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# Tax policy for net-zero in the UK

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@TheIFS

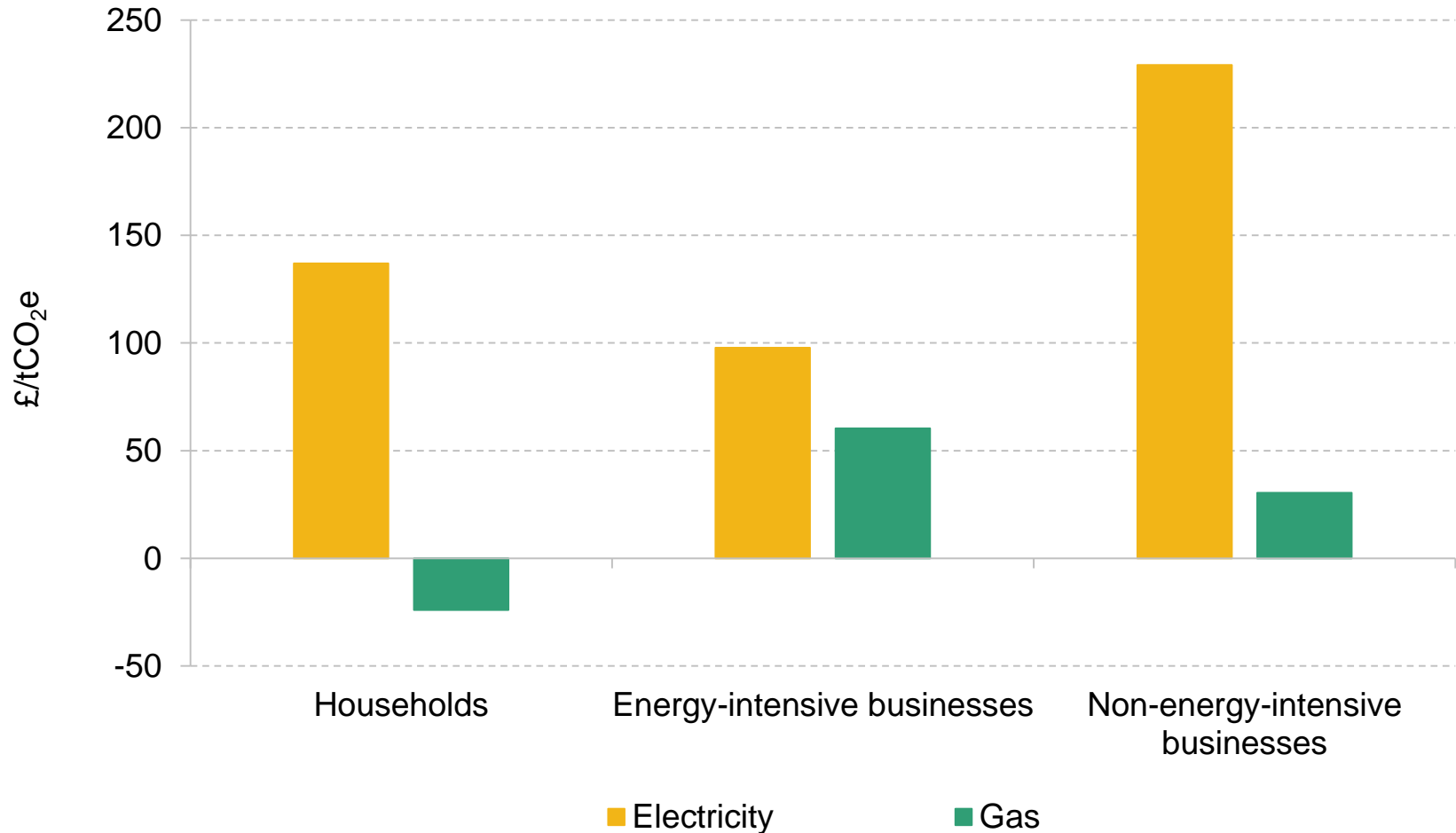


Economic  
and Social  
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# Carbon pricing in the UK

