

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Revenue &amp; Customs</b>	<b>Title:</b> <b>Impact Assessment of Modernising Landfill Tax Legislation</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> 22 April 2009
<b>Related Publications:</b> Modernising Landfill Tax Legislation – Consultation Document (22 April 2009)		

### Available to view or download at:

<http://www.hmrc.gov.uk/ria/index.htm#partial>

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### What is the problem under consideration? Why is government intervention necessary?

Landfill tax reflects the significant impact that landfilling has on the environment. By ensuring that waste producers incorporate the environmental cost of waste disposal into business decisions, the tax encourages use of more sustainable waste management solutions. It is timely to review the legislation underpinning the tax and the way in which that legislation reflects environmental protection legislation and waste industry practice. Review and modernisation will mean that the tax will continue to be able to achieve its objectives in the long-term.

### What are the policy objectives and the intended effects?

The aim is to ensure the continued soundness of the administrative and legislative arrangements on which landfill tax is based. This will ensure that the tax is robust and well placed to continue to make an important contribution to achieving environmental policy objectives.

The consultation considers what constitutes a taxable disposal and in particular:

- the definition of a taxable disposal of waste at a landfill site; and
- the definition of wastes that should qualify for the lower rate of tax.

### What policy options have been considered? Please justify any preferred option.

The consultation puts forward a number of lead options and alternatives. "Do nothing" is always a policy option but as the principles of continuous improvement suggest that change would be timely, this Impact Assessment has examined options for change:

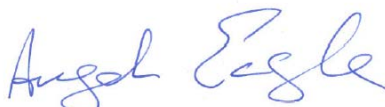
- 1) Changing how it is determined what constitutes a taxable disposal of waste at a landfill site by
  - defining the taxable area and activities using environmental protection legislation, and
  - defining taxable material by means of exclusions.
- 2) Restricting wastes benefiting from the lower rate to those which are inert according to the EU Landfill Directive to strengthen the environmental rationale underpinning the lower rate.

Costs and benefits are compared relative to those under the do nothing option.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Within three years from the date that any changes are implemented.

### **Ministerial Sign-off** For consultation stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*



Signed by the responsible Minister:

Date: 07/04/2009

## Summary: Analysis & Evidence

<b>Policy Option: A</b>	<b>Description: Changing how it is determined what constitutes a taxable disposal of waste at a landfill site</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Registered (for tax purposes) landfill operators would have to familiarise themselves with any changes at a cost of approximately £30,000. There would also be one-off costs to HMRC of approximately £70,000.
	<b>One-off</b> (Transition) <span style="float: right;"><b>Yrs</b></span>	
	<b>£ 100,000</b> <span style="float: right;">1</span>	
	<b>Average Annual Cost</b> (excluding one-off)	
<b>£ to be quantified</b>	<b>Total Cost (PV)</b>	<b>£ To be quantified</b>
Other <b>key non-monetised costs</b> by 'main affected groups' The consultation asks for views on practical consequences and impacts. In particular, it asks for options for minimising the burden associated with the need to weigh immediately prior to tipping waste previously subject to a temporary use.		

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' Landfill operators would benefit from consistency between the terms of their environmental permits and the way in which liability to tax is defined. There should be greater clarity about when there is/ is not a tax liability.
	<b>One-off</b> <span style="float: right;"><b>Yrs</b></span>	
	<b>£ 0</b>	
	<b>Average Annual Benefit</b> (excluding one-off)	
<b>£ to be quantified</b>	<b>Total Benefit (PV)</b>	<b>£ To be quantified</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Modernisation of the tax to bring it in line with environmental protection legislation and industry practice. This will ensure the continued soundness of administrative and legislative footing on which landfill tax is based and mean that the tax will continue to contribute fully to its environmental policy objectives.		

**Key Assumptions/Sensitivities/Risks** The option as set out is not intended to have any significant impact upon overall revenue receipts. The assumption is that the tax base would remain the same without any real change to the scope of the tax in terms of the taxable area, activities and the materials subject to the tax.

