

# The green light for change

## What people think about environmental tax reforms



**“**green  
alliance...

# Summary

The UK tax system is not fit for the challenges of the 21st century, including the environmental emergencies we face. Transforming tax will be essential to fairly and efficiently achieve a net zero, sustainable economy.

As part of our TransformTax project, we are working with the research agency BritainThinks to understand the public's view of using the tax system to encourage more sustainable choices. In March 2021, BritainThinks surveyed a representative sample of 2,076 members of the UK public.<sup>1</sup>

The results are unequivocal. Sustainability is a primary concern, and the public believes those who cause the most environmental damage – whether businesses or individuals – should be held to financial account. There is strong support for the principle of green taxes,

including those that change the cost of different behaviours and of consumption.

The findings show:

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**People want government to do, and spend, more on environmental action**

People expect meaningful action and more funding for it from government, with a strong majority – 80 per cent – believing the government should be responsible for dealing with environmental issues, and 62 per cent wanting higher government spending to address them.

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**People believe they can do more, too**

People also believe responsibility extends to them: around two thirds think it is important to change their own lifestyle to tackle climate change and a similar proportion say they have already made some changes.

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### Greening the tax system is widely supported

Green taxes, which would help people and companies make more changes, are also strongly supported. Six in ten (59 per cent) people support using the tax system to make environmentally damaging behaviours more expensive with only one in ten (12 per cent) opposing the idea.

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### Taxes related to carbon, unsustainable consumption and material use are also supported

A majority of people support carbon taxes on both producers and consumers, as well as greening the VAT system and implementing new material taxes. Although road pricing is less popular than other proposed measures, people are still more likely to support it than oppose it.

This gives the government a clear mandate to start to green the tax system. Time is of the essence to develop robust proposals that will deliver the change people want to see. It will be important for well designed reforms not only to have positive environmental impact and avoid unintended consequences, but also to be fair, acceptable and understandable to taxpayers.

It is crucial that taxes are used where they are the best option, rather than regulation or other measures, or where they can usefully build on other approaches. Tax is not the whole answer to any of the environmental challenges we face. But careful reforms are an important part of the broad set of policy measures that will shift the UK on to a much more sustainable path, and deliver the green recovery the prime minister has promised.

# Introduction

## Tax and the environment in the UK

The tax system is one of the most powerful tools the government has to deliver on its policy ambitions, shape the economy and change the behaviour of people and businesses alike. When it comes to the environment, it is currently not being used to anything like its full potential.

UK taxes with a positive environmental impact account for only seven per cent of tax revenue, and those with an explicit environmental purpose (the Climate Change Levy, Carbon Price Support, Landfill Tax and Aggregates Levy) account for even less: only 0.5 per cent of total tax revenue.<sup>2,3</sup> This falls well short of the potential demonstrated in some OECD countries.<sup>4</sup>

The National Audit Office (NAO) has also identified five large areas of tax relief that work against the government's environmental goals while costing the state nearly £17 billion in lost revenue each year.<sup>5</sup> These include reduced VAT on domestic fuel and power, zero VAT on domestic passenger transport, including flights, and reduced or no fuel duty on diesel used in off-road vehicles and kerosene used as heating fuel.

As we have previously shown, and the NAO's evidence supports, there are particular problems with VAT, the UK's tax on consumption, that urgently need to be addressed. Currently, VAT discourages activities that would lead to more secure jobs and a greener, healthier society, while it encourages those that damage our environment, make us unhealthy and suppress job creation.<sup>6</sup>

The Treasury has, so far, been reluctant to put its weight behind the government's stated aims to create a net zero, sustainable economy, with little action on either taxation or spending for the transition. However, the Net Zero Review it has commissioned, due out later in 2021, is a perfect opportunity to initiate a transformation of the tax system. In fact, the stated aims of the review suggest it will do this, at least when it comes to climate change, pledging analysis of how households, businesses and the taxpayer should all contribute to the transition required.<sup>7</sup>