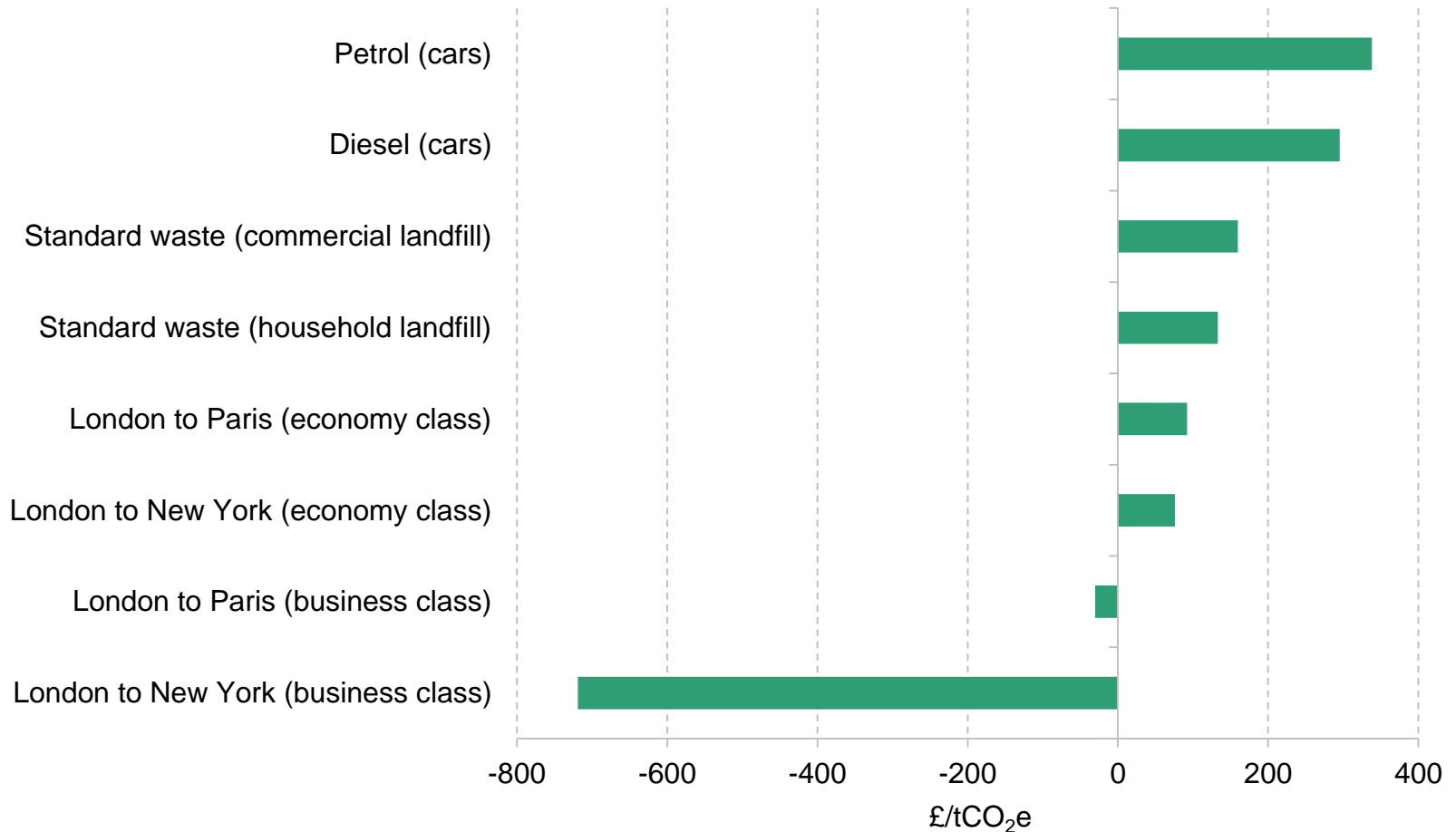
- No single carbon tax
- UK ETS puts a price on carbon but only covers 29% of emissions
- Patchwork of policies
  - Taxes on carbon from electricity generation and business energy use
  - Charges and obligations on energy suppliers to subsidise renewables/energy efficiency
  - Fuel duties
  - Taxes on polluting activities: air travel, landfill
- All layered on tax system that is not neutral

