

# 01047-15: Energy & Environmental Options Budget 16#14

<b>To:</b> Minister	<b>Author:</b> Ciaran Conroy
<b>Status:</b> For Review by Minister	<b>Owner:</b> Sub_FIN Ministers Office
<b>Purpose:</b> For Decision	<b>Reviewers:</b> Ambrose Murray, Gerry Kenny, Gary Tobin
<b>Division/Office:</b> Budget & Economics Division	
<b>Decision By:</b>	

## Action Required

Budget 2016 - Options Around Energy and Environmental Tax

*To be discussed*  
*22*  
*1/9*  
*15*

## Executive Summary

- Excise duty on transport fuels yield significant revenues for the Exchequer. In 2014 excise on petrol and diesel raised €2,018m which amounts to almost 5% of the total tax take.
- The price of oil is low at the moment resulting in the lowest prices at the petrol pump since 2010. There may be an opportunity to avail of these low prices to raise revenue without placing an undue burden on citizens.
- There is a significant difference between the rates of petrol and diesel in Ireland. The OECD have called for an equalisation of the excise rate on petrol and diesel.
- Any increase in excise would have a negative effect on the cost of doing business in the State. Diesel is 5.5% more expensive in Ireland than in the Eurozone.
- The IRHA have campaigned for a reduction in costs and any increase in the rate of excise is likely to be met with strong opposition from the hauliers, and be seen to offset the positive impact of the commitment to reduce motor tax for HGV's in Budget 2016.
- At the moment the price of oil is low and has removed the benefit of the diesel rebate scheme. An increase of 5c in the excise rate would still fall outside the diesel rebate scheme.
- The submission sets out the additional yield an increase in excise rates on Mineral Oils would return.
- Carbon Tax currently raises €385m per annum. An increase in the rate of carbon tax would increase the cost of transport and also raise issues of fuel poverty.
- An option on increasing **Electricity Tax** is also included.

## Comments

- (23/09/2015 14:30:57) Margaret Fitzgerald: Submitted to the Minister's Office by Margaret Fitzgerald on behalf of the Secretary General
- (23/09/2015 14:06:08) Gary Tobin: Minister, you will want to discuss the various options with officials.

## Detailed Information

### Transport Fuels

1.1 The below table shows the receipts for environmental taxes over the past number of years and the expected yield for 2015.

Receipts €m	2011	2012	2013	2014	2015 est.
Light Oils (Petrol)	992.6	904.1	854.2	799.6	770
Heavy Oils (Diesel, MGO etc.)	1130.1	1116.2	1177.1	1218.6	1264

1.2 Currently the excise on petrol is 59c per litre and the excise on diesel is 48c per litre. The table below shows the increase in excise rates for petrol and diesel since 2008.

#### **Increase in Excise on Motor Fuels (VAT inclusive) since 2009**

Budget	2009	2010	2011	2012	2013	2014	2015
Petrol	8c (Oct 08)	4.2c*	4c	1.4c*	Nil	Nil	Nil
Diesel	5c (Apr 09)	4.8c*	2c	1.6c*	Nil	Nil	Nil

\*increase applied via carbon tax.

### **Oil Prices**

1.3 Oil prices are currently at the lowest level for a number of years with most industry analysts believing these low prices will continue well into 2016.

