, whilst VAT on coal provided to residential properties remained at 5%.

3.43. The EU can no longer be blamed for tying Government's hands in relation to VAT rates and so changes should be implemented to reflect both the net zero commitment and common sense.

3.44. The recent Environmental Audit Committee report, *"Growing back better: putting nature and net zero at the heart of the economic recovery[12]"* made a number of recommendations as to how taxation should be shifted to make the polluter pay that are worthy of examination.

[12] **Growing back better: putting nature and net zero at the heart of the economic recovery, February 2021:** **https://committees.parliament.uk/publications/4712/documents/47430/default/**

3.45. It may be worth examining whether a mechanism could be introduced to ensure that no new tax laws, regulations, or changes could be introduced if they were clearly incompatible with a commitment to reach net zero by 2050. This may prove quite challenging in practice and so another means of achieving a similar objective could be sought. For example, policy officials are already required to identify and assess the sustainable development impacts of their policy options and have been so for several years. However, the Sustainable Development Impact Test proforma[13] used by civil servants, has not been updated in more than a decade and could certainly be made more robust with a view to reducing or eliminating policies that contradict environmental objectives.

3.46. **TAX GAPS & ENFORCEMENT**

3.47. The recent National Audit Office report on environmental tax measures states,

3.48. *"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)[14].* The fact that more than a quarter of tax due in this area is not being collected is a serious cause for concern and must be addressed.

3.49. Likewise, the same report also highlights that HMRC has no standalone estimate of the tax gap for the Climate Change Levy; "*Instead it has made a single illustrative estimate of the tax gap (4.2%) covering the levy, the Carbon Price Support and Aggregates Levy, and four other taxes. HMRC reports that the true tax gaps are likely to vary widely across the taxes, limiting the value of the illustrative estimate."* This is a further area of concern that clearly needs attention.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 80,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:

5.2. E-mail: phil.hall@aat.org.uk Telephone: 07392 310264 Twitter: @PhilHallAAT

5.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

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[13] **Sustainable Development Impact Test proforma:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/218673/sd-impact-proforma.doc
[14] **Environmental tax measures, 12 February 2021**
https://www.nao.org.uk/wp-content/uploads/2021/02/Environmental-Tax-Measures.pdf