A Green Tax Shift is often talked about as something government could perhaps attempt in the future. Yet, a number of green tax shifts have already been implemented in the UK and beyond. This briefing describes and draws lessons from two green tax shifts that have already taken place in the UK in the 1990s, one by a Conservative government and the other by a Labour government. Both shifts were based on a fuel duty escalator increasing the price of road fuels and income tax cuts reducing the cost of labour.

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About the Green Fiscal Commission

The Green Fiscal Commission is an independent body and is not affiliated to any political party or government. Its membership includes experts from business, leading academics, senior MPs from all three main UK political parties, three members of the House of Lords, and representatives from consumer and environmental organisations.

The Commission’s aim is to assess the social, environmental and economic implications of a substantial green tax shift, such that 15-20 per cent of tax revenues eventually come from environmental taxes. The Commission is reviewing and collating the existing evidence on the implications of a green tax shift as well as conducting new research. The results from this work will be placed in the public domain to stimulate debate and we hope action on this agenda.

This briefing is the third in a series which will summarise the main messages from the work of the Commission. The series of briefings will cover a wide range of issues associated with the implementation of a major green tax shift, problems that it may raise and how these can be overcome. The series will include briefings covering: the impact of green fiscal reform on economic competitiveness, the effectiveness of green taxes, and distributional issues that a green tax shift may raise. The briefings will be available on the Green Fiscal Commission website as they are published. It is also possible to register on the website to receive email updates on the work of the Commission or subscribe to the Green Fiscal Commission Blog which provides news and expert commentary on this agenda.

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Public Opinion on a Green Tax Shift

Summary

What does the public think about a green tax shift? Most recent opinion polling about green taxes has presented the taxes as additional, rather than part of a shift with green taxes offset by lowering other taxes, and has found majorities of people opposed. The Green Fiscal Commission has had polling done on public attitudes to a green tax shift and found that there were large majorities in favour of such a shift. Majorities were in favour of shifts of taxes to aviation, motoring and household energy offset with reductions in other taxes.

The Commission held deliberative events to explore the issue with members of the public in much greater detail and from these found that there was conditional public support for green fiscal reform. On the one hand, there was approval for the principles of green taxation and recognition that fiscal mechanisms were effective at changing behaviour. On the other, when specific interventions were explored in depth, participants became concerned around the fairness of environmental taxes in certain instances.

If a programme of green fiscal reform is to be taken forward there is therefore a need to motivate people about the importance of climate change, to overcome scepticism that other taxes would be reduced, to effectively communicate the financial implications for households, and for institutions - possibly new ones - to facilitate the transition to low-carbon lifestyles. We explore these issues in more detail in our conclusions.

What do previous polls say about public opinion on green taxes?

There have been over a dozen polls about public attitudes to green taxation published in the last three years. The polls do not have entirely consistent findings, but a number of messages can be drawn from them. Most of the polls asked about public attitudes to green taxes without any suggestion about cutting taxes elsewhere or hypothecating revenues, implying that they would be additional taxes. Only three of the polls asked about attitudes to green taxes offset by tax reductions elsewhere, but they gave contradictory findings.

A YouGov poll in 2006 found that only 22 per cent of respondents were prepared to pay substantially more in motoring and energy taxes in exchange for lower income tax, with 65 per cent saying no. However, a poll by Communicate Research at the same time found that 55 per cent would support an increase in energy taxes if it was offset by a cut in income tax. In a September 2007 YouGov poll for the TaxPayers’ Alliance, 61 per cent thought that if extra green taxes were raised then the extra money should be used to reduce other taxes. Opinions about extra green charges on motoring and air travel were split in the TaxPayers’ Alliance poll, with 45 per cent supporting them and 46 per cent opposing them.
Most of the other polls asked about taxing aviation, some asked about additional taxes on motoring and a few asked about taxes on energy or carbon emissions in general. Support for higher taxes on aviation was about 60 per cent in two polls in 2005 and 2006, about 40 per cent in two polls in March 2007 and around 20 per cent in two polls in summer 2007, revealing an apparent trend of declining support.

