

Aggregates Levy : A Good Tax or A Bad Tax ?

Ever since the idea of a tax on aggregates was first put forward by New Labour in 1997, the concept has come in for a great deal of criticism. The quarry industry pointed out that it was already subject to the strictest environmental legislation in Europe, few complaints were received about quarries and in any event, the scheme provided no incentive for further environmental improvement. It was also pointed out that the UK led the way, in Europe, on recycling. There was no significant problem with the quarry industry it was a perceived problem as a result of lobbying by green pressure groups such as the Council for the Preservation of Rural England and Friends of the Earth. However, Government was not to be dissuaded and the Aggregates Levy came into force, April 1st 2002.

Government used a great deal of rhetoric to justify its actions.

“Environmental taxation is not simply an excuse for raising revenue. How and what a government taxes sends a clear signal about the economic activities which it wants to encourage or discourage, and the values it wishes to entrench in society. Over time, the Government aims to shift the burden of tax from 'goods' such as labour and capital to 'bads' such as pollution. But, in line with the Government's Statement of Intent on Environmental Taxation, published in July 1997, any environmental taxes should meet the tests of good taxation.”

The 1997 Treasury Statement on Environmental Taxation ;

"Environmental taxation must meet the general tests of good taxation. It must be well designed, to meet objectives without undesirable side-effects; it must keep deadweight compliance costs to a minimum; distributional impact must be acceptable; and care must be had to implications for international competitiveness.”

These conditions are clearly sensible yet the levy has generated a great deal of criticism.

- Widespread and detailed criticism from the quarry and construction industry.
- Criticism from the Environmental Audit Committee about the absence of any sort of recognition of or stimulus for environmental improvement.
- Numerous criticisms from the Northern Ireland Affairs Committee, most of which were equally relevant to the mainland.
- Calls for a delay and a rethink by two Labour Ministers and the CBI
- Several parliamentary motions and a large number of parliamentary questions.
- The official opposition praying against the regulations.
- A three day High Court Judicial Review, also critical.
- Complaints to the EU Competition Directorate

With very few people, apart from the Green pressure groups and Treasury, continuing to defend this levy, we consider whether or not Government is adhering to its stated policy.

- “Environmental taxation must be well designed,” The aggregates levy has defeated the best minds of Treasury and industry alike with its inability to be refined and has become an enormously complex piece of legislation.
- “able to meet objectives” Government claims that, “noise, dust and visual intrusion are costs of quarrying, not accounted for by existing taxation, and that the levy will reduce the amount of virgin aggregate used and increase the use of recycled aggregate.” However, UK quarries comply with the strictest legislation in Europe, few complaints are received, demand for virgin aggregate is determined by other factors, little if any increase in recycling will occur and the levy provides no stimulus for environmental improvement.
- “avoid undesirable side-effects” The levy will damage competition, have a disproportionate effect on SMEs, create new waste tips within quarries, drive up imports, stimulate marine dredging, cause material to be transported further, precipitate job losses in the rural economy, drain funds from overdue road building and repairs and trigger increases in council taxes and business rates with the public sector accounting for almost 40% of all aggregates used.
- “must keep deadweight compliance costs to a minimum” Compliance costs high due to mind numbing complexity, the need to apply differential amounts of levy to different products, cash flow problems and the failure of Section 43 of the 2001 Finance Act to provide fiscal protection for contracts or relief for bad debts relating to added value products such as concrete and asphalt. (50% of all sales)
- “distributional impact must be acceptable” The £1.60 levy represents a 30% increase in the regions and a 12% increase in the South East. The ‘per capita’ use of aggregate is higher in the regions (6 tonnes England v 12 tonnes NI) but the reduction in NIC gives greater benefit to more prosperous, industrialised areas. This is further exacerbated by the Sustainability Fund which derives revenue from tonnage, hitting the regions harder, but distributes revenue using the Barnett formula, based on population.
- “care must be had to implications for international competitiveness.” Levy will severely damage our international competitiveness.
- Importers will only bring in saleable sizes with overseas producers able to dispose of by-products, tax free, within existing markets.
- Levy is not charged on imported finished products made with aggregates.
- Levy is not relieved on exported finished products made with aggregates.

- The UK levy at £1.60 is four times higher than the most expensive EU country, Norway at 36p. Most EU countries have no levy at all and in France it is only 6p.
- Due to the high cost of fuel, restrictive driver hours regulations and the increasingly congested nature of our roads, it is often now cheaper to ship aggregates in bulk from countries like Norway than to deliver by road from our own rural quarries.

Conclusion: The levy fails to meet Government's given tests for a "good" tax. Therefore, the accusation that it is a stealth tax has merit. The budget increase in employers NIC rate of 1% (10 times higher than the 0.1% refund claimed to be a result of the levy) and only 9% of revenue going to the Sustainability Fund supports this view. It is difficult to avoid the conclusion that the Aggregates Levy is not just a bad tax, it is a profoundly bad tax.

British Aggregates Association May 2002