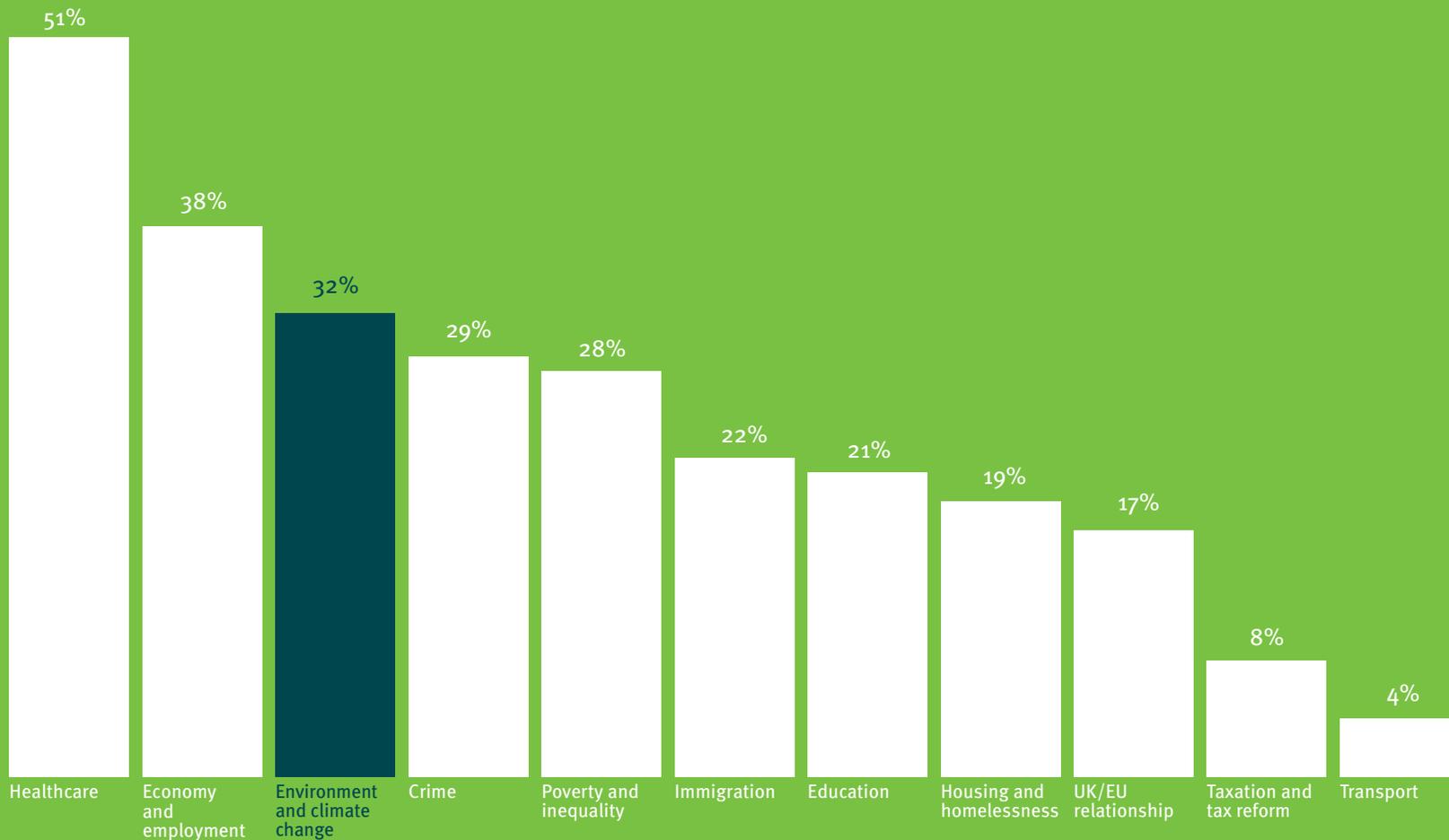
In this report, we present the results of a survey of 2,076 members of the public, conducted by BritainThinks in March 2021. It shows the government has a very clear public mandate to green the tax system. This does not mean all changes will automatically be acceptable. Careful design of tax policy will be necessary to ensure public support and lasting benefit to the environment.

# The environment is a primary concern

Despite the many challenges facing the UK, people are extremely concerned about the environment and climate change, ahead of crime, poverty, immigration and education. Asked to identify three priorities from a list of 11 options, the public ranked the environment and climate change a close third, at 32 per cent, behind the economy and employment (38 per cent), with healthcare, unsurprisingly, in top place at 51 per cent.

The survey also revealed that, in every part of the UK, it was one of the top four concerns, and it was chosen equally by men and women (33 and 32 per cent, respectively).<sup>8</sup> It was notable, though, that it was a slightly higher priority for both younger and older groups, with 35 per cent of 18-34 year olds and 37 per cent of those over 65 choosing it.