Views on taxes on motoring were more constant. Two polls found 65 per cent (YouGov, November 2006) and 69 per cent (MacIntyre Hudson, August 2007) were opposed to higher fuel duty. Even if increased taxes on motoring were used to reduce public transport fares, 63 per cent were opposed (YouGov, March 2007). However, there was 72 per cent support for an extra tax on large executive cars and 4x4s (YouGov, November 2006) and 64 per cent support for a tax on fuel inefficient vehicles (Ipsos Mori, October 2007).

The only poll that asked about increasing tax on domestic energy found 86 per cent opposed (MacIntyre Hudson, August 2007), compared to 69 per cent opposition to an increase in fuel duty and 60 per cent opposed to an increase in air passenger duty in the same poll.

Public opinion polling about a green tax shift for the Green Fiscal Commission

The Green Fiscal Commission commissioned a poll to look at public attitudes to a green tax shift. BMRB conducted a national opinion poll with face-to-face interviews between 30 August and 5 September 2007. There were 1,010 respondents.

There was substantial support in principle for green taxes - 51 per cent support against 32 per cent opposition.

There was a significant increase in support if revenue is hypothecated to be spent on projects to directly reduce carbon dioxide emissions. Support rose to 73 per cent and opposition fell to 17 per cent.

Support for green taxes rose even higher if other taxes were to be reduced at the same time. Support was 77 per cent vs. 9 per cent opposition.

Favoured taxes to be reduced were Council Tax 32 per cent, Income Tax 31 per cent and VAT 11 per cent. No other tax named polled more than 3 per cent.

There were quite high levels of support for taxes on environmentally harmful activities:

- 60 per cent vs. 20 per cent for taxes on air travel
- 48 per cent vs. 35 per cent for taxes on petrol
- 48 per cent vs. 35 per cent for taxes on home energy use.

These levels of support were significantly higher than those in polls where no offsetting tax reductions were mentioned, but similar to those in two of the other polls that had done so.

Respondents in households owning a car were not significantly less likely than those in households without a car to support additional taxes on petrol.

Respondents were asked about their support for the principle of taxes on activities that damage the environment, such as driving, flying or not recycling. Support was 57 per cent vs. 24 per cent opposition. This
compares to levels of support for redistributive taxes (69 per cent vs. 19 per cent) and taxes on unhealthy behaviours (66 per cent vs. 18 per cent) which were somewhat higher than for green taxes.

**Deliberative workshops - exploring attitudes to a green tax shift in depth**

The poll was followed up with deliberative events with members of the public in November 2008. Deliberative events are used to explore how people's views change (or do not change) when presented with information on a particular topic and allowed to discuss it in groups and with experts over a period that can be a day or longer. Two day-long deliberative workshops were held, one in Birmingham and one in Norwich. Each workshop comprised 50 members of the public recruited to reflect the socio-economic profile of each area. Participants were also selected to have views on green taxes indicative of national trends.

The workshops specifically explored public views on climate change, the polluter pays principle and which taxes to decrease if green taxes are increased. A detailed examination of green tax interventions on personal transport and domestic energy use was also considered.

While 90 per cent of participants stated they were concerned about climate change, only 57 per cent believed it would make an impact on them personally. This lack of belief concerning the personal impact of climate change was one of the key factors shaping negative views towards green taxes. When concerns about climate change were discussed participants generally focused on systemic social and environmental issues, such as population migration or water shortages, rather than day-to-day personal impacts.

The responsibility for tackling climate change was perceived to rest predominately with government and business. Any calls for the public to make lifestyle changes must be matched by efforts from institutions to facilitate the transition to low-carbon living. Efforts to cut energy use in the UK were perceived as neither fair nor effective if other countries such as the US and China do not do the same.

Overall, there was conditional support for green fiscal reform. On the one hand, there was approval for the principles of green taxation and recognition that fiscal mechanisms were effective at changing behaviour. On the other, when specific interventions were explored in depth, participants became concerned around the fairness of environmental taxes in certain instances. Importantly, participants generally perceived themselves to be worse off under any given scenario. There was a tendency for participants to have greater concern regarding progressive taxation rather than environmental tax reform per se.

