

# TransformTax: Citizens' jury and survey methodology

## Aims and objectives

This research was commissioned as part of wider research being undertaken by Green Alliance for our [TransformTax project](#) into potential ways in which the tax system could be transformed to help address environmental issues.

The objective of the project was to understand the public's spontaneous and considered views of:

- The idea of transforming the tax system to encourage more sustainable and environmentally friendly behaviours.
- Specific ideas for ways the tax system could be changed – whether this be the implementation of new taxes, or the changing of current taxes.
- Underlying principles that should be used to make decisions around changing the tax system.

## Survey

Fieldwork was conducted in between 26 and 28 March 2021 with a nationally representative sample of 2,076 UK adults.

## Citizens' jury

18 participants took part in three, two hour sessions over three consecutive weeks in May 2021. Over the course of the jury process, participants discussed the context of the UK tax system, climate change and environmental degradation and were introduced to ideas for greening the tax system and informed on the context and different views. They completed pre-tasks and were provided with written information as well as video explainers by experts from the Institute for Government and the TransformTax advisory board, as well as Green Alliance.

## Jury sample

The jury was selected to represent a range of attitudes on climate and the environment, as well as attitudes towards tax cuts or tax increases.

|                        |                           |                   |  |
|------------------------|---------------------------|-------------------|--|
| 5 Ethnic minority      |                           | 13 White-British  |  |
| 10 women               |                           | 8 men             |  |
| 9 ABC1                 |                           | 9 C2DE            |  |
| 6 18-34 year olds      | 7 35-54 year olds         | 5 55+ year olds   |  |
| 6 South West and urban | 6 North West and suburban | 6 Wales and rural |  |

## Stimulus materials

As well as general information about the environment, climate change and the tax system, the jury was provided with the following information about specific green tax proposals.

# Carbon tax on producers

A CARBON TAX ON PRODUCERS puts a price on carbon emissions and is already paid by some producers but could be extended to more types of businesses. This could ensure that organisations emitting carbon are paying for the full cost of their impact - this is called the “polluter pays” principle.

The cost of a carbon tax is decided by policymakers to help drive the changes needed for a country to achieve its environmental targets. Placing an additional cost on carbon emitters, encourages a reduction in emissions and helps to achieve emission targets.

The tax is collected **at the point of emission** (i.e. making production more expensive for firms the more carbon they emit).

They **raise money for governments to spend elsewhere** (e.g. on environmental projects, general spending or re -distribution of wealth).

### EXAMPLE

In British Columbia, they have placed a Carbon tax on all fossil fuels used for heat and energy, including for businesses, covering around 70% of their total yearly emissions.

There are some exceptions to the tax including aviation, shipping and farming industries.

Money raised via the tax is used to assist households and businesses for example by reducing other taxes or providing cash relief for rural or low-income areas.

# Carbon tax on producers

## Effectiveness



- ✓ Makes the production and potentially the purchase of high-carbon products more expensive, encouraging sustainable choices
- ✓ Raises money that contributes to the government's overall revenue.

- X Doesn't guarantee that environmental targets are met
- X Could cause organisations to move manufacturing abroad to avoid paying the tax
- X Does not address environmental impacts other than carbon

## Visibility



- ✓ If firms decide to pass the cost onto consumers, environmentally friendly products will become cheaper by comparison and more appealing to the consumer

- X Firms decide how much of the cost they will pass onto consumers, and could fail to encourage significant change toward sustainable individual choices

## Fairness



- ✓ Aligns with the “polluter pays” principle: where businesses that pollute more, pay more

- X Price increases for things like fuel would have a greater impact on low-income households as a greater proportion of their income is spent on things like heating
- X Price is set during the Budget, leaving it open to political influence and motivation