# Q: Excluding Covid-19, which of the below issues are most important to you?



# People expect meaningful government action and funding

A strong majority (80 per cent) of people believe the government should be responsible for dealing with environmental issues and 62 per cent want to see more spending to tackle them. Only 17 per cent think that spending should go down.

It should be noted, though, that our survey showed that estimations of the government's ability to deal with climate change are low: only a third are confident about the government's ability to deal with climate change, compared to over half (52 per cent) who are not confident. This could stem from a general cynicism about the government's ability to tackle major societal problems, but also from inconsistent approaches taken by the government on the environment. This includes the diesel scandal, frequent policy changes and high profile negative

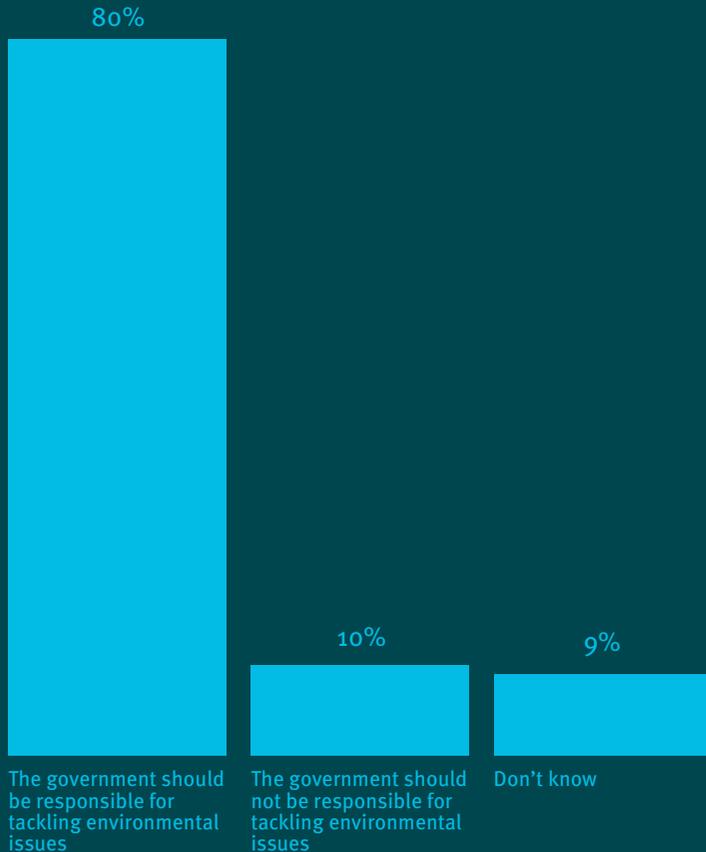
stories, such as the repeated failure to improve the sustainability of the nation's homes.

On the one hand, this could present a barrier to the implementation of green taxes and many other types of environmental policy, unless public confidence is improved by the government matching its stated ambitions with clear and consistent action.

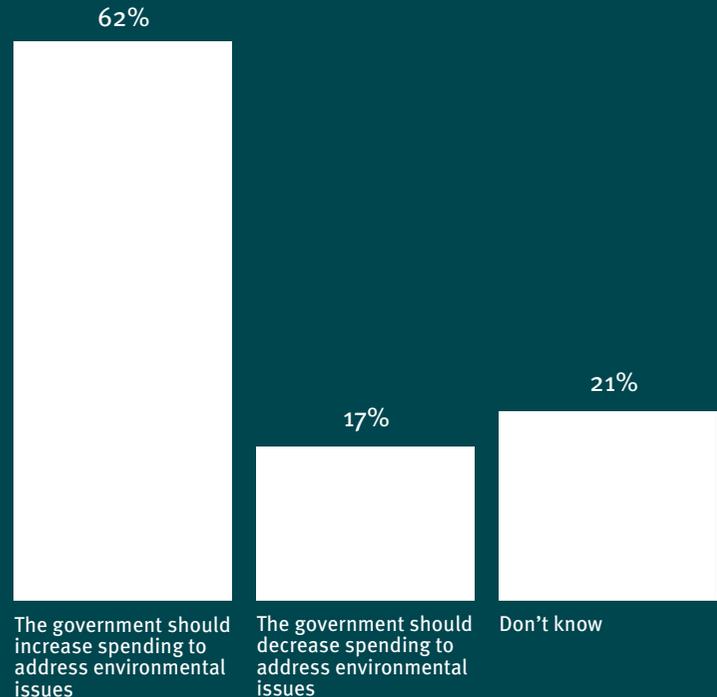
On the other hand, unlike targets and promises of future changes, tax reform can quickly and directly affect behaviours with an impact on the environment, and so an ambitious and consistent approach to greening tax will enable the government to immediately improve its environmental credentials.