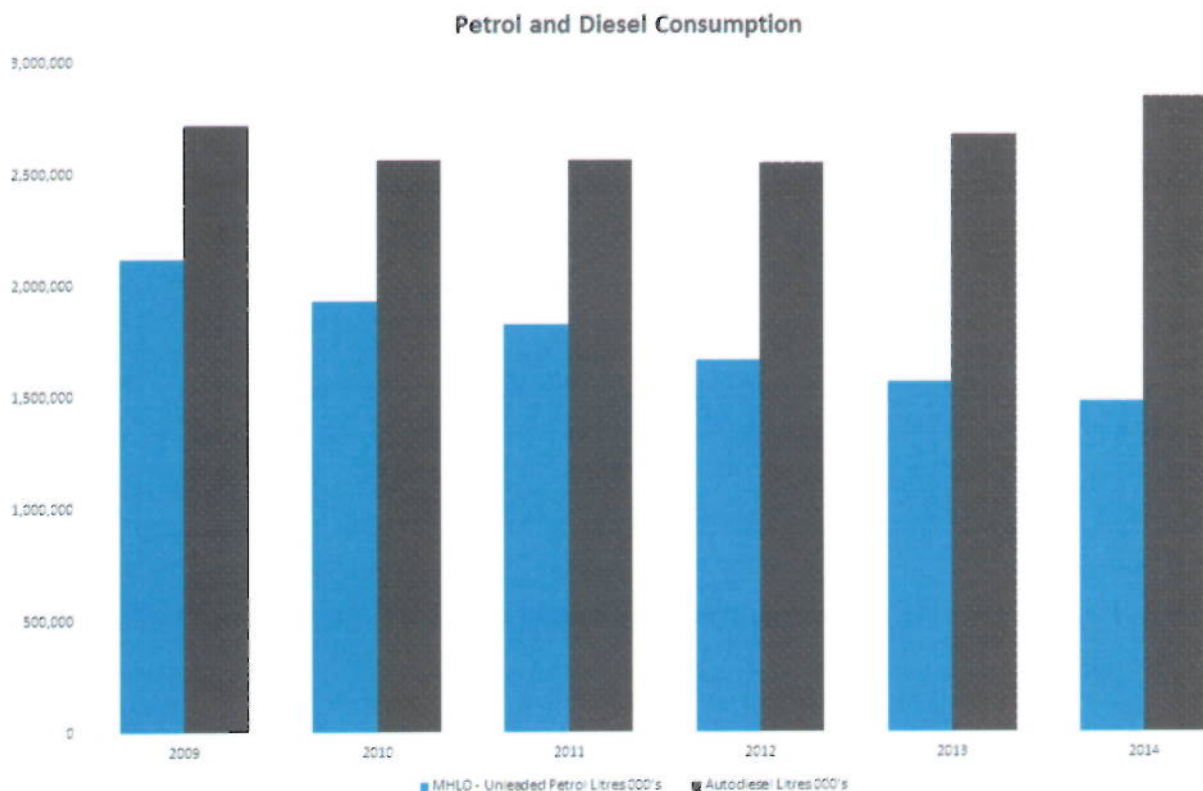
#### **Average Price of Petrol and Diesel**

€ per litre	2009	2010	2011	2012	2013	2014	2015
Petrol	1.10	1.30	1.48	1.62	1.59	1.53	1.35
Diesel	1.02	1.22	1.41	1.55	1.51	1.46	1.19

### **Diesel Usage**

**1.4** There is a significant difference between the rates of excise on petrol and diesel in Ireland. This increased during the crisis when increases in excise on mineral oils were used to raise revenue but at the same time increases in diesel were tempered in order to protect business as much as possible. The UK has equalised the rate of excise on petrol and diesel. However, most EU countries maintain a differential. The differential in Ireland at 18.5% cheaper for diesel is slightly lower than the EU average of 20.1%.

**1.5** Through changes to the basis of VRT and maintaining different rates of excise on petrol and diesel, the State has incentivised the purchase of diesel vehicles, and therefore the purchase of diesel. This is evidenced by mineral oil receipts and consumption of petrol and diesel over the past 5 years. It should be noted that diesel is a dirtier fuel than petrol as emissions also include higher levels of nitrous oxides (NOX) and particle matter.



### OECD Recommendation

**1.6** The OECD have recommended equalising the rates of duty on petrol and auto-diesel by increasing the duty on diesel (€479.02 per 1,000 litres) to that of petrol (€587.71 per 1,000 litres). The basis of this suggestion is the lower tax rate on diesel fails to account for the social and health environmental externalities caused by its combustion. The following are possible options to achieve equalisation of rates.

- i. Increase the rate on diesel to equal petrol, this would yield €298m annually. The excise rate would be 59c per litre of both petrol and diesel which is an increase of 11c per litre of diesel.
- ii. Reduce the rate on petrol to equal diesel, this would cost €172m annually. The excise rate would be 48c per litre of both petrol and diesel which is a decrease of 11c per litre of petrol.

iii. Reduce petrol and increase diesel to meet in the middle, this option would reduce the petrol yield by €85.1m and increase the diesel yield by €150.7m leaving an overall net gain of €65.6m. The excise rate would be 53c per litre of both petrol and diesel with is an increase of over 5c per litre of diesel and a decrease of nearly 6c per litre of petrol.

