

Leading accountant calls for carbon tax action

Tax clarity would help us “see the good from the trees” says accountant.

The lack of guidance from HMRC is hampering net zero progress says a top accountant at a leading Edinburgh firm.

Primed with carbon offsetting potential for investors and businesses, the demand for Scotland’s land is continuing to soar.

Now, an expert agricultural accountant, Victoria Ivinson of Douglas Home & Co, is calling for carbon taxation legislation to keep up with the rocketing demand and activity in the market.

Ms Ivinson, who is a Chartered Accountant and Head of Agriculture at the firm, said: “A new land use trend is taking root in rural Scotland, with swathes of the country becoming woodland. This is being driven, in part, by carbon offsetting, with an emerging carbon market that is being helped along by forestry grants and corporate demand for land that offers potential for tree-planting.

“What’s already clear is that our beloved rural areas are playing a huge role in Scotland’s target to reach net-zero greenhouse gas emissions by 2045.

“As a rural accountancy firm dealing with landowner businesses, we’re told on a near daily basis of the level of enquires from interested suitors. However, those seeking to make the most of Scotland’s carbon opportunities must navigate

a confusing taxation landscape.

“With no specific guidance from HMRC on how these carbon credits should be taxed, this lack of clarity and certainty only serves to hamper the carbon trading market and impact net-zero targets.”

Landowners looking to create woodland carbon units, must have the units registered, assessed and validated. During the establishment of that woodland, Pending Issuance Units (PIUs), a promise to deliver a future carbon offset, can be sold.

Despite the woodland not sequestering the full amount of carbon the year it is planted, there is value in the sequestration potential at that stage. After certain growth targets are met, at 5 year increments, PIUs can be verified and converted into Woodland Carbon Units (WCUs), which can also be sold.

Victoria added: “Many argue there should be an exemption from taxation – currently, income that arises from commercial woodland occupied with a view to the realisation of profits is exempt from a charge to income or corporation tax. However, should revenue that occurs from carbon sequestration really be viewed as income from commercial woodland? It is not a physical product being sold, only the mere promise of a future delivery, which may fail to come to fruition.

“Lastly, are carbon credits subject to capital gains tax? While the sale of standing timber is exempt from this charge, there is no clear understanding on whether carbon credits should be treated as capital items, can it really be seen as capital when no capital asset is being sold?

“Naturally, it would benefit landowners and organisations if carbon credits were exempt or at the very least subjected to a lower tax rate.

“Without proper guidance from HMRC there is a danger these

groups could be exposed to huge variations in taxation rates depending on how the income from PIUs and WCUs are classified.”

“Getting the structure wrong could be extremely costly – with income tax rates varying anywhere between nil to 46 per cent.

“We need legislation to address this grey area, if we are to enable this emerging market to flourish. In the meantime, we can only plan as we see fit.”

Headquartered in Kelso, Douglas Home & Co has offices in Alnwick, Edinburgh, Haddington, Hawick, Melrose and Penrith. In addition to offering core accountancy and tax services, the firm has teams specialising in audit and assurance, business compliance, personal estate planning and IT services.

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Victoria Ivinson