# When presented with the following pairs of statements, most people said...

...the government should be responsible for improving the environment



...the government should increase spending on environmental issues



# People feel personally responsible

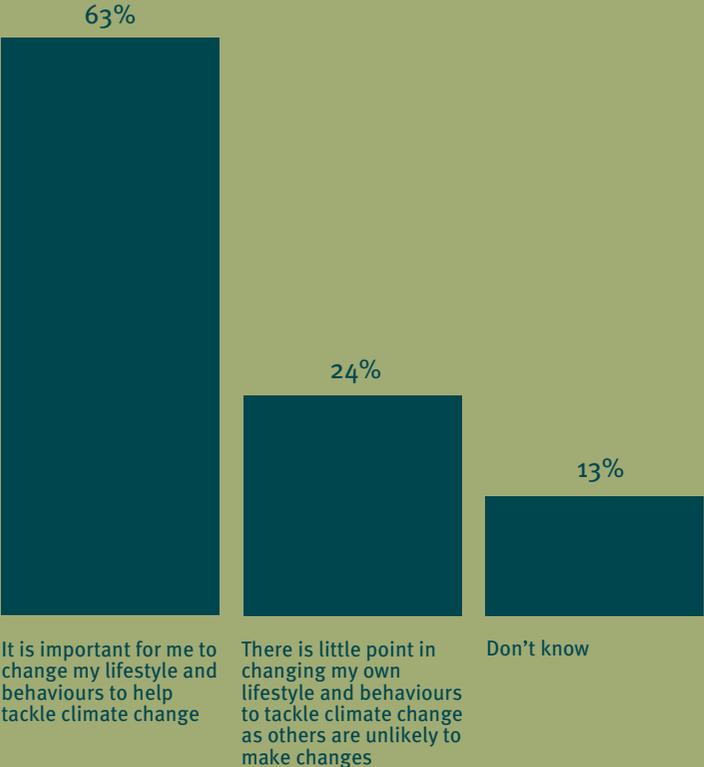
People believe that they, as well as government, should be responsible for tackling the climate crisis, with 63 per cent indicating that they should change their own lifestyles and 64 per cent saying that they have already made changes. Reducing energy use and buying fewer new products or more sustainable products were the most common changes people claimed to have made. Alterations to travel and diet were less common but still significant, especially among younger groups: 44 per cent of people between 18 and 24 say they have changed how they travel, while 41 per cent of people aged 25-34 say they have changed their diet.

Barriers to action include cost and a lack of information, with 32 per cent saying they cannot afford to change their behaviour, while 23 per cent say they still do not know what they need to do to tackle climate change.

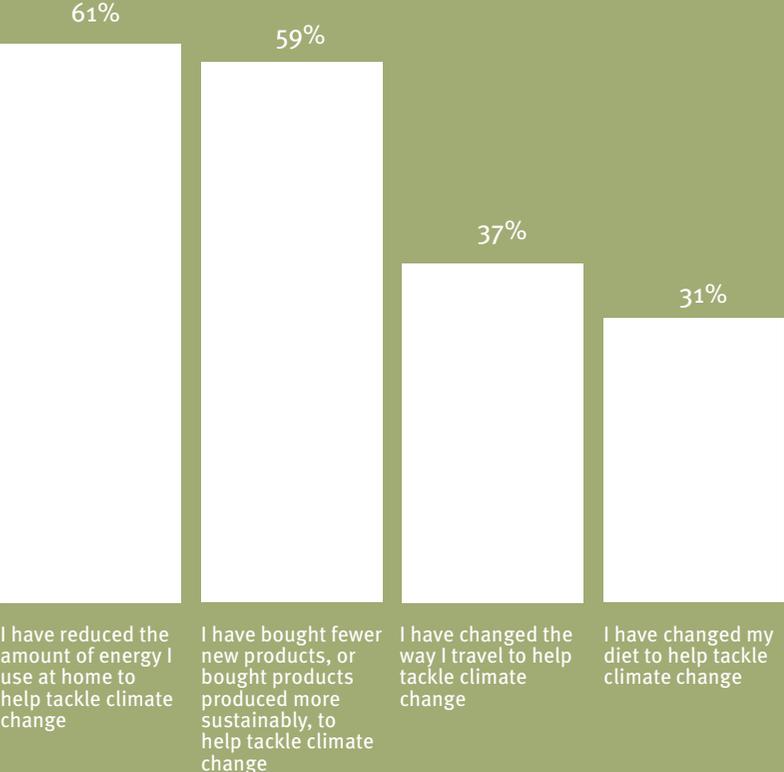
Even those who know how they need to change their behaviour would benefit from taxes designed to make damaging activities more expensive and sustainable activities more attractive. In this way, well designed and explained reforms could help shift norms across society and address both the cost and information barriers.