Price Base Year 2009	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ To be quantified
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	2010 or later			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ n/a			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£n/a			
What is the value of changes in greenhouse gas emissions?	£ To be assessed			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro tbq	Small tbq	Medium tbq	Large tbq
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	<b>Net Impact</b>	<b>£To be quantified</b>

Key: Annual costs and benefits: Constant Prices (Net) Present Value

<b>Policy Option: B</b>	<b>Description: Restricting wastes benefiting from the lower rate to those which are inert according to the EU Landfill Directive to strengthen the environmental rationale underpinning the lower rate</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Registered landfill operators and producers of waste would have to familiarise themselves with the change at a cost of around £30,000 and there would be one-off costs to HMRC of around £70,000. Sectors could incur ongoing costs where as a result of the change, the tax liability changes (administrative costs and costs associated with diversion to alternatives).
	<b>One-off (Transition)</b>	<b>Yrs</b>	
	£ 100,000	1	
	<b>Average Annual Cost (excluding one-off)</b>		
	£ to be quantified		<b>Total Cost (PV)</b> £ To be quantified
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Lower rating of waste would be determined by whether waste is inert according to the EU Landfill Directive. It would no longer be necessary for landfill operators to apply different tax-specific criteria to determine whether waste is lower rated. There would be an incentive to divert from landfill wastes which did not qualify for the lower rate of tax.
	<b>One-off</b>	<b>Yrs</b>	
	£ 0		
	<b>Average Annual Benefit (excluding one-off)</b>		
	£ to be quantified		<b>Total Benefit (PV)</b> £ To be quantified
Other <b>key non-monetised benefits</b> by 'main affected groups' Changes have been requested by inert waste landfill operators with a view to reducing confusion about which wastes are lower rated and which are inert for environmental protection purposes.			

**Key Assumptions/Sensitivities/Risks** Some waste streams would cease to qualify for the lower rate. The producers of these wastes, which, in some cases, would also be the landfill operator, would incur additional landfill tax liabilities (of between £0 – 160 million based on current landfill tax rates, with this largely dependent on the size of the behavioural response).

Price Base Year 2009	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ To be quantified
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What is the geographic coverage of the policy/option?		UK	
On what date will the policy be implemented?		2010 or later	
Which organisation(s) will enforce the policy?		HMRC	
What is the total annual cost of enforcement for these organisations?		£ n/a	
Does enforcement comply with Hampton principles?		Yes	
Will implementation go beyond minimum EU requirements?		No	
What is the value of the proposed offsetting measure per year?		£ n/a	
What is the value of changes in greenhouse gas emissions?		£ To be assessed	
Will the proposal have a significant impact on competition?		No	
Annual cost (£-£) per organisation (excluding one-off)	Micro tbq	Small tbq	Medium tbq
Are any of these organisations exempt?	No	No	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	<b>Net Impact</b>	£ To be quantified

Key: Annual costs and benefits: (Net) Present

## Evidence Base (for summary sheets)

### 1. The issue/consultation

Landfill tax reflects the significant impact that landfilling has on the environment. By ensuring that waste producers incorporate the environmental cost of waste disposal into business decisions, the tax encourages use of more sustainable waste management solutions. It is timely to review the legislation underpinning the tax and the way in which that legislation reflects environmental protection legislation and waste industry practice. Review and modernisation will mean that the tax will continue to be able to achieve its objectives in the long-term.

This consultation Impact Assessment focuses on the design issues that relate to the costs and benefits of the options (outlined below) and their administrative burdens and landfill tax revenue implications for registered landfill operators. Waste producers and other waste management businesses would also be affected. All costs and estimates are against a baseline of the implementation of the legislative changes announced at Budget 2009.

At 1 March 2009 there were 306 landfill operators registered for landfill tax (referred to as "registered landfill operators") covering 776 sites. All these landfill operators would be affected by the proposed changes.

### 2. Policy objectives and intended effects

The reduction of carbon emissions and of the use of natural resources remain at the top of the policy agenda. Landfill tax makes an important contribution to policy objectives in this area by reducing landfilling (where the biodegradable waste would have produced methane – a powerful greenhouse gas) and encouraging more sustainable waste management solutions including reuse and recycling.