# Implicit carbon taxes in energy sector



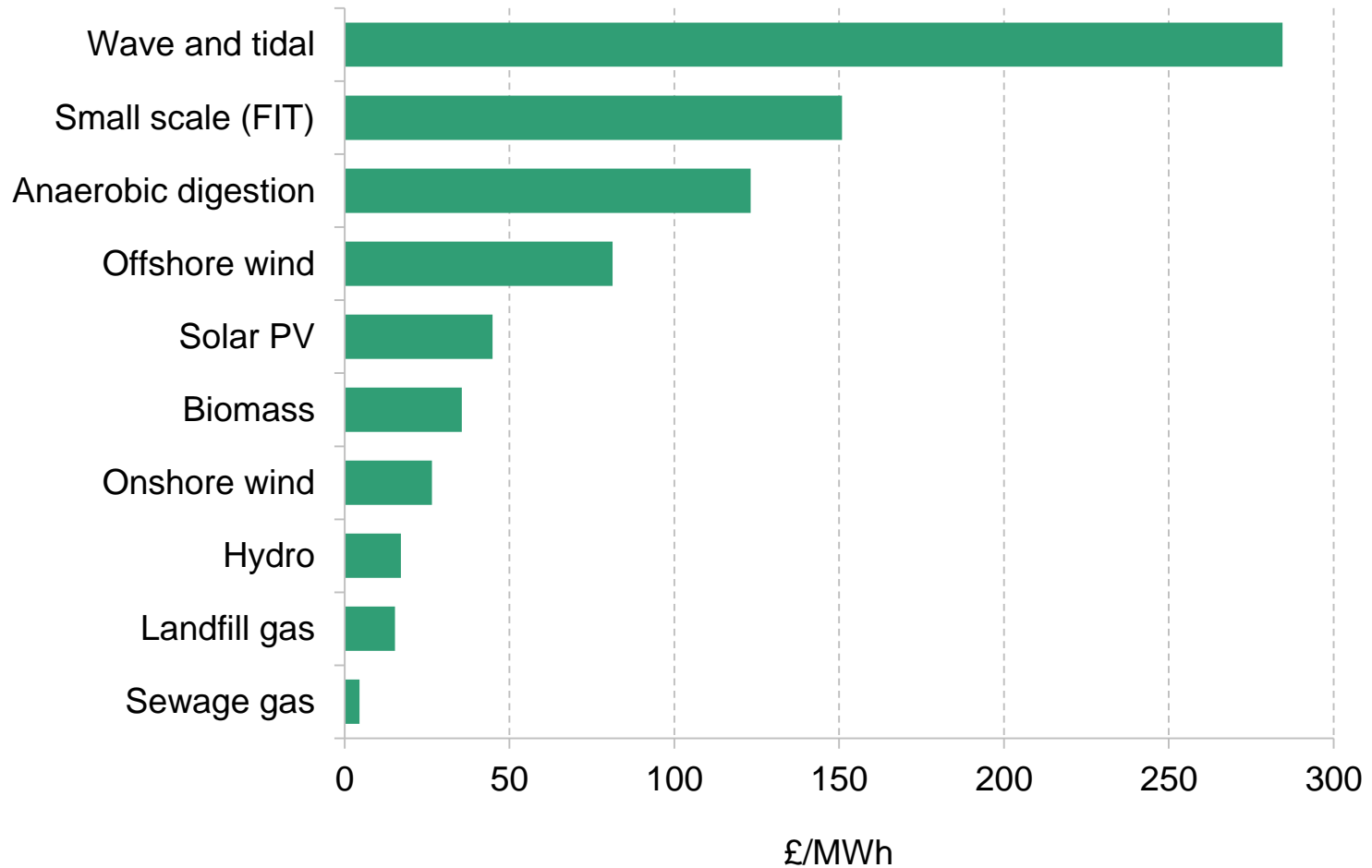
Notes and sources: see *IFS Green Budget, October 2021, Figure 8.5*. Electricity is assumed to come from gas-fired generation.