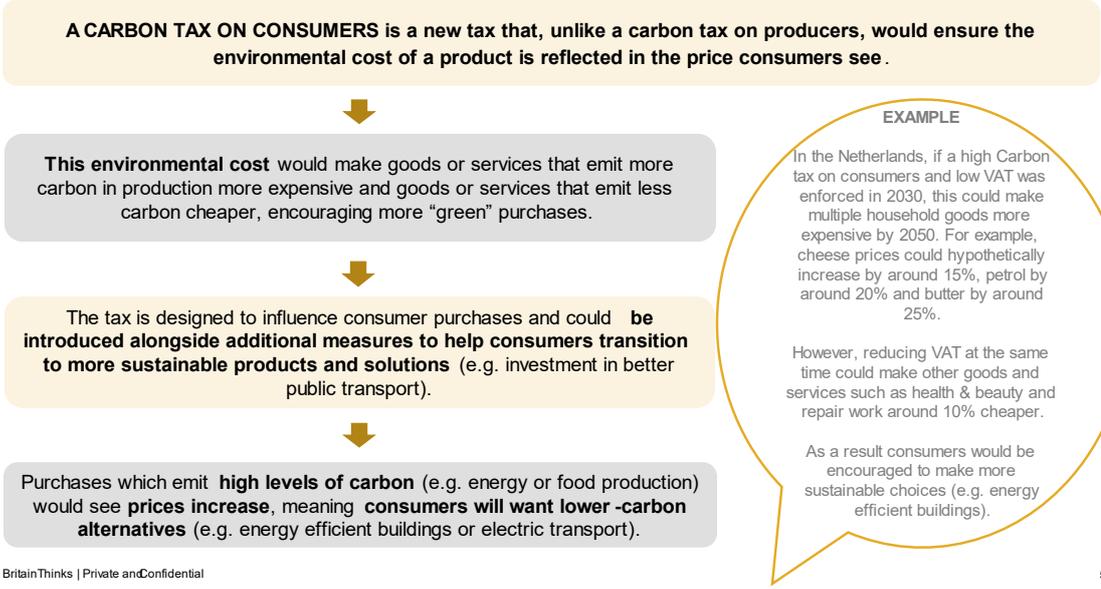
## Administration



- ✓ The price can be adjusted to account for inflation and changing environmental targets and technology
- ✓ Simple to collect once the Government has set the price

- X Measuring how much carbon producers are responsible for can be complicated and technically challenging

# Carbon tax on consumers



# Carbon tax on consumers

| Effectiveness<br>   | Visibility<br>   | Fairness<br>   | Administration<br>   |
|--|---|--|---|
| <ul style="list-style-type: none"> <li>✓ Would ensure consumers were signalled to change their consumption choices to be more sustainable</li> <li>✓ Low-carbon goods/services would become cheaper</li> </ul> | <ul style="list-style-type: none"> <li>✓ Environmentally friendly products will become cheaper and more appealing to the consumer</li> </ul>                          | <ul style="list-style-type: none"> <li>✓ This new source of revenue from taxing carbon could allow other taxes to be reduced, like income tax. That could mean that the amount of tax people pay doesn't necessarily increase - but comes from different sources</li> <li>✓ Other policies could be used to counter-balance the disproportionate impact on low- income households</li> </ul> | <ul style="list-style-type: none"> <li>✓ Enforcement can be modelled off a pre-existing systems, such as VAT or other consumption taxes (e.g. the soft drinks sugar tax)</li> <li>✓ The tax would apply to domestic and imported products equally, putting them on a level playing field</li> </ul>   |
| <ul style="list-style-type: none"> <li>X Non-carbon environmental impacts may not be accounted for</li> </ul>  | <ul style="list-style-type: none"> <li>X Price increases would be balanced with political pressure and motivation not to negatively impact the public mood</li> </ul> | <ul style="list-style-type: none"> <li>X Price increases of high-carbon products would have a greater impact on low-income households as a greater proportion of their income is spent on these goods</li> <li>X In the long-term, other taxes may be increased as people live more sustainability and less carbon tax is paid on consumption</li> </ul>                                     | <ul style="list-style-type: none"> <li>X Difficult to work out carbon prices for each product. A tax based on the general product type and not the specific product could be simpler, but less effective</li> <li>X It could be complicated to administer on goods imported from countries where they had already been taxed or that had complicated supply chains</li> </ul> |

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## How might a carbon tax on consumers impact your shopping?



Please note that these are indicative prices increases and they would likely happen gradually. Increases in price for some products could be balanced against a decrease in prices in other goods- it all depends on how the tax is designed.

# Green VAT

**GREEN VAT is an adjustment to the current VAT system, which already influences consumer decisions and purchases – and as such is not a new tax. This tweak to VAT would increase the prices of environmentally harmful products for manufacturers and consumers, and decrease the price of environmentally beneficial products.**

VAT currently taxes spending and is the third largest source of tax revenue in the UK. Currently, the UK VAT system has exemptions for some products which are environmentally harmful (e.g. household gas, aviation and construction) whilst many products which have low environmental impacts face high VAT charges.

**Green VAT is an opportunity to realign** the tax system to influence greener purchases and production, making prices of some environmentally harmful goods go up and some environmentally beneficial goods go down, without requiring a whole new tax system or process for producers and consumers.

Green VAT can **raise money for governments to spend elsewhere** (e.g. on environmental projects, general spending or re-distribution of wealth).