**Cross Border Prices**

1.7 There are three distinct variables which impact on cross border prices: excise, VAT and the currency exchange rate. A survey taken on 23 July this year shows that both diesel and petrol remain significantly cheaper in the State than in Northern Ireland.

**Cross Border Comparisons (Prices & rates in €)**

Product	ROI	N.I.	Price	ROI	N.I.	Excise	ROI	N.I.	VAT
	Price	Price	Differential	Excise	Excise	Differential	VAT	VAT	Differential
							23%	20%	
<b>Petrol</b> (litre)	1.46	1.69	-0.23	0.59	0.82	-0.23	0.27	0.28	-0.01
<b>Auto-diesel</b> (litre)	1.31	1.68	-0.37	0.48	0.82	-0.34	0.25	0.28	-0.03

**Fuel Tourism**

1.8 The cross border price differential can lead to "fuel tourism" where fuel is purchased in one jurisdiction and consumed in another. All fuel sold counts towards Ireland's emissions and impacts negatively upon our ability to achieve our binding EU 2020 targets.

1.9 A 2013 report by the National Roads Authority (NRA) indicated 22.7% of auto-diesel and 8.6% of petrol sold in the South is consumed in Northern Ireland. Fuel purchased in the South by qualifying operators and consumed in Northern Ireland can also avail of tax relief via the Diesel Rebate Scheme, although the low price of oil means that this is not currently available.

1.10 Equalisation of rates with Northern Ireland has been suggested as a measure to eliminate fuel tourism and thereby reduce measured emissions. Any alteration in the excise rates would impact on the comparable

overall cost of motoring vis-à-vis the North as other vehicle related taxes, such as annual motor tax and VRT, are lower in the North. A further consequence of the equalisation of rates would be an increased payment under the diesel rebate scheme. Movement in exchange rates would make equalised rates almost impossible to maintain.

### Cost to Business

1.11 In April of this year the National Competitiveness Council published the a report titled Cost of Doing Business in Ireland 2015 which indicated that diesel in Ireland is 5.5% more expensive that the average in the euro area. The overall tax on the price of diesel at 60.3% is the third highest in the euro area. This coupled with the associated costs of being an island State is affecting Ireland's overall competitiveness.

### Irish Road Hauliers Association

1.12 Following a campaign by the IRHA, you gave a commitment to reduce the burden of commercial motor tax in the upcoming Budget. Any increase in the excise on diesel is likely to be met with strong opposition from the hauliers and reduce the impact of any reduction in commercial motor tax.

Using the IRHA average diesel consumption figure of 27,635 litres per annum and increase of 5c in the rate of excise would increase the fuel cost of an average haulier by €1,381.75 per annum.

### Diesel Rebate Scheme

1.13 The Diesel Rebate Scheme was introduced on 1 July 2013 and gives a partial repayment of mineral oil tax to qualifying road transport operators. The lowest price at which a refund is payable is €1.27 per litre of diesel, which receives a repayment of 0.9c per litre. A sliding scale applies up to a maximum repayment of 7.5c which applies on a litre of diesel costing €1.54 or more. The average price of a litre of diesel is currently 119.9c (pumps.ie 15/09/15) and falls well below the threshold of receiving a repayment under the diesel rebate scheme.

### Options for increasing excise rates on fuels

1.14 The expected yield in 2015 for Petrol is €770m and Auto-Diesel is €1,264m. The below table indicates the additional revenue which would be generated by increasing the excise duty rate.

Increase (VAT inclusive)	Petrol	Petrol (price per litre)	Auto-diesel	Auto-diesel (price per litre)
Current Price		1.369		119.9
Increase per litre cent	Yield €m	€	Yield €m	€
2	26.3	1.389	45.4	1.219
3	39.3	1.399	68	1.229

<b>4</b>	52.3	1.409	90.6	1.239
<b>5</b>	65.2	1.419	113	1.249
<b>6</b>	78.1	1.429	135.4	1.259
<b>8</b>	103.8	1.449	179.9	1.279
<b>10</b>	129.3	1.469	224.1	1.299

### Carbon Tax

2.1 The carbon tax on fossil fuels was introduced at a rate of €15 per tonne of CO<sub>2</sub> in Budget 2010. It applied to auto-fuels from December 2009 and to other liquid fuels from May 2010. Its application to solid fuels was delayed and applied at a rate of €10 per tonne of CO<sub>2</sub> in 2012 and finally €20 per tonne of CO<sub>2</sub> in 2014.