# When presented with the following statements, most people said...

...they need to change their lifestyles to address climate change



...and they have started to make some changes to their lifestyle



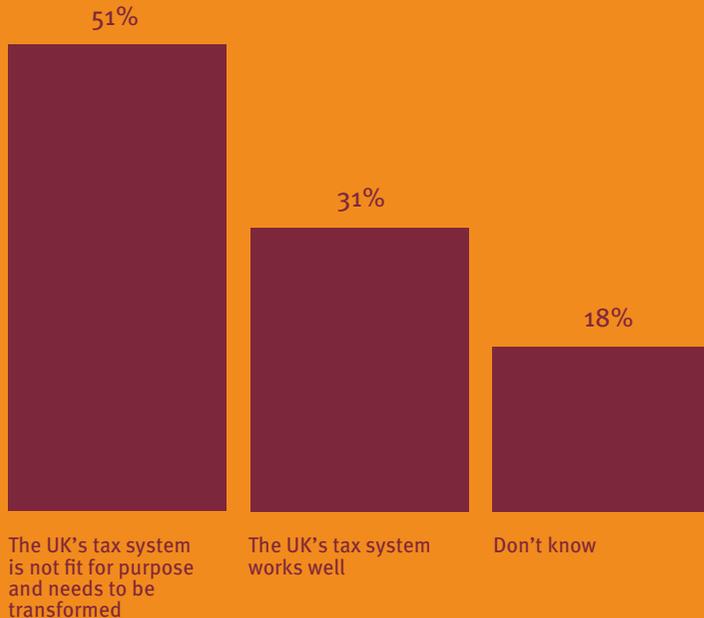
# People believe the tax system should drive sustainability

The tax system is very underused in the effort to address climate change and reverse nature's decline. Over half of people recognise that the tax system, in general, is not fit for purpose (51 per cent) and 59 per cent support the use of tax to tackle these existential crises by making environmentally damaging behaviours more expensive. Even more (62 per cent) are in favour of using tax to make environmentally beneficial behaviours less expensive.<sup>9</sup>

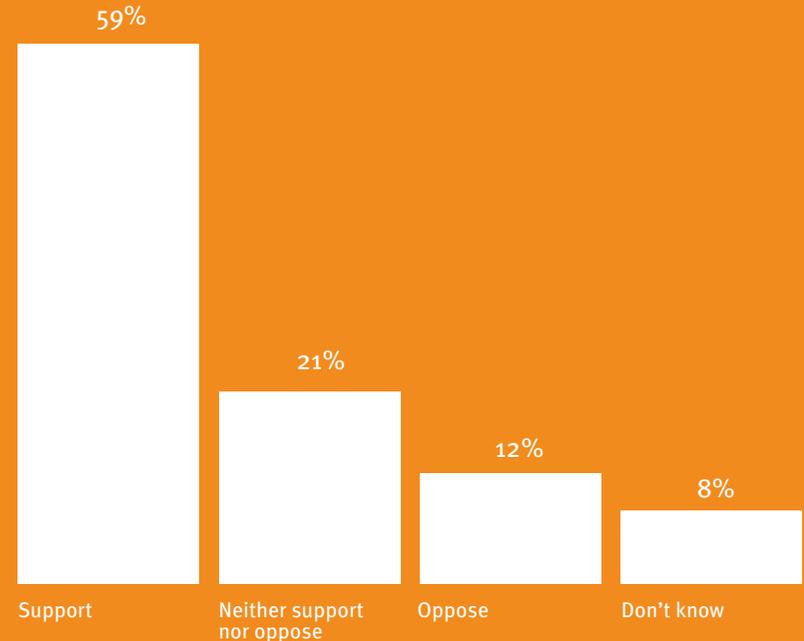
Perhaps surprisingly, almost half those surveyed (47 per cent) said they were prepared to pay more in taxes to fund public services while only a third (34 per cent) were prepared for some cuts rather than higher taxes. Those over 65 were more likely to be willing to pay more taxes, with 55 per cent supporting the idea. And 59 per cent of those who selected climate change as one of their top three priorities were also willing to pay more tax.