With regard to tax reductions, Council Tax reductions were initially favoured at the beginning of the deliberative days. After discussion, however, income tax was preferred as the main means of offsetting rises in green taxes - due to the ability to tackle distributional issues through tax credits. Nonetheless, there was a lack of trust that a green tax shift would be revenue neutral - with certain groups equating green taxes to stealth taxes. Transparency in implementing a green shift was seen as highly important.
With reference to the environmental taxes that could be introduced, Table 1 shows that after debate, other than fuel duty, all of the tax rises were supported by 50 per cent of participants or more (provided they were introduced on a revenue-neutral basis), though net support varied from 6 per cent to 68 per cent. With the exception of fuel duty, support for all the measures was higher after debate than it had been beforehand. Of the three main energy-using behaviours examined, aviation was consistently the most supported area for tax rises; increases on fuel duty and a tax on energy in the home were more controversial and also viewed as potentially regressive. (It should be noted that the samples were too small and geographically clustered to be taken as scientifically representative of the UK population, and these findings should therefore be regarded only as indicative.)

Increasing fuel duty was supported by 49 per cent of respondents, falling to 43 per cent over the course of discussion. The primary concern was that duty on fuel was already high and people had cut journeys significantly in wake of the price rises in 2008. There was particular concern from rural communities that without an adequate and affordable public transport system in place, such a tax would be unfair and regressive. While an increase in fuel duty was the least supported intervention, the potential to increase Vehicle Excise Duty and introduce a car purchase tax were supported by approximately three quarters of participants.

A green tax on flying was supported by 69 per cent of respondents, due to concerns at the levels of subsidies

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Total support after debate</th>
<th>Net support after debate</th>
<th>Net support before debate (where discussed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road transport</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in fuel duty</td>
<td>43</td>
<td>+6</td>
<td>+10</td>
</tr>
<tr>
<td>Increase in Vehicle Excise Duty</td>
<td>80</td>
<td>+68</td>
<td>-</td>
</tr>
<tr>
<td>Introduction of car purchase tax</td>
<td>71</td>
<td>+54</td>
<td>-</td>
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<tr>
<td>Aviation</td>
<td></td>
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<tr>
<td>Introduction of green tax on flying</td>
<td>69</td>
<td>+55</td>
<td>+35</td>
</tr>
<tr>
<td>Introduction of VAT on airline tickets</td>
<td>50</td>
<td>+18</td>
<td>-</td>
</tr>
<tr>
<td>Abolition of tax-free airport shopping</td>
<td>67</td>
<td>+52</td>
<td>-</td>
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<tr>
<td>Energy use in the home</td>
<td></td>
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<tr>
<td>Green tax on energy use in the home</td>
<td>55</td>
<td>+27</td>
<td>-4</td>
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</tbody>
</table>

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the airline industry enjoyed and the relative affluence of airline passengers. Frequent flyers, rather than those taking an annual holiday, were a particular concern and it was suggested that the tax should escalate based on the number of flights taken in any given year. The introduction of VAT on tickets and the abolition of tax-free shopping at airports were supported by 50 per cent and 67 per cent of participants respectively. A tax on airline emissions was viewed as an effective means to promote greater efficiency in engine design and encourage airlines to fly fuller planes.

Views in relation to household energy were the most volatile, with support rising from 43 per cent to 55 per cent as an average over both days after debate. Concerns included the existing high prices for domestic gas and electricity and the recognition that demand for energy is inelastic. Increasing tax was viewed as potentially regressive, and there were significant concerns around growing fuel poverty. Support for a tax on energy in the home increased providing there were appropriate safeguards in place to protect the elderly, the poor and the vulnerable - in particular reductions in Council Tax and stamp duty in order to encourage the adoption of energy efficiency measures.

Conclusions

Four key conclusions have emerged from the Green Fiscal Commission’s deliberative days and broader work on public attitudes to green fiscal reform. It will be important to address these if a major programme of green fiscal reform is to be successfully taken forward. They are:

1. **Motivators for behaviour change**

Although climate change was a concern for participants, it was not a leading issue for them. Public views were tempered by uncertainty about where and when climate change will occur, how much impact it would have on them personally and their concern with other issues. Participants related the threat of climate change to future generations and distant places rather than themselves.