2.2 In 2014 the yield from carbon tax (including VAT) was €385m. The expected yield for 2015 is €415m.

#### History of Irelands Carbon Tax

Year	Rate	Yield
2010	€15	€223m
2011	€15	€298m
2012	€20	€354m
2013	€20	€388m
2014	€20	€385m
2015	€20	€415m (est)

2.3 There are indications that the extension of carbon tax to solid fuels has given rise to consumers sourcing solid fuel from Northern Ireland. Solid fuel suppliers have expressed concerns around Northern suppliers arranging for solid fuel, whose sulphur content is not compatible with the SWiFT 7 robust verification mechanism, to be delivered to customers in the South. Since such deliveries are illegal the associated tax liabilities are also being circumvented. A rate increase could lead to an upsurge in solid fuels being sourced from Northern Ireland and further exacerbate this issue.

2.4 Any increase in the rate of carbon tax would also have an impact on the rate of fuel poverty. According to the ESRI low income households are more likely to use cheaper but more carbon intensive solid fuels.

#### Options for increasing the Carbon Tax rate

2.5 An increase of €5 in the rate of carbon tax would yield €102m in a full year and an increase of €10 in the rate would yield €203.4m in a full year.

2.6 The below table illustrates the impact increases of €5 and €10 per tonne of CO2 emissions would have on selected individual energy products.

**Impact of Increases in Carbon Tax (including VAT)**

Product	Unit	€5 per tonne	€10 per tonne
Petrol	Litre	1.40c	2.80c
Diesel	Litre	1.64c	3.27c
Coal	40kg bag	60c	120c
Peat briquettes	Bale	13c	26c

**Electricity Tax**

3.1 The electricity tax in Ireland was introduced in October 2008 and is currently set at the minimum rate allowable under the EU Energy Tax Directive of €0.50 per MegaWatt Hour (MWh) for business use and €1.00 per MWh for non-business use, household use is exempt. These rates are significantly below the EU average of €8.42 for business use and €14.53 for non-business use.

**Electricity Tax Receipts**

Year of liability	Tax (€m)
2008	1.94
2009	7.08
2010	6.86
2011	7.05
2012	6.32
2013	5.65
2014	4.48
2015	5.6 estimated

3.2 A recent report commissioned by the European Commission on Environmental Fiscal Reform recommended the equalisation of electricity tax rates in Ireland between business and non-business.

3.3 Relatively small number of consumers, such as government agencies and local and public authorities fall into the non-business category, and the categorisation of electricity use as business or non-business for tax purposes causes administrative difficulties for Revenue.

3.4 To equalise the rate for business and non-business use at €1.00 per MWh would allow for a more transparent system and also significantly reduce the administrative burden on Revenue.

**3.5** The electricity tax receipts for 2014 were €4.48m; approximately 12% was paid at the non-business rate. If the rate for business use was increased to €1.00 per MWh it is expected that the yield would increase to €9m in a full year.

## Action Logs

**Created:** 10/09/2015 11:59:20: Submission created by Ciaran Conroy

**Sent For Review:** 16/09/2015 15:48:17: Submission sent to Ambrose Murray for Review by Ciaran Conroy

**Ownership Taken:** 16/09/2015 15:55:07: Ownership of Submission taken by Ciaran Conroy

**Sent For Review:** 16/09/2015 16:02:50: Submission sent to Ambrose Murray for Review by Ciaran Conroy

**Sent For Review:** 16/09/2015 16:14:26: Submission sent to Gerry Kenny for Review by Ambrose Murray

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**Sent For Review:** 23/09/2015 11:38:04: Submission sent to Gerry Kenny for Review by Ambrose Murray

**Sent For Review:** 23/09/2015 13:33:51: Submission sent to Gary Tobin for Review by Gerry Kenny

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**Sent to the Minister:** 23/09/2015 14:30:57: Submission sent to Minister for Review by Margaret Fitzgerald