When presented with the following pair of statements, most people said...

...the tax system does not work well



Q: To what extent do you support or oppose using the tax system to make environmentally damaging behaviours more expensive?



# There is widespread support for specific types of green taxes

In addition to understanding general attitudes towards taxes and sustainability, we asked about particular types of green taxes the government might adopt. These were explained to those surveyed as follows:<sup>10</sup>

**Carbon tax on producers:** This puts a price on carbon emissions and is already paid by some producers but could be extended. The price is set by the government in line with its environmental targets. The tax would be collected at the point of emission (ie making production more expensive for firms. Businesses may or may not pass these costs on to consumers).

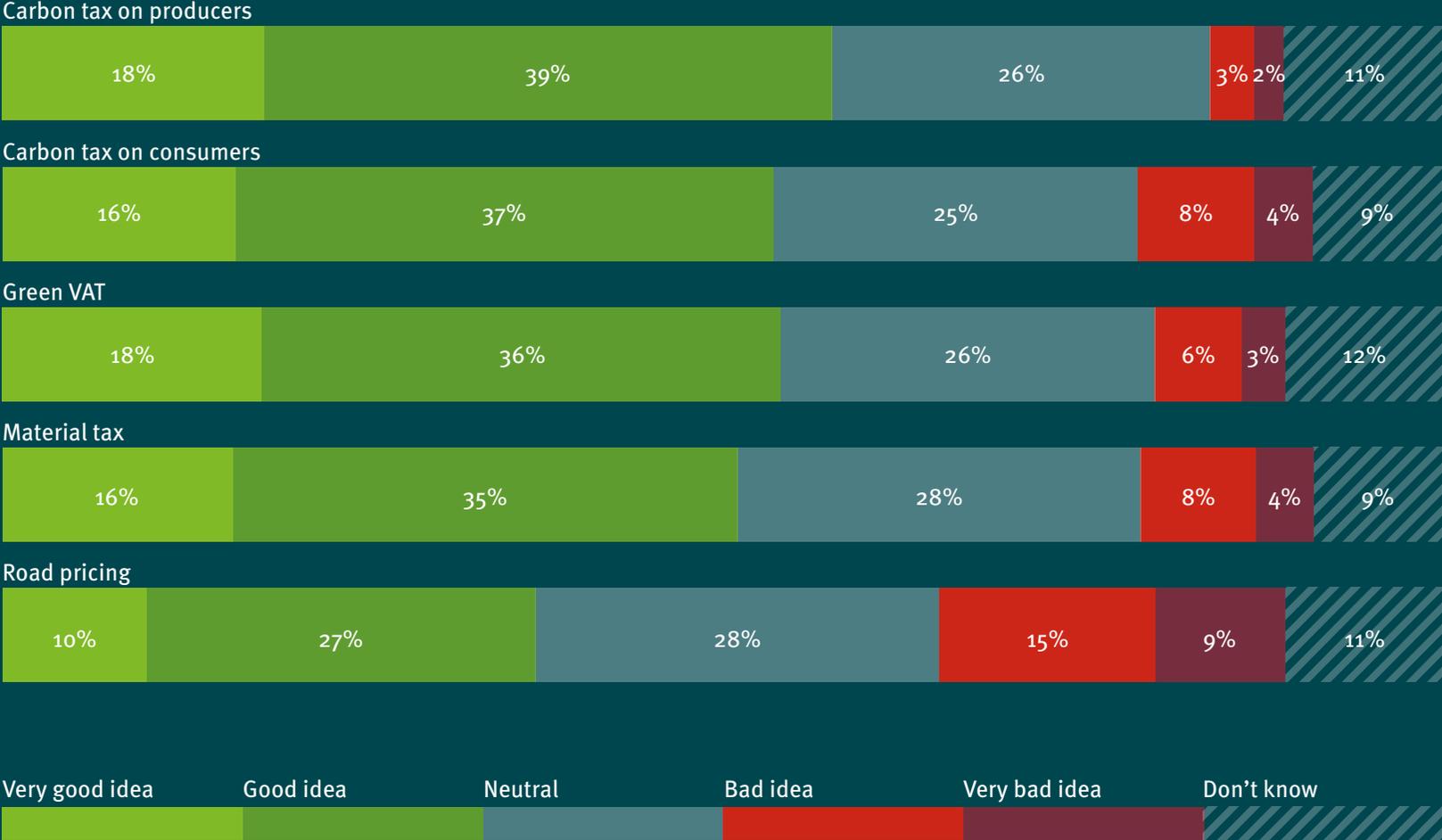
**Carbon tax on consumers:** This would be a new tax to ensure the environmental cost of a product is reflected in the price consumers pay. The tax would make goods that emit more carbon in

