

## Sustainable Tax

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The role of the tax system is becoming more important in ensuring the UK reaches its commitment to “net zero” emissions by 2050 and as such Association of Accounting Technicians (AAT) is increasingly playing an active role in policy debates in this area.

In 2019, AAT surveyed its Assembly and Council members, as well as AAT Licensed Accountants, on the issue of reaching net zero by 2050.

100% of AAT Council and Assembly members think it is important, as do 88% of AAT Licensed Accountants.

There are very few issues that can achieve such high levels of agreement.

### Environmental Taxes

The UK is doing much in this area that it can be proud of, a new Plastic Packaging Tax (PPT) and a new Deposit Return Scheme (DRS) are two much heralded areas that will inevitably make a positive difference although as AAT has argued elsewhere, the PPT could be more ambitious, and the DRS introduced more quickly.

However, there are other areas of British Government policy that defy environmental logic. For example, proposals to reduce Air Passenger Duty (APD) on domestic flights, which not only contradicts and greatly weakens government policy on seeking to reach “net zero” by 2050 but flies in the face of a wealth of national and international evidence about the damaging impact of short haul flights.

That said, APD in the UK probably represents Europe’s most significant tax on aviation. Whilst there are a handful of European countries that have such charges, for example, the Netherlands, Sweden, Germany and France, they are very small sums that may raise some revenue but do nothing to curtail flying. An EU wide minimum levy set at a reasonably high level, would demonstrate not only to passengers and the airline industry that it is serious about climate change but set an example for the rest of the world to follow.

An alternative to such a form of taxation would be to replicate the recent decision of the French Government to ban domestic flights on routes that can be travelled in less than two and a half hours by train, reducing domestic flights in that country by more than 10% and encouraging the public to switch to more environmentally sustainable modes of transport.

Of course, aviation is not the only form of transport where taxation could become more sustainable.

AAT has long believed there is a strong economic and fiscal case to be made for the introduction of a pay as you drive (PAYD) approach to more effectively tax car usage. In its 2018 report, “Alternatives to Tax Rises<sup>1</sup>” AAT highlighted that revenue from car usage in the UK was likely to be more than £20bn less by 2030 because of the increasingly rapid switch to electric vehicles.

PAYD is currently utilised for insurance purposes, calculating insurance costs on the distances travelled, the time of travel and the type of roads used (e.g. a motorway vs quiet country roads) but there is nothing to prevent the same technology from being adapted for taxation purposes.

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<sup>1</sup> AAT Alternatives to Tax Rises, September 2018:

<https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20risers.pdf>

This would not only replace lost revenue from diesel- and petrol-powered vehicles but could help curtail car usage too - electric cars, like any car, still have a considerably negative impact on the environment. Indeed, research from the European Commission has concluded that non-exhaust traffic-related sources of pollution (brake, tyre, clutch, and road surface wear) are estimated to contribute almost equally to traffic-related particulate matter emissions<sup>2</sup>.

The technology is increasingly used across the globe. In fact it has been compulsory for all new cars in Italy for a number of years and millions of cars in the US utilise it. With technological improvements, telematics boxes will no longer be needed for PAYD but instead a simple mobile phone app could provide the same benefits, as is already the case for a small number of insurers.

No country or trading block has yet taken advantage of the obvious benefits of PAYD for taxation purposes. There is no reason why the UK or the EU could not become the first.

### **Building Back Better**

As Accountancy Europe has ably demonstrated, sustainable tax systems are about more than just the environment. Nation states are scrambling to answer the question as to how the large international debts amassed as a result of fighting the global Covid-19 pandemic are going to be repaid.

In the rush to find new answers to new problems, numerous commentators have pushed the idea of a wealth tax. There is a reason that very few countries have a wealth tax - they are understandably keen to attract the wealthy, the investment they bring and the jobs they often create. Risking that does not appear either politically or economically sensible, especially in the current economic climate. AAT strongly believes existing taxes could be amended and refined to achieve a more effective result e.g., Capital Gains and Death taxes.

Similarly, a number of countries are debating the merits or otherwise of windfall taxes. AAT recognises the attraction of windfall taxes, and especially their attractiveness to a financially hard-pressed electorate, but we don't believe they are in the long-term best interests of consumers given they are likely to be passed on either directly or indirectly to the very same hard pressed consumers in the form of higher prices.

In the UK, AAT has repeatedly highlighted that if the Government was serious about tackling the ongoing problems of tax evasion and avoidance, money laundering and economic crime then it must regulate the third of the accountancy and tax advice market that remains unregulated. The simplest and most effective means of doing so would be to oblige anyone giving paid-for tax or accountancy advice to be a member of a recognised professional body, as already happens in a small number of EU states. This would mean that anyone giving advice in this area would need to be appropriately qualified, undertake Continuous Professional Development, be subject to monitoring and review, rigorous complaints and disciplinary processes and be fully insured – none of which is required of those who don't belong to a professional body.

### **Fairer Tax**

AAT believes that rather than imposing punitive taxes on the wealthiest in society, a more effective means of delivering greater financial fairness and pay equality across Europe would be to introduce more effective Gender and Ethnicity Pay Gap reporting requirements, alongside a compulsory Executive pay ratio.

