CBM FOR EXPERTS IN METALFORMING

Energy and Environment legislation from the budget

Introduction of Industrial Energy Transformation Fund and scrapping of Enhanced Capital Allowances (ECA) and related First Year Tax Credits (FYTC)

The good news is that government is finally delivering the industrial energy efficiency fund long requested by EEF and promised in last year's manifesto, but it comes at the cost of tax breaks/credits for energy and water efficient technologies under the ECA and FYTC schemes. The swap is revenue neutral, and will provide a £315m fund to be spent over the next five years on energy efficiency and other low-carbon technologies. The details of the fund are still being worked out but it is likely that it will be targeted at higher energy users. There will be more stakeholder engagement in the next few months.

The government justifies the scrapping of ECAs from April 2020 on the basis that they "add complexity to the tax system and the government believes there are more effective ways to support energy efficiency." It also argues that the increase in the Annual Investment Allowance under the broader Capital Allowance provisions will mean fewer companies need to use the ECA. More details available here.

The new fund should offer higher and more predictable savings than ECAs for energy intensive firms. However, the fund is only available for a limited period unlike ECAs which had been around since 2001, and the changes to the AIA will not help companies not in profit that had been eligible for First Year Tax Credits.

Worth also noting that the government will extend the ECA for companies investing in electric vehicle charge points to 31 March 2023.

Carbon Price Support

There had been suggestions from Treasury that it might alter the £18/tonne level of Carbon Price Support (CPS) planned for the period to 2021 in light of the rapid rise in EU ETS prices with the aim of bringing Total Carbon Price (EU ETS price and top up CPS) back down to last year's lower levels (there was a 2017 Autumn Budget comment that the Total Carbon Price was at the correct level). It has not done this and simply makes the vague statement that: "from 2021-22, the government will seek to reduce the CPS rate if the Total Carbon Price remains high". The justification for this given by HMT officials, which we have questioned, is that reductions in CPS before 2021 would not necessarily be reflected in wholesale prices.

New 'no deal' carbon tax

Treasury answered requests for more detail on the carbon tax planned as a replacement for the EU ETS in a 'no deal' Brexit scenario and appears to have heard concerns from EEF and others about carbon leakage and need for a level playing field with the EU. Although key elements will be included in the Finance Bill, there will be a consultation on the proposals next year and then an statutory instrument laid in early 2020 that would activate the scheme. A number of major uncertainties remain, including whether this will be a long-term measure (HMT have agreed in meetings that there is a case for a wider review of the energy/carbon taxation landscape but there was little on this yesterday) and the approach that will be used to set tax rates and carbon leakage provisions over the longer term.

A detailed note from HMRC is available here and there is a broader HMT note here.

Key elements include:

- Continuation of existing EU ETS monitoring, reporting and verification rules, with tax bills sent each May covering the previous year's emissions.

- An initial carbon price of £16/tonne of CO_2 for 2019 emissions, with future prices to be set in future Budgets. In 2019, this will only be chargeable based on April-December and bills may be sent out after May. (The SI will only be laid in early 2020.)
- An allowance determining the volume of emissions an installation will pay tax on, based in 2019 and 2020 on the amount of free allocation that site would have received under the EU ETS. You would only pay the tax on emissions over the allowance.
- Subject to state aid clearance, the scheme to compensate energy-intensive industries for the indirect impacts of the EU ETS would remain in place to compensate for the indirect costs of the new tax.

Climate change levy (CCL)

The Budget continues with the government's commitment to rebalance the main rates paid for gas and electricity. The electricity rate will be lowered in 2020-21 and 2021-22. The gas rate will increase in 2020-21 and 2021-22 so it reaches 60% of the electricity main rate by 2021-22. Other fuels, such as coal, will continue to align with the gas rate. Critically, the discount for sectors with Climate Change Agreements will change to reflect the change in CCL main rates.

Business Energy Efficiency Scheme

The government's recent Call for Evidence on business energy efficiency highlighted the challenges around driving improvement in SMEs so there will be further consultation in that area with the view to introducing some kind of targeted scheme.

Options suggested by BEIS officials include a loans scheme backed by technical advice, as provided in Germany, something along the lines of the energy efficiency obligation for domestic supply, or better targeted advice as formerly provided by the Carbon Trust.

Plastics and waste

There were two measures announced to incentivise manufacturers to use recycled plastic and increase the recycling of plastic packaging (some additional notes here):

- To introduce a tax on the production and import of plastic packaging from April 2022. Subject to consultation, this tax will apply to plastic packaging which does not contain at least 30% recycled plastic, to transform financial incentives for manufacturers to produce more sustainable packaging.
- Reform the Packaging Producer Responsibility System, which will aim to increase producer responsibility for the costs of their packaging waste, including plastic. This system will provide an incentive for producers to design packaging that is easier to recycle and penalise the use of difficult to recycle packaging, such as black plastics.

The government will consult on both of these elements in the near future. Further details are also expected in the Government's forthcoming Resources and Waste Strategy.
The budget additionally includes £20 million to support R&D to pioneer innovative approaches to boost recycling and reduce litter more generally but particularly with reference to plastics.

The government may also consider introducing a tax on incineration of waste, in conjunction with landfill tax. In doing so, it says it recognises the place of incineration in the waste management process.

Other

The Aggregates Levy has been frozen

RPI-based increase in landfill tax, details here