production more expensive and could make those that emit less carbon less expensive, encouraging more green purchases. It would be charged at the point of sale.

**Green VAT:** This is an adjustment to the current VAT system, which already influences consumer decisions and purchases. It would increase the prices of environmentally harmful products for manufacturers and consumers and decrease the price of environmentally beneficial products. For example, new house building incurs no VAT, but repairing and renovating existing houses is charged at the full rate (20 per cent). This could be reversed under a Green VAT approach.

**Material tax:** This puts an additional price on new materials such as steel or concrete and makes it more expensive to

# A majority of the public think most types of green taxes are a good idea



extract and use them. It aims to reduce the need to extract more materials, encourage alternative or recycled materials, as well as reducing the amount of materials that go to landfill or incineration.

**Road pricing:** Currently, fuel and vehicle taxes are charged on petrol and diesel cars because of the carbon emissions they produce. As more people begin to drive electric vehicles, this tax revenue will decrease. A potential way to replace it could be road pricing, which would tax drivers when they enter areas of high congestion or based on the distance they drive. Road pricing would tax negative impacts from driving, aside from carbon, such as congestion, traffic noise and environmental impacts, like plastic particle pollution from tyre wear.

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### Support is consistent

For most green tax policies, the majority of people thought that the more detailed policy proposals were a good idea. Even in the case of road pricing, there is greater support (37 per cent) than opposition (24 per cent). This remarkable consistency across the proposals could signal general support for the principle of green taxes, rather than the specifics of each policy.

Some changes, like greening VAT, are relatively straightforward and should quickly be implemented. Others, like road pricing or further carbon taxes, need more careful consideration in design and implementation. The government should be examining options to determine what will be most beneficial to the environment, economy and society, and then laying the groundwork for long term reform.

# A mandate for ambitious transformation

These findings back up the recommendations of the recent UK Climate Assembly, where 83 per cent of its members supported green taxes on producers, products and services.<sup>11</sup> It adds to the growing weight of evidence that the government has a mandate to change the tax system. Taxes should be used to drive behaviour that will create an economy fit for the future, producing as little carbon as possible and using resources efficiently to protect the environment.

Our survey shows there is also support for a broad range of environmental issues to be addressed by taxation, with two thirds saying green taxes should cover additional environmental impacts, as well as carbon. In addition to support for green taxes, the idea that the ‘polluter pays’ is supported (including when it is individuals who cause

pollution), with 75 per cent supporting it, compared to just 12 per cent who think the costs of pollution should be evenly shared. This principle could be embedded effectively through tax changes, which makes it all the more worrying that the government will be exempting the Treasury from its environmental principles, including the polluter pays principle, being developed to guide government decisions.<sup>12</sup>

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Careful design is needed, as support is not guaranteed

It should be noted that support for green taxes is not unconditional. The proportion of people that said specific reforms were ‘very good’ ideas was much smaller than those that said the ideas were ‘good’, with more than a quarter staying neutral on all options.

Framing matters. While 59 per cent of people support “using the tax system to make environmentally damaging behaviours more expensive” and even more support using tax “to make environmentally beneficial behaviours less expensive” (62 per cent), only 31 per cent support the general approach of “using the tax system to try and change people’s behaviour”. The government, therefore, needs to be very careful about new tax design as well as communicating the reasons for change.

It should always be clear why taxes are being used and how they are being tailored to make them appropriate to the circumstances in which they are applied.

