
PAYMENT OVERDUE

Fair ways to make polluters across the UK pay for climate action

1 INTRODUCTION

This methodology note accompanies the Oxfam report *Payment Overdue: Fair ways to make polluters across the UK pay for climate action*. It contains two sections:

- *Selecting the options* describes the process that the authors used to identify the options to include in the paper and outlines some of the options that were not chosen.
- *Calculations* shows how the original figures presented in the paper were arrived at.

2 SELECTING THE OPTIONS

As indicated in the paper, many options exist to raise additional finance for climate action. Options for inclusion in the paper were selected via a two-step process:

First, a broad list was created with tax and other public finance options. Then, a group of Oxfam staff consisting of researchers, policy and advocacy advisers, and climate experts judged each option on the four key criteria outlined in the paper:

- Potential to raise significant amounts of finance
- Making polluters pay
- Designed in a way that is progressive and does not target those on lower incomes

Since the aim of the paper was to present a list of options to raise climate finance, there also needed to be a way for the authors to calculate the scale of pollution in the UK and the *amount of money that could be raised* should the option be implemented. If an option would cause polluters to adjust their behaviour and pollute less, that was considered a bonus. The options that Oxfam staff considered best fit the criteria were included in the paper.

WEALTH TAX

- Scale of funds
- Targets polluters
- Progressivity

In recent years, the very richest people in the world have become dramatically richer. To combat rising inequality, Oxfam argues that governments around the world should implement both a one-off solidarity wealth tax and more permanent wealth taxes.¹ This type of tax would both raise large amounts of money and be progressive in nature. However, the proceeds of a general wealth tax should be spent on a wide range of measures to make the world more equal, including but not limited to combatting the effects of climate change. As such, wealth taxation is necessary, but not primarily a means to raise climate finance. However, Oxfam has extensively campaigned on a wealth tax in its broader anti-poverty work and as a result we do recommend that wealth be properly taxed and a proportion of the proceeds go towards climate-just action.

FINANCIAL TRANSACTIONS TAX

- Scale of funds
- Targets polluters
- Progressivity

A new Financial Transactions Tax, or 'Robin Hood Tax', of 0.05% on purchases of other financial instruments such as stocks, bonds, foreign currency, and derivatives, which could raise up to £250 billion per year globally.² However, such a tax does not differentiate between transactions that worsen climate change and those that do not.

INHERITANCE TAX ON SALE OF ESTATE

- Scale of funds
- Targets polluters
- Progressivity

Additional inheritance taxation or closing current loopholes could raise significant funds.³ However, while wealth passed down via inheritance may in some cases be linked to historic emissions, the link to climate change is insufficiently direct to warrant inclusion in this paper.

INCREASE IN CAPITAL GAINS TAX

- Scale of funds
- Targets polluters
- Progressivity

Capital gains taxes should contribute to climate finance, but not as their primary purpose.

INCREASE IN INCOME TAX ON TOP-RATE TAXPAYERS

- Scale of funds
- Targets polluters
- Progressivity

Income taxes should contribute to climate finance, but not as their primary purpose.

OPTIONS THAT COULD HAVE REGRESSIVE IMPACTS

CLIMATE DAMAGES CHARGE ON COMPANIES

- Scale of funds
- Targets polluters
- Progressivity

While this type of charge could raise a lot of funds,⁴ there is a significant risk of the burden being shifted to consumers via increased costs.

CARBON SHIPPING TAX

- Scale of funds
- Targets polluters
- Progressivity

Shipping remains a large carbon emitter. However, the expected returns (at the UK level) are relatively low compared to the other options included in the paper and there is a significant risk of regressive effects, as increased shipping costs could affect a wide range of consumer goods.

3 CALCULATIONS

This section will outline how calculations for original numbers and monetary figures that are presented in the paper were arrived at.

OPTION 1: A REDESIGNED TAX ON EXCESSIVE UK FOSSIL FUEL PROFITS

According to Tax Justice UK,⁵ the average annual profits of oil and gas producers in the UK between 2010/11 and 2020/21 were £5.415bn. Given our definition of any profits over 110% of the historical figure of 'normal' profits being excess profits, this means that anything over £5.956bn can be seen as excess profit.

