

Taylor Wessing: Sustainability

Budget 2010

Pre-Budget Report

The main green proposals in the PBR are:

- > From April 2010, householders who mount wind turbines or solar panels on their homes will be eligible for a tax-free payment of, on average, £900 if they feed excess power back into the national grid through the feed-in tariff due to come into effect from that date.
- > Electric company cars will be totally exempt from company car tax for five years. Currently electric company cars only attract 9% tax, as compared with the 35% levied on conventional cars. In addition, subject to state-aid clearance being received, business expenditure on new electric vans will benefit from a 100% first-year capital allowance from April 2010.
- > Further encouragement for companies to utilise low-emission vehicles by lowering the carbon dioxide emission thresholds by 5g CO₂ per km from 2012. The company car tax bands will also be modified so that the existing 10% band (applicable to cars emitting under 120g CO₂ per km) will from 2012 be applicable for cars emitting up to 99g CO₂ per km.
- > The fuel benefit charge multiplier - which is used to calculate the tax on free fuel provided to company car drivers - will increase from £16,900 to £18,000 from 6 April 2010. The van fuel benefit charge will similarly be raised from £500 to £550. The PBR states that the dual aim of this measure is to support the public finances and encourage more fuel-efficient travel.
- > The Government will provide an additional £150m of low-carbon investment, including £50m to help offshore wind industry develop new manufacturing and testing facilities, £40m for small-scale green energy projects, £30m for the chemicals industry on Teesside and £30m for green transport projects.
- > A further £90m will also be paid into the 2020 European Fund for Energy, Climate Change and Infrastructure.
- > An additional £200m has been ear-marked to improve energy-efficiency in homes:
 - > Householders will be offered incentives to replace their old, inefficient boilers with new, more efficient models. The boiler scrappage scheme will offer people £400 to help them to upgrade their boiler, with the dual aim of cutting energy waste and as a consequence saving householders money on their energy bills. The Government is targeting 125,000 households with this initiative.
 - > £150m has been allocated to help 75,000 low-income homes through measures such as insulation. This will be co-ordinated via the Government's Warm Front scheme.
- > The Government will double its commitment to the carbon capture and storage sector (CCS) by supporting the building of four CCS demonstration plants.
- > The Government has extended the window for additional support for offshore windfarms commencing construction and investment. All offshore wind projects accredited between April 2010 and March 2014 will continue to qualify for two Renewables Obligation Certificates (ROCs). The Government believes that this proposal will facilitate around £400m of new investment. The Government has also committed to changing the support scheme in order to increase the stability of ROC pricing.
- > Energy intensive sectors that have entered into climate change agreements, which entitle them to a reduced rate of climate change levy, will see that reduced rate increased from 20% to 35%.

Conclusions

The PBR therefore offers both a continuation and extension of previous initiatives (e.g. financial support for renewable energy sources, improving household energy-efficiency, tax-free status of money earned through the electricity feed-in scheme), as well new sustainability proposals (e.g. focus on electric and low-emission vehicles).

Reaction to the PBR's green measures has been mixed: for some the PBR contains some headline-grabbing green measures that belie a subtext of tax increases down the line, whereas some environmentalists might contend that the Chancellor's policies do not go far enough to promote sustainability and encourage people to be more environmentally efficient.

There is no doubt that Britain's millions of company car drivers will be worse off following the announcements in the PBR. It is estimated that the modification of the company car tax bandings will reap an extra £120 million for the Government in 2012. The Chancellor claimed that the measures are intended to encourage company car drivers to make greener choices when they next choose a vehicle, with a clear incentive provided by the tax-free electric car option. However, company car drivers that had accepted a low CO2 car in order to benefit from the previous 10% rate are likely to be unimpressed by the re-banding that will see them again liable for increased tax. In addition, the fuel benefit charge increase is forecast to raise approximately £50 million per year from company car drivers.

In relation to the climate change levy, the effective discount for businesses committing to environmental improvements via climate change agreements will be slashed from 80% to 65%. This reduction in the level of relief, in force from 2011, will allow the Government to collect around an extra £50 million per year in tax. However, companies will be concerned that this will prove to be the start of a gradual erosion of the reduced rate, and that this step will both hit large businesses hard in the short-term and in the future might disincentivise companies from signing up to improve their environmental efficiency.

Nevertheless, some environmental groups have viewed the contents of the PBR with caution, or downright distrust. Some have accused the Government of merely tinkering, when what is required is a radical and far-reaching overhaul of the country's entire energy and sustainability infrastructure. Others have suggested that, with next year's general election in mind, the Government has favoured headline-grabbing rhetoric over a carefully-considered action plan for implementing its proposals. On the other hand, it might be pointed out that, bearing in mind the troubled economic situation in which the UK finds itself, it might have been easy for cutbacks to have been pushed through in the drive for sustainability, but by one means or another the Government has continued to push towards a low carbon future. Whether this a convenient peg on which to hang the increasing of taxes or driven by a genuine commitment to sustainability is open to debate.

We urged in our previous update, "Budget 2009: Sustainability sticks ... or should that be carrots", that the Government should focus on incentivising people to act with sustainability in mind. The PBR does include some incentivising measures, but none which could legitimately be described as ground-breakingly significant or pioneering. Therefore, despite the baby carrots served up by the Government, the threat of the stick remains in the background of this PBR. It will be interesting to see in 2010's Budget, which will of course precede a general election, whether bigger carrots are put back on the menu to entice the electorate and whether the Government will be able to limit its use of unpopular sticks despite the need to reduce the UK's deficit.

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