

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 98: Climate Change Levy: Carbon Price Support Rates from 1 April 2016

Summary

1. This section amends Schedule 6 to the Finance Act 2000 ('Schedule 6') to cap the carbon price support (CPS) rates of climate change levy (CCL) with effect from 1 April 2016.

Details of the Section

2. Subsection (1) replaces the table of rates in paragraph 42A (3) of Schedule 6.
3. Subsection (2) provides for the change to have effect for supplies treated as taking place on or after 1 April 2016.

Background Note

4. The carbon price floor (CPF) came into effect in Great Britain in April 2013. It is designed to provide an incentive to invest in low carbon generation, promoting energy efficiency and the use of renewable energy, in order to help meet the UK's international and domestic targets for cutting emissions of greenhouse gases.
5. CPF is a tax on fossil fuels (gas, liquefied petroleum gas and solid fuels), used to generate electricity. CPF is made up of the price of carbon from the EU Emissions Trading System (EU ETS) and the headline CPS rate which is the UK-only additional tax per tonne of carbon emitted in the power sector. The headline CPS rate is used to set the individual CPS commodity rates - for fuels covered by CCL these are known as the CPS rates of CCL and are legislated for two years in advance in the Finance Act. These rates are based on a rate per tonne of carbon set for that year by the Government.
6. Since the CPF was introduced the EU ETS carbon prices have fallen, meaning the gap between UK energy prices and energy prices abroad has grown and would continue to do so if the original CPF trajectory was maintained. The introduction of a cap on the UK-only element of the CPF is intended to limit the disparity between UK and non-UK energy costs.