# Other implicit carbon taxes



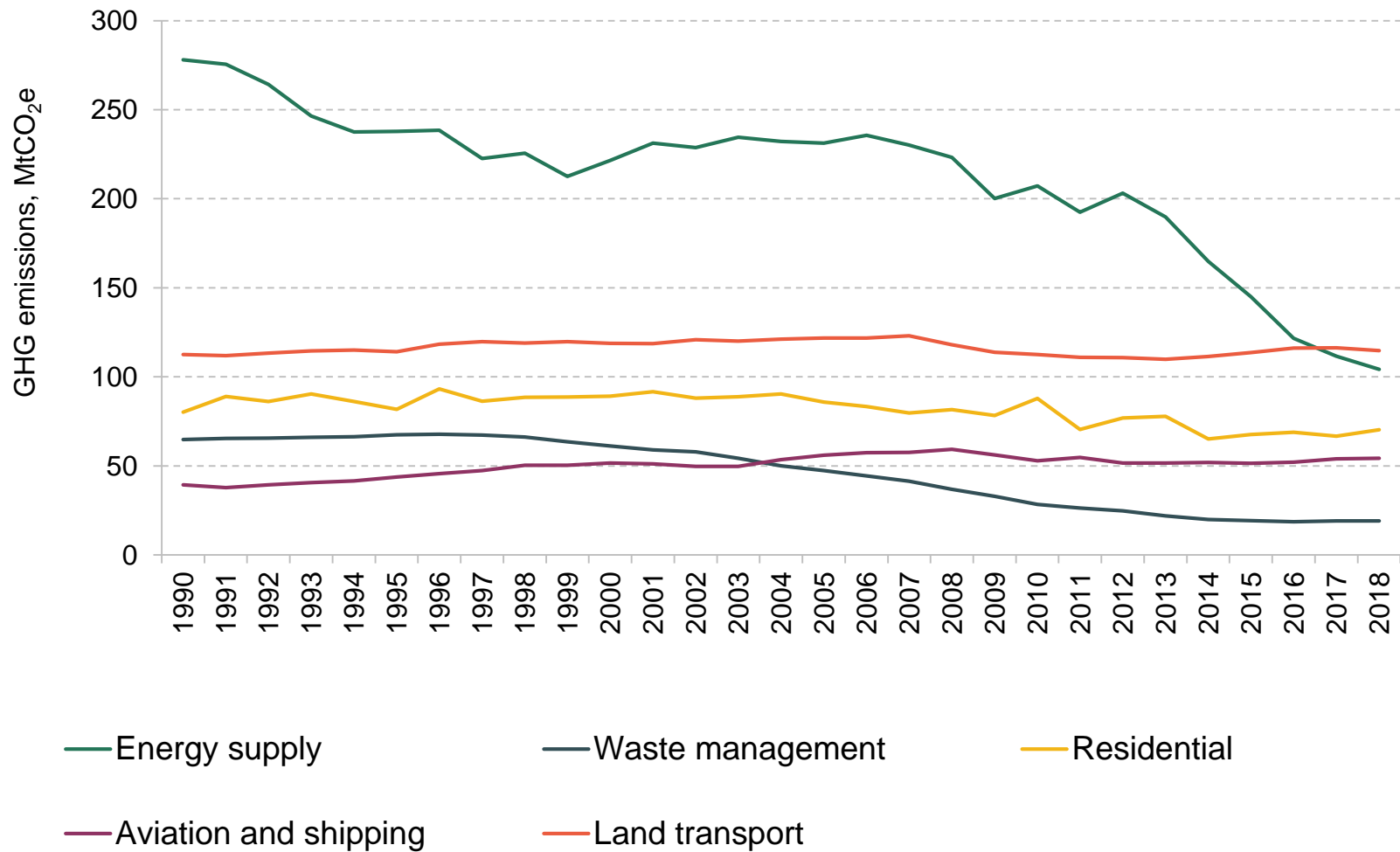
Notes and sources: see *IFS Green Budget, October 2021, Figure 8.6*

# Average subsidies per MWh for renewables



Notes and sources: see *IFS Green Budget, October 2021, Figure 8.6*

# Emissions from different sources



Notes and sources: see *IFS Green Budget, October 2021, Figure 8.3*

# What's next?

- Scope to make carbon taxes more consistent in upcoming budget
- Some progress so far e.g. in greater alignment of CCL rates on electricity and gas
- Rumours of both VAT cuts for gas and shift of environmental levies from electricity to gas
- Subsidies to promote greener heating – scaling up energy efficiency drives and new grants for (electric) heat pumps
  - ‘able to pay’ households still lack incentives for insulation or to reduce energy consumption
- Long-term strategy needed for road taxation and switch to electric vehicles