The OBR forecast in March 2023 states that the EPL raised £5.1 bn in 2022-23⁶, given that the EPL rate was set at 25% in 2022 we extrapolate that the full profits of companies operating on the UK continental shelf were £20.4bn. Subtracting the 'normal' number of profits from this figure means that in 2022-23 we estimate the amount of excess profits to be £14.4bn. Depending on the tax rate applied (75% or 90%), this means that a redesigned excess profits tax could have raised between £10.83bn and £13bn. Combined with the standard rate of tax of 40% (which consists of the ring fenced corporation tax at 30% and the supplementary charge at 10%) which would only apply to 'normal' profits, this would mean between £13.22bn and £15.4bn could have been raised last year.

Table 1: Figures for option 1

Year	Profits from EPL (based on OBR forecast)	Taxable excess profits	Taxed at 75%	Taxed at 90%	Ring fence corporation tax and supplementary charge at 40% of 'regular profits'
2022-23	£5.1 bn	£14.4 bn	£10.83bn	£13bn	£2.38bn

The OBR estimated that the ring fence corporation tax, the energy profits levy and the supplementary charge would raise £11bn in 2022-23.⁷ Thus, we estimate that the additional revenue raised by this redesign of the levy would be between £2.2bn and £4.4bn higher than what the UK government collected.

OPTION 2: REDIRECTING UK FOSSIL FUEL PRODUCER SUBSIDIES

This calculation uses OECD data on support to the fossil fuel industry from governments and table 2.15 of the OBR’s 2023 fiscal supplementary tables.^{8,9}

To estimate the average annual subsidies given to the fossil fuel industry, we used OECD data on fossil fuel supports by country. This is the most up-to-date data across the whole range of subsidies available from the OECD Stats website. Table 2 gives yearly totals for the subsidies given by the UK government to the fossil fuel industry. These totals are sums of the following categories listed in the OECD data: Ring-fence expenditure supplement; Onshore allowance; Petroleum Revenue Tax: Tax relief for decommissioning expenditure; Investment Allowance; Transferable Tax History; and Ring-fence oil and gas trades: corporate income tax relief for decommissioning expenditure. The average amount of support given over the five years is £2.23bn, and thus estimate that this is the amount of yearly fossil fuel producer subsidies that could be scrapped and redirected to climate-just action.

Table 2: Reliefs and allowances for oil and gas companies from the UK government between 2017-2021

Year	Annual average 2017-21
2017	£2.53bn
2018	£2.46bn
2019	£2.52bn
2020	£1.66bn
2021	£1.99bn
Annual average	£2.23bn

In addition to the figures in table 2 above, there is also an element of the Energy Profits Levy which is effectively a subsidy for new oil and gas development in the UKCS. This means that for every £100 spent on new oil and gas development, these companies get roughly £45 off their tax bill. In 2022, the OBR assumed that companies invested £2.55bn in new oil and gas fields (based on capex and exploration and appraisal expenditure in [table 2.15](#) of 2023 fiscal supplementary tables). Given this, we estimate that around £1.15bn in relief was given for new fossil fuel projects (45% of £2.55bn). The OBR also gives estimates in the same tables for future investment in oil and gas fields, and this is what we based future estimates of fossil fuel subsidies under the EPL investment allowance on (figure 2 in report). For 2022, we divided the total figure in half to account for the fact that the EPL only started halfway through the year.

Table 3: Estimate of fossil fuel producer subsidies under the EPL investment allowance

Year	Estimate of fossil fuel producer subsidies under the EPL investment allowance
2022	£1.15bn
2023	£2.57bn
2024	£2.39bn
2025	£2.02bn
2026	£1.8bn
2027	£1.58bn

Note: These figures are based on the OBR's March 2023 forecasts (in table 2.15 of the Economic and Fiscal Outlook Tables) for capex and exploration and appraisal expenditure.

OPTION 3: FREQUENT FLYER LEVY

In 2021, based on the number of passenger flights taken in 2019, the New Economics Foundation estimated that a Frequent Flyer Levy could raise £5bn a year in public finance.¹⁰ In 2022, following the pandemic, air travel was back to 75% of 2019 levels.¹¹ 75% of £5bn is £3.75bn. Adjusted from for inflation from 2021 to 2022 with the Bank of England's inflation calculator, that would have been £4.09bn in 2022.¹² It is worth noting that this is an imprecise calculation because of the nature of the Frequent Flyer Levy: it increases proportionally as people fly more. As such, if people fly less, the decrease in money raised is proportionally greater than the decrease in flights taken.