The Government's aim is to ensure the continued soundness of the administrative and legislative arrangements on which landfill tax is based. This will ensure that the tax is robust and well placed to continue to make an important contribution to achieving environmental policy objectives.

### 3. The Options

#### A) Changing how it is determined what constitutes a taxable disposal of waste at a landfill site

In order for the tax to operate there needs to be a clear understanding of what constitutes a taxable disposal of waste at a landfill site. It is timely to review the current legislation in this area and the way in which it reflects environmental protection legislation and waste industry practice. These are areas where there have been significant changes in recent years. Recent litigation has taken out of tax materials for which there is a policy imperative to tax. While waste will be brought back into tax by legislation taking effect in 2009-10 (which is not the subject of this consultation) this will make landfill tax legislation as a whole more complex and less coherent.

There are strong arguments for the lead option which is to define more tightly both the taxable activities and the taxable area. The taxable activities and taxable area would be those which the environmental permit for the site made clear are disposal activities at a landfill. There would be a small number of exclusions to take out of tax the placing of non-waste (e.g. plant and machinery, engineering features) in a landfill.

## **Costs**

There would be some one-off familiarisation compliance costs associated with this option. All registered landfill operators would need to familiarise themselves with the new arrangements and we would expect this to be done for each landfill site. Assuming a typical hourly rate of around £20, the total one-off cost of familiarisation is estimated to be around £30,000 based on spending two hours at each of the 776 landfill sites.

Under the lead option, the physical point at which the tax would arise (the tax point) would be the point at which waste entered the taxable area during the period of taxable activities (i.e. the point at which waste was tipped into the landfill). This is in contrast with the current situation where liability to tax arises, in most cases, at the point at which waste enters the gate to the landfill site.

On the face of it, it might appear that this would require additional record keeping at the point of tipping. In fact, we believe additional records would not be required in most cases because existing records relating to waste entering the site and waste being subject to processing on site would be sufficient. However, we have identified the possible need for additional recording by landfill operators of the weight of waste at the point of tipping where that waste has been previously put to a temporary use on site (e.g. as a haul road or bund). It is not envisaged that this would apply to more than a small proportion of total waste subject to the tax. The consultation seeks options for minimising any additional burden.

Landfill operators would be required, as at present, to maintain a “disposal record” for tax purposes.

The consultation asks if there would be any impacts or practical consequences which we have not envisaged.

It is not intended or anticipated that this option would extend the scope of landfill tax. Consequently we would not expect the landfill tax due from landfill operators to change. Tax would be due at a significantly later point than at present where waste was first put to use on a site (it is currently due at the point of entry through the site gate and it would become due at the point of tipping). However, as explained above, we do not expect that this would be relevant to significant volumes of waste.

## **Benefits**

Landfill operators would benefit from consistency between the terms of their environmental permits and tax legislation. This would minimise the scope for disputes and mean there would be greater clarity and certainty about what would/ would not be subject to tax. There would also be greater clarity and certainty for HMRC and environmental regulators. Comments and evidence on the reduction of compliance burdens and the value of savings would be welcome.

By ensuring that what is taxed is the disposal of waste at a landfill site in line with the up-to-date understanding of these terms, this option would ensure the achievement of the policy objective of making sure that the environmental impact of landfilling waste is reflected in its cost.

The expectation is that legislation would continue to allow landfill operators to set the tax point as the invoice date. The consultation has invited comments on this expectation and, should any amendments be required to the landfill tax invoicing regulations, any costs or benefits will be considered during the policy making process and disclosed within the final Impact Assessment.

HMRC will publish a best assessment of the costs and benefits of the options in any final Impact Assessment.

### **Administrative burden effects (compared with post Budget 2009 baseline)**

HMRC is committed to reducing compliance costs to businesses, and in particular the administrative burdens incurred due to requirements to disclose information to HMRC or third parties. This “administrative burden” is assessed through the “Standard Cost Model” (SCM), an activity-based costing methodology which considers the activities that businesses need to undertake to comply with their legal obligations, and estimates the cost of such activities.

At Budget 2009, a small number of low-value administrative burdens (e.g. those relating to tax-free areas) were replaced with requirements to similar effect to supply HMRC with information. Overall this resulted in only a very small reduction in administrative burden as measured by the SCM.

