

## EXPLANATORY NOTE

## CLAUSE xx and SCHEDULE x: CARBON PRICE SUPPORT RATES

## SUMMARY

1. This clause introduces schedule [ ] which provides for the removal of exemptions from climate change levy (CCL) for supplies of fossil fuels used to generate electricity, including when generated in a fully or partially exempt combined heat and power (CHP) station. The Schedule provides for new rates, known as carbon price support rates, to be charged on such supplies, and provides for the Commissioners to make regulations to give effect to the new provisions. It also makes a number of consequential changes to Schedule 6 to the Finance Act (FA) 2000 (“Schedule 6”), which contains the primary legislation for CCL.

## DETAILS OF THE CLAUSE

2. The clause introduces Schedule xx.

## DETAILS OF THE SCHEDULE

3. Paragraph 1 provides for the amendment of Schedule 6.
4. Paragraph 2 amends paragraph 14 of Schedule 6 to remove the exemption from CCL for fossil fuels used to generate electricity, while retaining the exemption for electricity used to generate further electricity. It also makes a number of consequential changes to paragraph 14.
5. Paragraph 3 amends paragraph 15 of Schedule 6 to remove the exemption from CCL for supplies of fossil fuels to a CHP station, while retaining the exemption for electricity used to generate further electricity or other outputs in a CHP station. It also makes a number of consequential changes to paragraph 15.
6. Paragraph 4 inserts a new sub-paragraph (2A) into paragraph 21 of Schedule 6 to clarify that the provisions in that paragraph regarding double charges to CCL do not apply to taxable commodities subject to the new carbon price support rates set out in new paragraph 42A of Schedule 6.
7. Paragraph 5 inserts a new sub-paragraph (1B) into paragraph 42 of Schedule 6, providing that the CCL rates set out in paragraph 42(1)

do not apply to fossil fuels that are subject to the new carbon price support rates.

8. Paragraph 6 inserts a new paragraph 42A into Schedule 6:
  - Sub-paragraph (1) provides that the new paragraph applies if a supply is subject to the new carbon price support rates.
  - Sub-paragraphs (2) and (3) provide that a supply of fossil fuels that is to be used to generate electricity, including those used to generate electricity and other outputs in a fully or partially exempt CHP station, is subject to the new carbon price support rates.
  - Sub-paragraph (4) provides that fractions of units of fossil fuels will be charged at the appropriate fraction of the relevant carbon price support rate.
  - Sub-paragraph (5) sets out the carbon price support rates for the three taxable commodities (gas, petroleum gas or other gaseous hydrocarbon in a liquid state; and other taxable commodities, excluding electricity).
  - Sub-paragraph (6) provides for the Commissioners to make regulations to give effect to the paragraph.
  - Sub-paragraph (7) provides that such regulations may, in particular, determine whether a supply is subject to the carbon price support rates.
9. Paragraph 7 amends paragraph 101 of Schedule 6 to provide for a penalty to apply where a person incorrectly claims to receive supplies at the carbon price support rates.
10. Paragraph 8 provides that the changes provided for by the Schedule will come into effect for supplies treated as taking place on or after 1 April 2013.

#### BACKGROUND NOTE

11. In his Budget Statement of 22 June 2010 the Chancellor announced that HM Treasury and HM Revenue and Customs would publish proposals to reform CCL to provide more certainty and support to the carbon price and to encourage investment in low-carbon electricity. This built on the commitments made in the Coalition's programme

for government, ‘Freedom, fairness and responsibility: a programme for Government<sup>1</sup>’ to

- introduce a floor price for carbon;
  - increase the proportion of tax revenues from environmental taxes; and
  - make the tax system more competitive, simpler, fairer and greener.
12. Currently, in most cases, fossil fuels used to generate electricity are exempt from CCL. In its proposals to introduce a carbon price support mechanism, published in a consultation paper on 16 December 2010, the Government proposed to remove these CCL exemptions and to tax these commodities at rates that take account of the average carbon content of each commodity. The Government proposed that these rates would be known as the ‘CCL carbon price support rates’ and be set at different levels from the existing CCL rates for fossil fuels.
13. Oils are not subject to CCL but fuel duty is payable at a rebated rate at the point the oil leaves the refinery. Currently, the duty can be reclaimed in full by the electricity generator but, as part of the Government’s proposals for carbon price support, the Government indicated that it would reduce the amount of fuel duty that can be reclaimed and to base the amount that can be reclaimed by taking account of relative carbon content of oils compared with other fossil fuels that are subject to CCL.
14. The Government’s consultation ran until 11 February 2011 and its response was published on [ ].
15. The clause and schedule introduce the changes required to introduce the Government’s proposals, specifically to amend CCL to introduce a carbon price floor. Secondary legislation provided for by the schedule will be introduced following Royal Assent to deal with the more detailed administrative arrangements. Separate secondary legislation will also be introduced to adjust the amount of fuel duty that can be reclaimed by those generating electricity using oils.

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<sup>1</sup> *The Coalition: our programme for government*, HM Government, 20 May 2010.