This disconnection between concern about climate change in general and its relevance to participants individually was one of the key issues that emerged during the workshop. In particular, the lack of belief that climate change would make an impact on people personally was one of the key factors shaping individual views on taxes in subsequent group discussion: making them much more likely to oppose the more contentious reforms such as fuel duty and a carbon tax. Conversely, those who believed that climate change will have an impact on them were most likely to support the adoption of such measures.

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This highlights a need to tackle the deeper levels of awareness and understanding to convince individuals of the urgency and importance of the issues and to understand the relationship between their consumption behaviour and the process of climate change. It is important that individuals believe that the issue is ‘real’ and that their own behaviour is relevant to it and can make a material (rather than simply symbolic) difference.

2. Scepticism around a tax shift and its impact

Whilst in abstract the principle of a green tax shift - and of the polluter pays principle more generally - were supported, there was a tension between people’s general views on environmental pollution and their reaction to particular measures to address it.

The factors affecting this difference in attitude between the general and the particular were not just latent, i.e. only coming into play when considering trade-offs around specific tax interventions. Rather, they were also shaped by three key perceptions that people had in relation to a green tax shift.

First, the idea that the environmental tax reform would be revenue neutral was generally not believed by participants. This issue was [fundamentally] related\(^2\) to lack of trust in government, and a perceived view that after a decade of increased public expenditure, any change to the tax system would be to raise Government revenue. The potential use of environmental taxes as ‘stealth taxes’ was a particular concern.

The situation has now changed significantly from that when the deliberative events were held, such that tax increases are now widely perceived to be necessary to reduce public deficits. In this context, the insights from the deliberative events suggest that it will be essential to get across the idea that any increases in green taxes are instead of increases in other taxes (such as income tax or National Insurance), i.e. if it were not for the green tax increases, other taxes would have to be increased more than would otherwise have been the case. Conversely, the more revenue that can be raised by green taxes, the lower other taxes can be. When fiscal stability has been restored, strict revenue-neutrality can be reinstated as a guiding principle of a green tax shift, with the tax rebate clearly identified and easy to understand, and the tax shift perceived to be fair. The rebate must also be communicated and enacted at the time of any tax shift.

Second, a key finding was that, although the revenue neutrality of the green tax shift means that on average people would be neither worse nor better off, the vast majority of participants believed they were likely to be worse off under green fiscal reform. This was an ingrained and instinctive position, which was also tied to a perception that certain green taxes were likely to hit lower income groups disproportionately. There was a great deal of concern about the wider economic impact of taxes on energy and fuel - for instance raising the costs of goods and services more generally. Moreover, given the great differences in the energy consumption of households with similar incomes, people were

\(^2\) For further evidence and discussion of this issue see: Dresner S, Dunne L and Jackson T, editors (2006) Special Issue: Social and political responses to ecological tax reform in Europe. Energy Policy 34 (8) 895-970
uncertain exactly how green tax changes may affect them.

Third and linked to the above, fairness was perhaps the key principle underpinning acceptability of tax reform. As noted, there was a concern that environmental taxes impacted most on those least able to afford them. In addition to distributional issues, taxes were perceived as needing to be fair in terms of being proportionate; in the sense that the good or service is not already subject to high taxes and that easily substituted alternatives are available to the polluting behaviour. Others, particularly government and business, need to be seen doing their bit too.

3. Factors affecting green tax support

Increasing fuel duty and placing a carbon tax on energy use in the home were among the most controversial of all the suggested tax rises and provoked the most polarised views.

With regard to fuel duty, concerns fell into three areas. First, it was felt that people in the UK already paid a very large amount of duty on fuel. This meant that when there were wider fluctuations in the market cost of crude oil, as in 2008, participants were concerned that prices would become exorbitantly high. Second, demand in relation to fuel was seen as inelastic - particularly in those rural areas where a very limited public transport infrastructure is in place. Third, and as a consequence of these two, tax rises in this area were seen as regressive - with a shift perceived to essentially tax those on lower incomes off the road. As a consequence of this, participants were much more supportive of tax initiatives which would shape purchasing intent rather than day-to-day driving behaviour: such as an increase in VED and, to a lesser extent, car purchase tax. It should be noted that opposition to fuel duty actually increased over the course of days' discussion.

