

# **TAXREP 22/01**

## **GREEN TECHNOLOGY CHALLENGE**

*Text of a memorandum submitted in September 2001 to the HM Treasury in response to a Consultation Document issued in July 2001*

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## **GREEN TECHNOLOGY CHALLENGE**

### **GENERAL COMMENTS**

- 1 We welcome the opportunity to comment on this consultation exercise in relation to 'green technology'.
- 2 We question whether the 'yes or no' format of many of the questions is entirely appropriate for this exercise. In reality, it is not usually as easy as this, and this approach could lead to policy decisions being taken based upon answers to questions where many respondents had reservations about answering yes or no without further qualification. Care should be taken in interpreting these results before any policy decisions are made.
- 3 We have responded to the questions in section A and B. We have not answered the questions in section C as we do not think we have the necessary detailed knowledge to comment.

### **DETAILED COMMENTS**

- Q2 Do you support the use of tax incentives as a policy instrument to encourage investment in environmentally friendly technologies.*

Yes, but subject to the comments below.

- 4 Although we have answered yes to the question, we think that government incentives, whether in the form of grants or tax incentives, should be used sparingly and only when it can be clearly demonstrated that the incentives are properly targeted and encourage behaviour which is in the interest of society at large. We agree that environmentally friendly technologies should be encouraged, in particular to reduce greenhouse gases and pollution, encourage recycling and reduce waste. It is important, however, to ensure that such investments can be demonstrated to work and achieve their objectives.

#### *Grants versus enhanced tax allowances*

- 5 In principle, the proposals may be better achieved by specific grants rather than through the tax system. A suitable example of this approach is with woodlands, which were removed from the scope of taxation in 1988 whilst at the same time there was introduced a system of grants which were designed to encourage more planting of native trees.
- 6 The advantages of grants are that they can be targeted and are more clearly identified with the investment rather than being swallowed up in the capital allowances computation. Most businesses would prefer to receive a cash grant shortly after the investment rather than have to wait to obtain a reduction in either the corporation or income tax liability. A cash grant will also be preferable where the business does not

make taxable profits. Although it would be possible to provide for a payable tax credit in such cases, like the R&D tax credits introduced by Finance Act 2000, this is an unnecessarily complicated alternative to a simple grant.

- 7 The disadvantage of grants is that they are more costly to administer as they invariably will be more bureaucratic.
- 8 On balance, we suspect that most businesses would prefer cash grants as against enhanced capital allowances.

*Scope of proposed relief*

- 9 These proposals appear to be much wider in scope than the 100% capital allowances introduced for energy-saving plant and machinery set out in Schedule 17, Finance Act 2001. The latter would appear to fall only under the 'climate change' environmental objective. In any event, the categories of assets eligible for enhanced allowances on energy saving plant and machinery appeared to us to be unduly restrictive and it appears sensible to widen the categories of expenditure which will qualify for relief to include more broadly based environmentally friendly technologies.
- 10 The proposals are invariably slanted towards the purchasers of environmentally friendly products, in other words the demand side of the equation. However, we wonder whether consideration should be given to encouraging the supply side, i.e. providing incentives to businesses which design and develop these products. Of course, research undertaken in these technologies may qualify for enhanced R & D allowances, but in practice most of the work is likely to be development of existing technologies and therefore unlikely to qualify. Consideration should be given to encouraging innovation into products which will be environmentally friendly.
- 11 It will of course be important to ensure that any proposals are not regarded under EU rules as state aid, or are approved if they are so regarded. In any event, it would also be helpful if such incentives were co-ordinated with other countries, in particular EU countries.

*Q3 Do you agree with the proposed criteria for selecting environmental objectives for consideration under the Green Technology Challenge?*

Yes.

- 12 The criteria appear sensible. We would also like to see that any system is simple to understand and easy for businesses to operate. Too many of these types of reliefs, for example, the recent enhanced allowances for urban regeneration and energy efficiency, suffer from being far too complicated to understand and too uncertain in application, thus discouraging take-up.

*Q4 Which environmental issues do you believe should be priorities for targeting through Green Technology Challenge.*

- 13 All of the environmental issues listed appear important. If we had to prioritise, we would suggest the following, in order of importance:
- climate change
  - air quality; and
  - waste (in particular encouraging re-cycling).
- 14 However, we suspect that other representations will suggest other priorities. What we believe will be needed is a broad based approach to tackle all of these problems over a long period rather than merely trying to encourage specific measures in isolation.

## **CONCLUSIONS**

- 15 In principle we support measures to encourage environmentally friendly technologies. However, we suspect that businesses will prefer cash grants rather than enhanced capital allowances.
- 16 We also think that the Government should look to encourage the supply side of environmentally friendly technology. This would suggest enhanced allowances for innovation in developing such products, extending beyond the present narrow definition of research and development.
- 17 The suggested areas for enhanced relief appear sensible. Faced with a choice of priorities, we would favour climate change, air quality and waste.
- 18 If you have any questions, please let us know.

FJH  
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