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<sup>2</sup> Theodoros Grigoratos & Giorgio Martini, European Commission, October 2014:  
[https://www.researchgate.net/publication/266974002\\_Brake\\_wear\\_particle\\_emissions\\_a\\_review](https://www.researchgate.net/publication/266974002_Brake_wear_particle_emissions_a_review)

In 2019, women's gross hourly earnings were on average 14.1% below those of men in the European Union<sup>3</sup> and 17.3% in the UK<sup>4</sup>.

The UK and many EU states require companies to undertake annual gender pay gap reporting but there is much variation. For example, Germany requires all companies employing more than 500 people to report their gender pay gap, the UK 250, Austria and Italy 100, Belgium and France 50, Denmark 35 (providing at least 10 of each gender work in the same work function), Finland 30 and Sweden 25.

As AAT has previously made clear to the British Government<sup>5</sup>, given 99% of UK businesses employ less than 250 people, reducing the pay gap at smaller companies is likely to lead to more compelling outcomes and so a lower threshold (we have always suggested 50) would be far more effective. This would inevitably be true in other European countries. However, AAT does not believe a threshold below 50 would be helpful given the statistical complications that then begin to arise.

The EU should consider imposing a mandatory gender pay gap reporting requirement on all organisations (public and private) that employ more than 50 people as soon as possible. Indeed, in March 2014 the European Commission introduced recommendation 2014/124/EU which suggested every member should introduce compulsory company level Gender Pay reports for companies with more than 50 employees. More than seven years later, this looks no more likely to occur than it did then. Indeed, some countries have no gender pay gap reporting requirements at all.

In addition, the EU should consider imposing a requirement for companies to publish an action plan clearly setting out how they intend to reduce any gender pay gap. Regrettably this is not a requirement in the UK and as a result, the voluntary approach means that barely 40% of companies do so. If Gender Pay Gap reporting is to lead to real change, compelling employers to publish action plans is necessary. It's not just about transparency but more so, accountability.

The UK Government continues to prevaricate on compulsory ethnicity pay gap reporting despite there being an ethnicity pay gap of more than 2% nationally, rising to over 23% in London in 2019<sup>6</sup>. European Governments appear equally reluctant to insist on compulsory ethnicity reporting despite significant disparities in their workforces. Whilst there are certainly statistical arguments about the best way of introducing such an obligation, these problems are far from insurmountable.

With regard to mounting concern about executive pay and rewards across European nations, including the UK, AAT has previously drawn attention to the fact publishing pay ratios between executives and the lowest paid, or the average pay within an organisation, might aid transparency, shining a light on excessive pay and serving as a useful assessment tool for policy makers and commentators. However, reporting executive pay ratios does absolutely nothing to curb excessive executive pay<sup>7</sup>. We made this point long before such a requirement came into effect in the UK<sup>8</sup> and have unfortunately been proven right. Years of voluntary action in this space has completely failed to curb corporate excess and so the time has come to consider much more drastic, and undoubtedly more effective, measures such as a legally binding pay ratio.

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<sup>3</sup> Eurostat:

[https://ec.europa.eu/eurostat/statistics-explained/index.php/Gender\\_pay\\_gap\\_statistics#:~:text=gender%20pay%20gap-Gender%20pay%20gap%20levels%20vary%20significantly%20across%20EU,area%20\(EA%2D19\).](https://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics#:~:text=gender%20pay%20gap-Gender%20pay%20gap%20levels%20vary%20significantly%20across%20EU,area%20(EA%2D19).)

<sup>4</sup> UK Office for National Statistics:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2019>

<sup>5</sup> AAT submission to Department for Business, Energy & Industrial Strategy, 2018:

<https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-BEIS-Committee-Gender-Pay-Gap-April-2018.pdf>

<sup>6</sup> UK Office for National Statistics:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/ethnicitypaygapsingreatbritain/2019>

<sup>7</sup> AAT submission to Department for Business, Energy & Industrial Strategy, 2018:

<https://www.aat.org.uk/prod/s3fs-public/assets/BEIS-Committee-Executive-Pay-25.4.18.pdf>

<sup>8</sup> Ibid

Former leaders of both the Conservative and Labour Party in the UK, have previously suggested a ratio of 20:1 as a sensible level to consider although neither took any steps to implement such an idea or even adopt it as party policy. There is demonstrable public appetite for such a change<sup>9</sup> and even the accountancy sector has indicated such support with this being the preferred option of AAT members when surveyed on the issue back in 2017 - 93% favoured some sort of ratio and the largest number (40%) favoured this being set at 20:1.

In summary, there are a whole host of workable, effective solutions to sustainability issues in the UK, Europe and beyond. They simply require greater political will to implement them and that will only come with a concerted public effort. As sustainability rises to the top of the political agenda in most countries, perhaps now is the best time to make that concerted effort and press politicians to deliver meaningful reform in these areas.

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<sup>9</sup> Independent, January 2017:

<https://www.independent.co.uk/news/uk/politics/majority-of-public-support-jeremy-corbyn-s-plans-to-cap-bosses-salaries-poll-findsa7527381.html>