To address these issues, the financial impact of tax reductions to offset the rise in fuel duty needs to be underscored. As noted earlier, people generally felt they would be worse off in any green tax scenario. As such, the mileage at which car use will be revenue neutral is fundamental to how fair it is perceived to be. It should be noted that a majority of participants highlighted the need to tackle those who were excessive car users - modest use and essential purposes should not be penalised.

A tax on home energy use was the most volatile of all the interventions - and the only one to have negative net support prior to debate in the groups. Concerns were very similar to those described for fuel duty, in that domestic energy costs were perceived to be very high, demand was relatively inelastic and the tax could be regressive - with particular


\[4\] It should be noted that most of the poorest households do not own cars and such a tax shift is not regressive. While this issue was raised with participants, it was still argued that poorer drivers would be worst hit.

concerns around the proportion of households in the UK already in fuel poverty. This issue was further complicated as heating was viewed as a basic right and utility companies were seen as making huge profits at the expense of individuals. Again, any fluctuation in the basic price of energy in combination with an additional tax was a major concern for people.

However, and unlike fuel duty, views on energy use in the home became markedly more permissive over the course of the day. This was mainly due to the potential for tax incentives - Council Tax breaks in particular - to enable people to undertake expensive energy saving measures which would overall reduce their demand for heat. It should be noted that a significant resistance to green fiscal reform was that it was seen as punitive. Rewards were seen to be much more motivating in encouraging behaviour change - and a Council Tax reduction to retrofit houses was the most valued intervention (although it may not have been widely perceived that such reductions would need to be paid for by tax increases elsewhere). A combination of policy carrots as well as sticks will thus be needed if a carbon tax is introduced.

Finally, a green tax on flying was the most supported of all the main interventions. As noted, this was in part due to the heavy subsidies that aviation receives relative to other forms of transport due to tax exemptions the sector enjoys. It was also due to the relative affluence of flyers and the general support for progressive taxation measures. Both of these factors need to be taken into account when developing future public communications on this issue. Much like the previous discussion on fuel duty, there was seen to be a need to focus on frequent flyers rather than punish the annual holiday of the typical hard-working family. At what level flying behaviour becomes revenue neutral when offset against tax cuts will again be important in this regard.

The final issue is that while a certain level of additional tax on aviation was supported, there was a limit to what was perceived as fair. Specifically, opposition grew when an aviation tax was combined with the removal of tax breaks that directly impacted on consumers - such as the addition of VAT on flying. In this regard, taxing emissions to encourage airlines to buy fuel-efficient planes and fly them at capacity was a preferred option.

8 This view was also borne out in the GFC/BMRB (2007) Public attitudes to environmental taxation: baseline survey. Available at: http://www.greenfiscalcommission.org.uk/images/uploads/Results.pdf

Marginally greater support for a tax on aviation rather than fuel is demonstrated in other surveys, see for instance: DfT/ONS (2006) Attitudes to climate change and the impact of transport. The Department for Transport, London, UK. It should be noted that levels of support totalled 15% in this survey - however, such an intervention was not presented as a tax shift.
4. Leadership and environmental behaviours

Although participants generally acknowledged their own contribution to climate change, and their responsibility for mitigating it, they generally placed the main burden of responsibility on national and global institutions. Even the majority of those already making changes believe their own efforts were likely to make little difference without broader government and business leadership in this area.

Making sure that everyone is doing their bit is perhaps the most significant barrier to support for green taxes. This goes beyond the environmental performance and sincerity of government and business, important though these issues are. It is also about facilitating conditional and situational factors that will help shape the environment in which choices are made: the provision of effective public transport systems; the availability of environmentally superior products and so on.

In this regard, it should be stressed that people accepted the principle of a green tax shift. There was a view that if there is a need for radical action to address climate change, then strong leadership will be required to implement it. All the proposed tax interventions were supported by significantly more participants than those opposed to them: the key issue will be to apply the tax shift fairly and honestly.

A final point is that people were concerned that many of the interventions were viewed as bringing about sacrifice and deprivation – for example, impacting on personal freedoms; making people cold; and restricting their movements and so on. Getting people to make behaviour changes will require a connection to their interests and an appeal to them not just as individuals, but as members of communities. A focus on incentives benefits (from reduced emissions) and education, as well as penalties, will be needed if public acceptability of green taxes is to increase.

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