The additional record-keeping requirements associated with the tipping of waste previously subject to a temporary use on site (see above), would, it is estimated on the basis of the SCM, result in minimal additional cost - up to £4,000 at 2005 prices (on the assumption that the burden might be similar to that currently associated with tax-free areas).

Under this option, landfill operators might also be required to supply HMRC with additional information in respect of temporary features in close proximity to the area of tipping. Again, it is estimated, using the SCM, that these extra administrative burdens would be minimal.

### **Impact on HMRC**

There would be one-off costs estimated to be £70,000 for HMRC to write and publish new landfill tax publications and guidance and to familiarise and train staff.

### **Revenue impacts**

It is not intended or anticipated that this option would significantly alter the scope of landfill tax relative to the post Budget 2009 baseline. Consequently, we expect that the change would have negligible impact on Exchequer revenues. Where waste is subject to temporary use on site the tax point would be delayed (from the point it entered the site as at present to the point it was tipped). However, we expect that this would affect only a small amount of waste.

### **The alternative approaches**

The consultation document also suggests potential alternative options:

- identifying the area where materials deposited could be subject to landfill tax by reference to the definition of landfill in the EU Landfill Directive;
- defining the activities subject to tax by exemption; or
- identifying the materials subject to landfill tax by reference to a definition of waste.

While these approaches would achieve the effect of the lead option, there would be a greater degree of complexity involved. Nevertheless, the consultation welcomes comments on these and any other approaches which may be envisaged.

## **B) Restricting wastes benefiting from the lower rate to those which are inert according to the EU Landfill Directive to strengthen the environmental rationale underpinning the lower rate**

The lower rate of landfill tax recognises that there is a relatively low level of environmental impact associated with the landfilling of certain wastes. Currently, legislation provides that wastes which are inert or inactive may be prescribed and qualify for the lower rate. The list of prescribed wastes is set out in the Landfill Tax (Qualifying Material) Order 1996. Recent developments in the thinking on what constitutes inert waste – primarily at a European level – are not reflected in landfill tax legislation.

The lead option is that, in order to benefit from the lower rate, wastes would have to be on the EU Landfill Directive list of inert wastes or meet the Waste Acceptance Criteria (WAC) for inert waste as set out in the Council Decision on the WAC. This definition would mean that some wastes which are listed in the Landfill Tax (Qualifying Material) Order 1996 would cease to be lower rated since they are not regarded as inert by the Landfill Directive. We do not think that this option would mean any significant amounts of currently standard rated waste would become lower rated, although comments on this assumption are welcome.

## **Costs**

The continuing costs of complying with the landfill tax would be unaffected, as the obligations to register for landfill tax, complete returns and pay landfill tax would remain unchanged. But these administrative costs, as measured by the SCM, are only a subset of overall compliance costs. Other compliance costs include the costs of transition (such as time spent becoming familiar with new rules). There would also be additional costs associated with diverting these materials to alternative treatment methods.

As a result, registered landfill operators and producers of waste would have to familiarise themselves with the changes in liabilities of certain wastes. Some landfill operators might incur one-off costs, such as:

- amending software or invoices in order to ensure that the invoices carry the correct landfill tax liability statements;
- re-pricing in order to recharge the additional tax; and
- extra checks to ensure the correct amount of tax is declared.

About 80% of the registered landfill operators that have submitted positive returns in the past 12 months handle lower rated waste. However, to some degree all registered landfill operators would be directly affected. Each of them would need to familiarise themselves with the new rules. We would expect this to be done for each landfill site. Assuming a typical hourly rate of around £20, the total one-off cost of familiarisation is estimated to be £30,000 based on spending two hours at each of the 776 landfill sites on the tax register.

Since the landfill tax liability would be determined by criteria which are already used for environmental protection purposes we do not anticipate that there would be any additional testing or other costs associated with determining the landfill tax liability of wastes put to landfill.

The consultation document identifies a number of wastes which would cease to be lower rated because they are not inert according to the EU Landfill Directive. A number of business sectors producing these materials might therefore incur an additional liability to pay landfill tax either as a registered landfill site operator or as a producer of the waste or both. This would equate to an additional £37.50 a tonne in 2009-10 compared with continuing to pay the lower rate. The wastes that would be affected are highlighted in the consultation document.