### EXAMPLE

Currently, most food and drinks have a 0% VAT rate, unless they are considered luxuries.

However, as meat and dairy produce high carbon emissions and people of all income groups generally consume more protein than is considered necessary, VAT could be tweaked to account for this and help the UK reach its net zero targets.

Estimates suggest that a VAT rise of 20% would reduce consumer use of dairy by 8% and of meat by 16%, setting us on track to reach our emission targets.

# Green VAT

## Effectiveness



- ✓ Could encourage investment in green-tech or other sustainable exploits
- ✓ Raises money which can be re-invested in multiple ways (e.g. environmental projects, redistribution of wealth)

## Visibility



- ✓ Environmentally friendly products will become cheaper and more appealing to the consumer

## Fairness



- ✓ Other policies could be used to counter-balance the disproportionate impact on low-income households
- X Price increases of high-carbon products would have a greater impact on low-income households as a greater proportion of their income is spent on these goods
- X Increasing prices could negatively impact occupations vital to everyday lives (e.g. increase in meat/dairy impacting farmers)

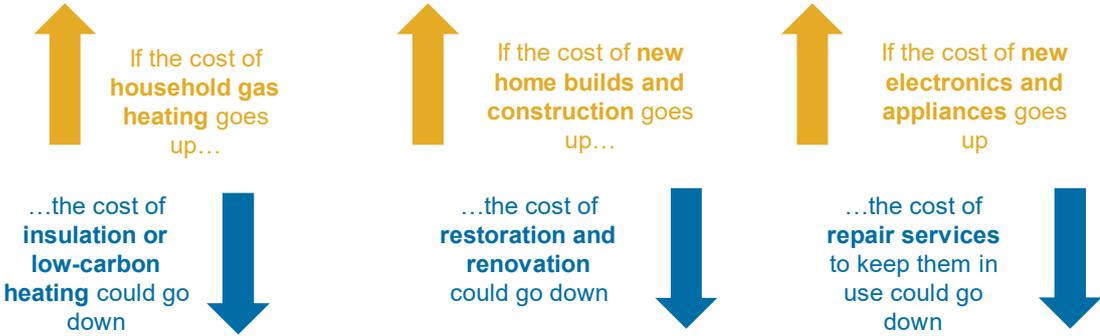
## Administration



- ✓ Simple to administer and only requires tweaks to an already well-established system
- X Currently, it can be challenging to decide what counts as a "luxury" and is therefore charged VAT. This problem could continue with Green VAT.

# Green VAT would increase the price of environmentally harmful goods/services, but decrease the price of beneficial goods/services

Some examples of this include:



## Material Tax

A MATERIAL TAX puts a price on new materials such as steel or concrete. This makes it more expensive to extract and use new materials, encouraging reductions in use, as well as use of alternative or recycled materials. The UK has a very limited number of material taxes already and could create taxes for more materials.

Collecting a tax on material extraction itself is highly complicated, so instead a **tax can be placed on the material itself**. This makes the material more expensive to use driving greater use of alternative or recycled materials.

By taxing the material itself, this makes it more expensive to add to the current amount of material in existence. This **means that material taxes have a knock on effect for the management and disposal of these materials** (e.g. reducing the amount of materials that go to landfill)

Material taxes can **raise money for governments to spend elsewhere** (e.g. on environmental projects, general spending or re -distribution of wealth).

**EXAMPLE**

In October 2015, the UK Government introduced a 5p charge on plastic bags.

Rather than raising money, the additional costs was enforced to encourage people to re-cycle and re-use their plastic bags, rather than purchasing new ones.

To date, the 5p charge has reduced plastic bag usage by around 90% but has unintentionally increased use of 'bags for life' because only some bags are included, which may mean overall plastic usage has gone up.