Public acceptance must be considered at an early stage of development including, crucially, the impact on lower income households. Any regressive outcome must be prevented or mitigated by commensurate government action.<sup>13</sup>

With such clear support for green reforms to the tax system and plans for a green recovery in development, the priority now is for the Treasury to embrace this mandate for change. It must act with urgency to deliver the well designed tax policies people want to see for a greener, healthier society in future.

# Next steps for TransformTax

This survey was conducted for Green Alliance's TransformTax project, supported by the Joseph Rowntree Charitable Trust, to judge public opinion about green tax reform. Subsequent work will include a citizens' jury, also conducted by BritainThinks, to provide a deeper understanding of people's attitudes and establish underlying principles that should be used to guide decisions around green reforms to the UK's tax system. We will be issuing further recommendations in 2021 to inform policy and build on the clear public appetite to transform tax.

# Endnotes

- <sup>1</sup> The survey was conducted online between 26 and 28 March 2021. Participants were nationally representative, and from all four UK nations.
- <sup>2</sup> According to the OECD, in 2019, 6.84 per cent of UK tax revenue was environmentally related. See: OECD.org, 'Environmental taxation'
- <sup>3</sup> National Audit Office (NAO), February 2021, *Environmental tax measures*
- <sup>4</sup> OECD stats show that, in countries including South Korea and Croatia, environmental taxation accounts for around 11 per cent of total tax revenue. OECD.org, op cit
- <sup>5</sup> NAO, 2021, op cit
- <sup>6</sup> Green Alliance, 2020, *Added value: improving the environmental and social impact of UK VAT*
- <sup>7</sup> HM Government, 2 November 2019, 'HM Treasury's review into funding the transition to a net zero greenhouse gas economy: terms of reference'
- <sup>8</sup> Respondents were split into the devolved nations and, in England, to North, South, Midlands and London.
- <sup>9</sup> Our research also showed widespread support for some of the tax policies with environmental benefits that are currently in place: the plastics tax, which will apply to packaging with less than 30 per cent recycled content, was supported by 70 per cent and removing VAT on products, like insulation and solar panels, was supported by 69 per cent (the question also asked about electric vehicles, which are subject to full VAT; currently energy saving materials can receive reduced VAT). Not charging vehicle tax on electric vehicles was slightly less popular, with 48 per cent supporting the practice and 21 per cent opposing. The outlier in this category was fuel duty: people were more likely to oppose fuel duty on petrol and diesel than support it by some way, with 24 per cent support compared to 46 per cent opposition.
- <sup>10</sup> In some cases, for brevity, these explanations have been shortened. They are, however, substantially the same as the information people were presented with in the survey. The precise wording used can be found at: [www.green-alliance.org.uk/green\\_light\\_for\\_change.php](http://www.green-alliance.org.uk/green_light_for_change.php)
- <sup>11</sup> UK Climate Assembly, 2020, *The path to net zero*
- <sup>12</sup> Treasury activities – including taxation, spending and allocating resources – are currently exempt from the environmental principles that the government is setting out through the Environment Bill. As part of the repatriation of environmental law after Brexit, through the bill process, the government has issued a draft policy statement on environmental principles, covering 'integration', 'rectification', 'precaution' and 'prevention', as well as 'polluter pays'. Together, they are intended to guide ministers and to put environmental considerations at the heart of policy making. However, as it stands in both the draft policy statement and the Environment Bill itself, Treasury activities, along with defence activities, are exempt from having to even consider the principles. See: Defra, 10 March 2021, *Draft environmental principles policy statement*
- <sup>13</sup> For some green tax reforms, a substantial body of evidence indicates it is possible to minimise harm to poorer households. Previous research has shown, for instance, that it is possible to end the VAT subsidy on household energy, while benefiting the majority of low income households, if appropriately designed redistributive packages are used. See, for example: Joseph Rowntree Foundation, 2013, *Designing carbon taxation to protect low income households*; Institute of Fiscal Studies, 2013, *Household energy use in Britain: a distributional analysis*; and A Advani and G Stoye, June 2017, 'Cheaper, greener and more efficient: rationalising UK carbon prices', in *Fiscal Studies*, volume 38, issue 2



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by Libby Peake

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The opinions expressed in this report are solely those of Green Alliance and do not necessarily reflect those of the advisory board members.

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#### Green Alliance

Green Alliance is an independent think tank and charity focused on ambitious leadership for the environment. Since 1979, we have been working with the most influential leaders in business, NGOs and politics to accelerate political action and create transformative policy for a green and prosperous UK.

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