The following table shows the wastes we believe might cease to be lower rated. For each the table shows the estimated landfill tax liability at the current lower rate, the estimated landfill tax if the waste were to be standard rated in 2009-10 and the difference between the two figures (i.e. the estimated additional landfill tax liability under the lead option). These figures are drawn from a number of sources (as noted) and are produced here to illustrate the estimated additional landfill tax liability should all these wastes continue to be sent to landfill. This is not an exhaustive list and there would be other materials that could not be separately identified from waste data sources which are not included in the table which are also not inert according to the EU Landfill Directive. Consequently, these figures and estimates must be treated with caution and any additional evidence on these and other materials will be welcomed as part of the consultation process.

The Landfill Tax (Qualifying Material) Order 1996	Waste material	Estimated tonnage put to landfill	Landfill tax due at lower rate £2.50/tonne	Landfill tax due at standard rate £40.00/tonne	Additional landfill tax due
Group 3 Minerals	Used foundry sand*	200,000	£0.5m	£8m	£7.5m
Group 4 Furnace slags	Furnace slags (thermal processing of minerals)	670,000	£1.7m	£26.8m	£25.1m
Group 4 Furnace slags	Waste incineration slag	314,000	£0.8m	£12.6m	£11.8m
Group 5 Ash	Coal fly ash **	3,000,000	£7.5m	£120m	£112.5m
Group 7 Calcium sulphate	Gypsums	11,000	£0.03m	£0.4m	£0.4m
Group 8 Calcium hydroxide and brine	Brine purification wastes	44,000	£0.1m	£1.8m	£1.7m

Source: Environment Agency Waste Data 2007

\*Communities and Local Government 2007 Construction Demolition and Excavation Waste (CDEW) Survey of arisings and use of alternatives to primary aggregates in England 2005

\*\* Waste & Resources Action Programme (WRAP)/Environment Agency 2008 Waste Protocol Project- Pulverised fuel ash and furnace bottom ash

The table above suggests that up to an estimated £160 million additional landfill tax could be raised under the lead option based on current landfill tax rates. The potential impact would increase as the differential between the lower and standard rates increases. However, the actual impact would be likely to be much lower than this because of the behavioural effects of increasing the landfill tax rate on these materials. These would include:

- additional recycling or re-use of the waste;
- improvements to processes that produce the waste; and
- alternative waste treatments.

For example, the WRAP/Environment Agency 2008 report on pulverised fuel ash (PFA), which is the main component of coal fly ash, estimated that 50% of PFA is already reused in construction products. An increase in landfill tax liability might encourage a much higher rate of reuse. This would limit the exposure of the industry to additional tax costs but there might be additional costs associated with treating the wastes to enable reuse.

There is also evidence (particularly in the CDEW survey of arisings and use of alternatives to primary aggregates in England 2005) that there could be potential for additional diversion from landfill for used foundry sand, furnace slag and gypsum as a significant proportion of these wastes are already reused.

Further evidence on the scope for additional diversion from landfill for the affected wastes, including on the additional costs of alternative uses or treatments, is welcomed as part of the consultation process.

Under current practice, some mixed wastes with a small quantity of non-qualifying material may be treated as qualifying material and lower rated. Under the lead option this would no longer apply since the waste material would only be inert if it was inert according to the Landfill Directive and mixed wastes are excluded.

There is also some evidence that some wastes might move from being standard rated to lower rated under this option, although the amount of waste is not thought to be significant and only a small amount of revenue would be involved. Waste arisings that may be affected are specific

wastes streams from CDEW and municipal wastes. The following table shows some inert wastes put to inert landfill sites that currently may not qualify as “qualifying materials” but could become lower rated under the lead option. The resulting estimated reduction in landfill tax liability is also shown:

Waste material	Estimated tonnage put to landfill	Landfill tax due at standard rate £40.00/tonne	Landfill tax due at lower rate £2.50/tonne	Landfill tax adjustment
Sludges from water clarification	38,000	£1.5m	£0.10m	-£1.4m
Mechanical sorting residues	78,000	£3.1m	£0.20m	-£2.9m
Mixed municipal wastes	45,000	£1.8m	£0.11m	-£1.7m
Bulky municipal wastes	65,000	£2.6m	£0.16m	-£2.4m
Other municipal wastes	57,000	£2.3m	£0.14m	-£2.2m

Source: Environment Agency Waste Data 2007

Similarly, there may be a number of waste materials that cannot be specifically identified from waste data sources which may not be a lower rated qualifying material but are inert under the EU Landfill Directive e.g. soil and certain mixed CDEW.