# Material Tax

| <b>Effectiveness</b><br>  | <b>Visibility</b><br>   | <b>Fairness</b><br>  | <b>Administration</b><br>   |
|--|--|--|--|
| <ul style="list-style-type: none"> <li>✓ Could cut the use of environmentally harmful materials and encourage sustainable material use (e.g. recycling)</li> </ul>   | <ul style="list-style-type: none"> <li>✓ Environmentally damaging materials would become more expensive to use during production</li> <li>✓ If it is introduced like the plastic bag charge, customers will pay it directly and know what the charge is for</li> </ul> | <ul style="list-style-type: none"> <li>✓ Other policies could be used to counter-balance the disproportionate impact on low-income households</li> </ul>   | <ul style="list-style-type: none"> <li>✓ Direct charges on materials which are harmful to the environment, like the plastic bag charge, are relatively easy to administer</li> </ul>   |
| <ul style="list-style-type: none"> <li>X Could cause organisations to move manufacturing abroad to avoid paying the tax</li> <li>X British manufacturers could be undercut by cheaper products in other countries</li> </ul> | <ul style="list-style-type: none"> <li>X The cost may not be fully passed onto the consumer, and so could fail to encourage significant change toward sustainable individual choices</li> </ul>  | <ul style="list-style-type: none"> <li>X If the cost is passed on, price increases of high-carbon products would have a greater impact on low-income households as a greater proportion of their income is spent on these goods</li> </ul> | <ul style="list-style-type: none"> <li>X Can be complicated and difficult to determine the environmental cost of each material, made more complicated by the many different materials which go into most products</li> <li>X An uncommon and understudied tax, adding to the complexity of administration</li> </ul> |

# Road Pricing

Currently, fuel taxes and vehicle tax are charged on petrol and diesel cars because of the carbon emissions they produce. These taxes on driving amount to around £40 billion of revenue (or £1 in every £20 of tax revenue), **but are not charged on electric vehicles**. As more people begin to drive electric vehicles, **this tax revenue will decrease**.

One potential way to replace this tax revenue could be **ROAD PRICING**, which would tax drivers when they enter areas of high congestion or based on the distance they drive.

Aside from carbon, there are other negative impacts from driving, such as **congestion, traffic noise, and environmental impacts like plastic pollution** from vehicle tyres. Road pricing would tax these impacts and **would also apply to electric vehicles** as they contribute to these negative impacts.

Road pricing can **raise money for governments to spend elsewhere** (e.g. on improving public transport and walking/cycling accessibility, general spending or re-distribution of wealth).

### EXAMPLE

A Congestion Tax would make drivers pay more or less depending on the levels on congestion when and where they are driving.

For example, it would be more expensive to drive in a busy, urban environment during rush hour than on an empty rural road at 12pm.

The tax could be enforced using GPS systems (e.g. like a "black box" currently used by insurance companies) or using plate recognition cameras to target specific areas.

# Road Pricing

## Effectiveness



- ✓ Raises money which can be re-invested in multiple ways (e.g. in improved transport infrastructure)
- ✓ Can be effective in reducing the number of vehicles on the road, and moves to more sustainable modes of transport
- X Could be complicated and difficult to create a model which addresses all the negative impacts of driving
- X As transport becomes more sustainable, the amount of revenue could decrease, requiring other tax increases

## Visibility



- ✓ As the charge is likely to be paid separately to other charges, drivers will know what they are being charged and why
- ✓ Additional costs associated with driving would encourage the public to look for alternatives to driving

## Fairness



- ✓ Other policies could be used to counter-balance the disproportionate impact on low-income households
- ✓ The revenue from existing congestion charges are invested in public transport to provide people with alternatives to driving
- X Alternatives to driving are seen as inconvenient, expensive and sometimes impractical for people in certain locations, occupations etc.
- X Additional costs would have a greater impact on low-income households

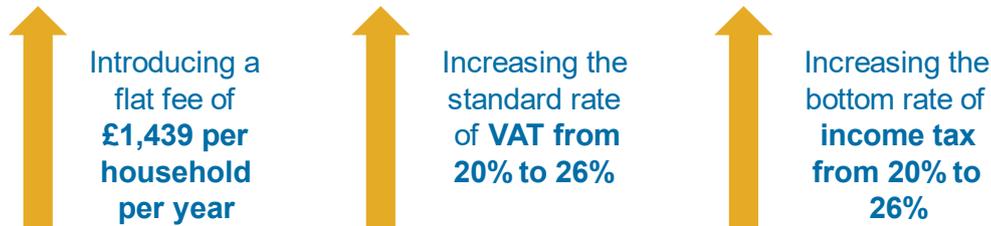
## Administration



- ✓ Road pricing measures already exist (e.g. London's congestion charge zone) meaning extended measures have a strong basis to build from
- ✓ Road infrastructure (e.g. cameras) lends itself to targeted pricing and enforcement
- X Research shows that the public feel motoring taxes (e.g. Fuel duties) are an unfair tax, making it hard for these measures to be passed through parliament
- X Some people have privacy concerns about data collected on their vehicle's location. Road pricing could be charged based on mileage but that would not tackle congestion.

**£40 billion is raised each year from taxes on fossil-fuel vehicles. If we do not find other ways to tax driving, other taxes would need to rise to replace the money**

**Taxes that would raise the same amount of money include:**



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## Expert videos

The jury were also shown short explainer videos created by members of Green Alliance's TransformTax team, its advisory board and the Institute for Government. A summary of what they were told is provided below.