OPTION 4: TAXING HIGH-EMITTING LUXURY MODES OF TRANSPORTATION

PRIVATE JETS

Estimates of the number of private jet departures in the UK in 2022 differ somewhat between data sources:

- According to the European Business Aviation Association EBAA, there were 223,224 total business aviation departures and arrivals in the UK in 2022.¹³ Business aviation includes:¹⁴ 1) on-demand air (transport) services by commercial operators, and 2) in-house, own-account air services of firms

Of those movements, 6.3% were medical/special in nature and 1.4% were government/military; subtracting those brings us to 206,036 flights. Since APD is only levied on departing flights, we divide this number by half to end up with **103,018 flights**.

- According to the UK Civil Aviation Authority, the combined number of private and business aviation movements (arrivals and departures) in the UK was 227,712.¹⁵ Dividing that figure in half results in **113,856 flights**.

- Greenpeace estimates that the number of private plane departures from the UK in 2022 was **90,256**.¹⁶ This includes medical and government flights.

We have used the EBAA’s figures in the report’s calculations of estimated revenues because they fall in between the other two estimates and because the EBAA provides a breakdown of flights by types of movements as well as information on origins and destinations, which we have used in further calculations.

We assume that the origin and destination information is still accurate after the removal of medical and government flights. The EBAA also estimates that each business aviation flight has a mean number of passengers of 4.7.¹⁷ The table below shows the EBAA data as a basis for calculations to arrive at estimated revenues arising from the proposed higher rate of APD.

Table 4: Calculating revenues arising from the proposed higher rate of APD

Origin/destination type	Percentage of movements	Number of flights	Estimated number of passengers	Current highest applicable APD ¹⁸	APD super rate recommended by the Campaign for Better Transport (CBT)	Alternative super rate (10x the original rate)	Additional revenue accrued using CBT rates
<i>Domestic</i>	40.6%	4,1825	196,579	£78	£780	£780	£137,998,255
<i>Europe</i>	52.1%	53,672	252,260	£78	£780	£780	£177,086,431
<i>Extra-Europe</i>	7.3%	7,520	35,345	£574	£780	£5740	£7,281,159
<i>Total</i>							£322,365,845

Additional revenue was calculated by subtracting the current highest applicable APD from the proposed APD super rate and multiplying that figure by the estimated number of passengers. Only two APD rates were included in the calculations above:

- Based on the EBAA data, flights from the UK to mainland Europe were mainly to France or Switzerland (Geneva). As such, they fall within APD band A (0 – 2,000 miles)
- Based on the EBAA data, extra-European flights were mainly to the USA. A conservative estimate of flight distance could be based on the number of miles between London and New York City (3,459), which puts these flights in APD band B (2,001 to 5,500 miles).

We assume that the number of business aviation flights from the UK with a distance over 5,500 miles is small enough as to be negligible for these calculations. This is also supported by the fact that business aviation planes tend to be smaller than commercial airliners and thus have less range.

SUPERYACHTS

The UK Maritime and Coastguard Agency maintains the UK Ship Register,¹⁹ part 1 of which contains merchant and pleasure vessels. Registration allows boat owners to:

- Get a marine mortgage against their boat
- Spend more than 6 months outside the UK

In January 2022, the Maritime and Coastguard Agency released a table with all vessels on Part 1 of the UK Ship Register in response to a Freedom of Information request.²⁰ An estimate of the number of superyachts registered in the UK can be obtained by:

- Filtering by Vessel Type: Pleasure Yacht
- Filtering by Year (of registration): 2017 or later
- Registration is valid for a 5-year period; thus, any registration completed in 2017 would still be valid in January 2022
- Filtering by Overall Length: 24 metres or more
- Filtering by Status: Registered
- This leaves 354 vessels

According to the Boats Group, the average value of all boats over 80 feet (approximately 24 metres) in length sold internationally in 2022 was 5.1m USD, or approximately 4m GBP.²¹ We assume that this figure is also valid for superyachts in the UK.

We propose a superyacht tax of 20% of the boat's value per year. This is based in part on annual operating costs of owning a yacht, which Towergate Insurance estimates to be 10% of the yacht cost,²² and in part on the concept that the tax should disincentivise superyacht ownership, which is hard to do when owners are some of the wealthiest individuals in the world. The expected annual revenue is calculated by multiplying the number of superyachts in the UK by their average value and finally by the proposed tax: $354 \times £4\text{m} \times 20\% = £283,200$ million.