The consultation seeks views on transitional arrangements which would help businesses producing wastes which would cease to be lower rated. The lead option is to delay implementation of the change to provide an opportunity for the waste producers to find alternative waste management options. This would avoid additional administrative and compliance costs associated with introducing a temporary intermediate rate (see the Administrative Burden Effects section below).

### Benefits

The environmental position of the tax would be strengthened. Only those wastes which are now considered to be inert based on an up-to-date understanding of the impact of such wastes would be lower rated.

For wastes moving from the lower to the standard rate of tax, there would be a greater financial incentive to find alternative uses or disposal methods to landfill. As discussed above, the practical effect would depend upon the scope for, and cost of, alternative uses or treatments for the affected wastes. The environmental benefits of any such changes would also depend on the environmental value in employing these alternatives rather than sending the waste to landfill. Evidence is also invited on this point.

Landfill operators would have to classify waste solely in line with the EU Landfill Directive – they would no longer need to apply separate rules to consider whether wastes were lower rated for tax purposes. This would give greater clarity and certainty by removing confusion for waste producers and landfill operators as well as HMRC and environmental regulators. Respondents to a recent Defra/ Environment Agency/ Welsh Assembly Government consultation on inert waste were strongly in favour of clarification along these lines.

Evidence on the scale of the resulting savings would be welcomed.

The lead option for transitional arrangements - delaying the change - would provide time and incentives to find alternative waste management options for the relevant wastes, for example working with WRAP and the Environment Agency’s Waste Protocol Projects.

### **Administrative burden effects (compared with post Budget 2009 baseline)**

Excluding familiarisation and one-off costs, there would be little or no impact on the existing SCM landfill tax baseline administrative burdens associated with this option as the burdens associated with maintaining landfill tax records and accounts, issuing landfill tax invoices and filing the landfill tax return would be unaffected.

Delaying the change (the lead option for transitional arrangements) would equally result in little or no impact on the existing SCM landfill tax baseline administrative burdens. Other options for transitional arrangements, such as a short-term transitional rate, could result in additional burdens for the waste industry such as one-off information technology costs to deal with the transitional and final landfill tax rates, additional administration burdens for record keeping and compliance costs for both the registered landfill operator and HMRC. Should a transitional rate of tax be introduced, the landfill tax return would require an additional box to record tonnages at that rate and landfill tax invoices would need to be amended to show the new tax rate - assuming no additional continuing computer costs these administration burdens are estimated as a whole to be small (£180 a year for an average business or £250 per annum for a large business).

### **Impact on HMRC**

There would also be one-off costs estimated to be £70,000 for HMRC to write and publish new landfill tax publications and guidance and to familiarise and train staff.

These would not be increased under the lead option for transitional arrangements (delay of implementation). However, the costs would increase under other options for transition, such as a short-term transitional rate. In particular, such a transitional rate could entail significant costs to adapt the HMRC IT system to capture and process the new information on returns.

HMRC will publish its best assessment of the HMRC impact in any final Impact Assessment.

### **Revenue impacts**

This option could increase revenues from landfill tax of between £0 and £160 million a year as more waste would fall into the standard rate based on current tax rates. The precise impact would depend largely upon how much waste was diverted to other uses and treatments. It would also depend on how much standard rated waste qualified for the lower rate (as referred to above).

### **Alternative environmental criteria**

The consultation document invites comment on whether there are environmental criteria for lower rating waste other than, or beyond, criteria based on the inert characteristics of the waste. Such environmental criteria could increase the administrative and wider compliance costs of the change. It would be a new requirement to consider wastes against these criteria and we would expect there to be a period of uncertainty about whether wastes did or did not meet the criteria. In addition, there might be additional testing costs as they would not just replicate existing tests.