### **The UK tax system (Gemma Tetlow, Chief economist at the Institute for Government)**

The UK tax system has three main objectives:

- Raising money to spend on public services and infrastructure
- Redistribution
- Deliberately encouraging or discouraging some behaviours

The latter usually tries to align the private cost to an individual with the wider social costs that are imposed on society.

The UK tax system could do more to become greener.

Taxes are not the only tool government has – it can also use regulations.

Most taxes are successful if they raise revenue but green taxes are different – a successful green tax could change behaviour enough that it raises very little money.

### **Green VAT (Arun Advani – Assistant professor of economics at the University of Warwick)**

VAT is one of the three biggest taxes. Most items are charged at 20 per cent, but there is a reduced rate for certain things, like household gas, and a zero rate for things like food.

This can create problems because it can make some environmentally harmful products relatively cheaper than other products.

Fixing VAT could be simple because it will just change rates. We could see costs increase on some products and decrease on others.

There are downsides – for many of the items affected, like gas and meat, poorer households spend a greater share of their income on them, although richer households spend more on these items in total.

However, VAT can raise lots of revenue – we can use some of the revenue to give back to poorer households, for example through income support, adjustments to the welfare system or other new methods.

There is also the risk of lobbying from people whose products will be affected by price changes.

Benefits of changing VAT include:

- It raises lots of revenue
- It has a direct effect on spending
- It can make some products cheaper (as well as some more expensive)
- It would be simple to change

### **Materials tax (Hector Pollitt – Chief economist at Cambridge Econometrics)**

A materials tax increases the price of materials inputs which could include things like wood, plastics, sand and gravel

Some materials are rare and others are widely available.

We already have a few examples of similar taxes – minerals like sand and gravel are taxed at extraction in the UK. The plastic bag charge is a similar idea.

This idea hasn't been studied in great detail and it could be designed in a few different ways. A charge could be levied on the consumer or on the producer.

It aims to

- Reduce consumption of scarce resources
- Reduce the impacts of extraction of all resources
- Discourage waste
- Raise tax revenues which could be used for environmental purposes or to reduce other taxes

### **Carbon consumer tax (Libby Peake, Head of resource policy at Green Alliance)**

Some producers already pay a carbon tax but costs do not always pass through to consumers and aren't always visible. A carbon tax on consumers would increase the cost of products which are associated with more emissions. This could include things like meat, dairy and textiles.

It would be complicated because it's hard to assess the carbon footprint of lots of individual products. It could be simplified so that all products of the same type are charged the same tax although this could be less effective.

The drawbacks include:

- The tax deals only with carbon emissions and not with other environmental impacts
- There could be a negative impact on low income households.

### **Carbon tax on producers (Sam Fankhauser, Professor of climate change, economics and policy at the University of Oxford)**

Most economists agree that putting a price on carbon is essential for the fight against climate change. Putting a price on carbon makes the polluters pay and forces emitters to face the environmental costs of their actions and manage their emissions more proactively.

A tax on producers is one way to put a price on carbon. This makes it simple to administer because there are a small number of emitters to collect tax from.

Emitters will pass the costs on so that consumers also face the carbon price and are incentivised to reduce their emissions too.

A carbon tax also raises revenue which could be used for lots of things like:

- The Covid recovery
- Low carbon projects
- Given back to households

### **Road pricing (Zoe Avison, Policy analyst at Green Alliance)**

The government currently taxes motoring through a tax on fuel and a tax on vehicle ownership. These taxes don't apply to electric vehicles so will fall away as we shift to electric cars.

This is a problem because motoring taxes currently raise around five per cent of all tax revenues raised.

Road pricing taxes drivers based on how much they drive. There are a few different possible designs:

- A national system could charge a flat rate per mile, using information already collected by insurance companies.
- Another system could add an extra fee for city centre or motorway driving.
- A more sophisticated scheme would charge based on where and when a car is driven. Driving at peak time in a congested area could attract a higher cost, helping to reduce congestion.

Road pricing could mean drivers who choose not to drive on congested roads are rewarded. It could also raise money to invest in public transport so that people have alternatives to driving.

There are drawbacks: the costs of driving could increase for some, particularly if they have no choice but to use busy routes, although they could benefit from less busy roads.

A full road pricing scheme would also need to collect data on where a car is driven. Many people already have a black box fitted to their car. For full road pricing to work every car would need a black box. This wouldn't be necessary for a scheme that charges a flat rate per mile, but that type of scheme might be less effective.