TOTAL REVENUES

Table 5: Estimating the total revenue that could be raised in 2022

Option	2022 potential revenue (billion £)
<i>Excess profits</i>	2.2 – 4.4
<i>Redirecting fossil fuel subsidies</i>	3.35
<i>Frequent flier levy</i>	4.09
<i>Private jets</i>	0.322 – 0.497
<i>Superyachts</i>	0.283
<i>20% of wealth tax</i>	4.4 – 10.48

Total	14.65 – 23.1
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Note on calculating wealth tax revenues: To calculate the revenues that could be raised from a wealth tax we used Patriotic Millionaires and Tax Justice UK’s 2023 calculations.²³ Our lower estimate for a wealth tax is the proceeds from applying a 1-2% wealth tax on assets over £10 million, which would raise £22 bn a year. Our higher estimate refers to the revenues from a package of measures to tax wealth, in addition to the aforementioned measure, which are: equalising capital gains with income tax rates; applying national insurance to investment income; ending inheritance loopholes; reforming rules on non-dom status; and a 4% tax on share buybacks. It is estimated that altogether these could raise £52.5 bn annually. To estimate the share of these revenues that could go towards climate action, we calculated 20% of the totals.

CALCULATING THE DEVOLVED WINDFALL

To calculate what additional spending at Westminster level would mean for the devolved governments and block grant adjustments, we used the Barnett formula.²⁴ **This formula is set out as:**

Change to the UK Government department’s budget (DEL) x Comparability percentage x Appropriate population proportion.

Comparability percentages measure the extent to which a UK department’s services have been devolved, to obtain this percentage we used the comparability % used in Spending Review 2021.

Scottish calculations (If the UK government were to spend £5bn of these additional revenues on green public transport in England):

5 billion x 91.7% x 8.1% = £371.39mn.

Welsh calculations (If the UK government were to spend £2bn of these additional revenues on insulating housing in England):

2 billion x 99.6% x 4.7% = £93.62mn.

Northern Ireland calculations (If the UK government were to spend £1bn of these additional revenues on improving community resilience to extreme weather in England):

1 billion x 100% x 2.8% = £28mn.

NOTES

- ¹ <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621477/bp-survival-of-the-richest-160123-en.pdf>
- ² https://www.robinhoodtax.org.uk/faq#list-block_1-11
- ³ <https://www.taxjustice.uk/blog/five-policies-that-could-raise-37-billion-in-tax>
- ⁴ <https://www.stampoutpoverty.org/cdt-data-tables/>
- ⁵ <https://www.taxjustice.uk/blog/a-north-sea-excess-profits-tax-could-turn-the-tide-of-the-cost-of-living-crisis>
- ⁶ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>
- ⁷ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/#annex-a>
- ⁸ https://stats.oecd.org/Index.aspx?DataSetCode=FFS_GBR
- ⁹ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/#annex-a>
- ¹⁰ <https://neweconomics.org/2021/07/a-charge-on-frequent-flyers-would-make-post-pandemic-holidays-cheaper-for-uks-poorest-households>
- ¹¹ <https://www.caa.co.uk/news/2022-in-review-uk-air-travel-reaches-75-of-pre-pandemic-levels-as-spain-tops-most-popular-destination-list>
- ¹² <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>
- ¹³ https://yearbook.ebaa.org/country-list?iso_code=GB
- ¹⁴ https://elib.dlr.de/127713/1/Maertens_WCTRS%202019.pdf
- ¹⁵ <https://www.caa.co.uk/Documents/Download/9116/47a460b2-0592-4ef7-b24b-aa5e27ccfce4/5623>
- ¹⁶ https://greenpeace.at/uploads/2023/03/co2_emissions_of_private_aviation_in_europe_def.pdf
- ¹⁷ https://www.ebaa.org/app/uploads/2020/07/EBAEconomic-report-2017_compressed-4.pdf%20
- ¹⁸ Note: the actual rate of APD applied is likely lower for most flights, since many planes used for business aviation do not meet the 20,000-tonne weight requirement for the higher rate. Thus, we might be underestimating the possible additional revenue.
- ¹⁹ <https://www.gov.uk/register-a-boat/the-uk-ship-register>
- ²⁰ https://www.whatdotheyknow.com/request/table_of_all_vessels_on_part_1_o
- ²¹ https://www.boatsgroup.com/wp-content/uploads/2023/02/BG_2022_Year_Index.pdf
- ²² <https://www.towergateinsurance.co.uk/boat-insurance/the-cost-of-maintaining-a-super-yacht>
- ²³ <https://www.taxjustice.uk/blog/six-wealth-tax-policies-to-raise-50-billion>
- ²⁴ <https://researchbriefings.files.parliament.uk/documents/CBP-7386/CBP-7386.pdf>

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