Against this, additional environmental criteria could reduce the costs of landfilling wastes that pass the test(s). This could be beneficial if the environmental costs of sending the waste to landfill were low, or if landfilling represented a good environmental outcome compared with other possibilities.

Where respondents are proposing additional environmental criteria they are invited, in so far as it is possible, to provide evidence on the costs and benefits of their suggestions covering the points raised above.

## 4. Impact Tests

### Competition assessment

The options for change should not have any adverse impacts on competition, as they are not expected to:

- directly limit the number or range of suppliers;
- indirectly limit the number or range of suppliers;
- limit the ability of suppliers to compete; or
- reduce suppliers' incentives to compete vigorously.

Landfill operators are generally able to pass on the costs of tax to the waste producers. HMRC are not aware of any evidence to suggest that smaller operators are less able to do so than larger operators. Further evidence on this is welcomed if this is not the case.

### Small firms impact

There is no minimum registration limit for landfill tax and therefore these options impact upon all registered landfill operators. At 1 March 2009, there were 306 landfill operators with 776 landfill sites on the landfill tax register. The registered operators are dominated by a small number of waste management businesses each operating many landfill sites. The remaining operators have either one or a small number of landfill sites.

For small landfill operators their compliance costs might represent a slightly higher burden relative to larger operators as a percentage of turnover. However, small landfill operators would be less likely to incur the relatively more expensive compliance costs involving advisors and system changes. Landfill tax arrangements should also be simpler than those of larger operators. This should mean that small landfill operators would take less time to implement any changes and therefore we would not expect them to incur any material disadvantage implementing these options relative to the larger landfill operators.

### Sustainable development

We expect that these changes would contribute to the Government's commitment to sustainable development, which consists of five principles:

- living within environmental limits;
- ensuring a strong, healthy and just society;
- achieving a sustainable economy;
- promoting good governance; and
- using sound science responsibly.

Modernising the definitions used for landfill tax to reflect environmental protection legislation and waste industry developments would help ensure that the landfill tax has its intended effects in providing an incentive to find more sustainable uses and treatments for waste. Restricting wastes which can qualify for the lower rate of tax would strengthen the environmental position of the tax because only those wastes which were inert based on an up-to-date understanding of their impact would be lower rated.

### Carbon assessment and wider environment test

These are considered under the main assessment of potential impacts section. Though they are not yet quantifiable, they would most likely be positive, but may well fall below the de minimis threshold for reporting against the climate change policy cost effectiveness indicator.

### Gender, race and disability tests

The proposed changes would affect landfill operators, businesses and other organisations that send waste to landfill. There would be no direct impact on individuals who do not themselves send waste direct to landfill (waste is sent through a third party, often a local authority). As such, we expect that there would be no impact on gender, race or disability.

### Human rights test

The proposed changes are compatible with the European Convention on Human Rights.

### Rural proofing

We do not expect that there would be any significant difference to the impact of these proposed changes in rural areas. The benefits could also be expected to accrue in any rural areas where landfill sites are located, as less waste would be sent to landfill.

### Legal aid and health impact tests

These changes would affect landfill operators, other businesses and other organisations that send waste to landfill. There are no implications for legal aid or potential health impacts.

## **5. Caveats and risks**

At this stage, the availability of quantitative evidence is limited and so it is difficult to draw strong conclusions on the potential benefits and costs of the changes. Input and evidence from waste industry and wider stakeholders would therefore be welcomed.

## **6. Conclusion**

HMRC are of the initial view that these options achieve a good balance between the benefits from reforming landfill tax to make sure it continues to achieve policy objectives and the costs to the waste industry and wider economy of implementing the changes. We do not expect there to be any significant increases in administrative burdens as a result of implementing these options.

HMRC recognises that there are some significant gaps in the evidence base within this consultation Impact Assessment and are seeking further evidence and information through the consultation process.

Where any options are implemented, HMRC will monitor progress continuously to ensure their objectives are achieved.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No