

3 February 2016

## CONSULTATION RESPONSE: VAT: Changes to the reduced rate of VAT for Energy Saving Materials

---

Energy Saving Trust is the leading, impartial sustainable energy organisation. We work on behalf of governments and businesses across the UK providing services in the area of data, assurance, consumer engagement, advice and grant administration.

For the Department of Energy and Climate Change (DECC) the Energy Saving Trust delivers the Energy Saving Advice Service in England and Wales. We also undertake other research and awareness-raising work for DECC on a project-by-project basis. Prior to the coalition government, for over 15 years, the Energy Saving Trust ran national energy advice services for DECC and predecessor departments as a grant-funded organisation.

In Scotland the Energy Saving Trust is the principal delivery partner of the Scottish Government for home energy efficiency. We run comprehensive local and national advice and support programmes. Energy Saving Trust is one of the delivery partners for the Scottish Government's Warmer Homes Scotland scheme which helps vulnerable households make their homes warmer and cheaper to heat by installing a range of energy saving measures.

3 February 2016

## **1. Does the legislation as drafted achieve the objectives as described in this document? If not, why not?**

Broadly, yes. We are encouraged that the Government has taken the decision “to retain as much of the relief as possible whilst ensuring that UK law is fully compliant with EU law.” We welcome the fact that the Government proposes to use Category 10(a) in addition to Category 10 to ensure that most of the technologies currently covered by the reduced rate will continue to benefit. We appreciate that this is not a simple thing to do and we recognise that these changes are a fair attempt to do so.

However in the response to the question below we have suggested slight amendments to HMRC’s proposal so as to minimise disruption to the Scottish Government’s current fuel poverty programme. To our understanding this would not alter the UK’s compliance with the requirement for the rate to be applied to those with a social need, as specified in Category 10(a).

In addressing the two objectives (that of compliance, and that of retention of the lower rate of VAT), we consider that the proposals could go further with regard to maintaining reduced VAT rates across the range of technologies previously eligible for them. In particular, we disagree with the proposal to exclude solar panels from the relief in all circumstances.

Solar thermal systems contribute towards the primary enjoyment of a dwelling – that of a place providing shelter and warmth from the elements. Solar thermal provides hot water and where installed is an integral part of a heating system. As such if primary space heating and hot water provision through heat pumps, biomass boilers and microCHP can be considered to be “*renovation and repair*”, there is no reason solar thermal should not. Solar thermal systems are as much part of a refurbished heating and domestic hot water system as these other heat sources, and so should be treated in the same way.

We would like to make the general point that we are concerned about the increase in cost that will result from the reduced rate being removed for solar PV installations. Our figures show that the change in VAT will cause an increase in price for an average 4kWh installation from £7,800 to £8,900, a 14% increase. In light of the reduced tariffs and the deployment caps from the recent feed-in tariff review we are concerned that this represents a further blow to the industry and the UK’s ability to successfully deploy renewable energy. We would like HMRC to pass on to HM Treasury our view that this change to VAT should be compensated for by an increase in the total budget allocated to the Feed in Tariff.

3 February 2016

## **2. Do you have any other comments on the proposed implementation of these changes?**

### **The social policy test**

In light of the importance of tackling fuel poverty we would like the funding available in programmes across the UK to have maximum possible effect and would ask that the qualifying persons be aligned with those of existing fuel poverty programmes.

We are requesting that the eligibility requirements be widened to include those of the Warmer Homes Scotland<sup>1</sup> (WHS) scheme. More generally we believe that other devolved nations fuel poverty programmes should be looked at with this same objective in mind.

We ask specifically that the 'qualifying person' eligibility list is extended to add the following benefits to the list:

- Attendance allowance
- Carer's allowance
- Industrial injuries disablement benefit
- Council tax reduction
- Universal Credit **and** any of the benefits due to be replaced by Universal Credit (including Working Tax Credit, housing benefit, Employment and Support Allowance, income support and income-based Jobseeker's allowance)

This would ensure that the qualifying persons list is aligned with those eligible for help under WHS but would also ensure that the UK still complies with category 10 as these inclusions would not alter the reduced rate being applied for the *"provision, construction, renovation and alteration of housing, as part of a social policy"*.

Crucially however, widening the eligibility requirements would mean:

- The allocated budget for WHS would stretch further thus enabling improvements for more households in Scotland
- The administrative burden would be far simpler as all applicants eligible for WHS would also be eligible for the reduced VAT rate - only one eligibility check would be required

### **The beneficiary of the improvements**

---

<sup>1</sup> WHS was launched on the 1 September 2015 and installs insulation, heating and low carbon or renewable measures in the homes of households who are identified as living in fuel poverty, with a wider range of options for people living off the main gas grid including solar thermal and biomass systems. WHS will receive up to £224m and will improve around 30,000 homes.

3 February 2016

We would also point out the importance of ensuring that the qualifying person criteria relates to the person who benefits from the improvement. This is particularly relevant to the private rented sector (PRS) where a landlord may not be eligible for the reduced rate but the person who ultimately benefits from the improvement could well be. In this instance we believe the reduced rate of VAT should be applied. PRS tenants are amongst the most exposed to fuel poverty and the increased cost of VAT could deter landlords from making improvements that would benefit their tenants immensely. More broadly the same issue applies in leasehold flats where a freeholder may be making the upgrade.

An increase in the costs of measures in the private rented sector will militate against the effective implementation of new policies to drive energy efficiency in the PRS: minimum energy efficiency performance standards (MEEPS) in England and the proposed Regulation of Energy Efficiency Standards in the Private Sector (REEPS) requirements in Scotland.

### **Practicalities and complexity**

We have some concern about the practicality of how the proposed changes will be implemented. As energy saving materials are fitted by installers we are unclear how the social policy test will be applied in practice. As recognised in the consultation document it will not always be clear whether the customer is a qualifying person. A lot of the activity in this area is undertaken by SMEs who may not have the capacity or expertise to undertake tests without sufficient lead time. In addition, households may be unwilling to share information about their benefits and other personal circumstances with salespeople, installers and the various other parties involved in the process. This is understandable and we would be interested to know what protection and safeguards will be put in place, if any, to ensure that installers do not misuse this sensitive personal information they will be handling.

Clear guidance will be needed on how HMRC envisages that this will function in practice, making it clear to all parties and giving those responsible for undertaking the social policy test sufficient time, support and guidance on their responsibilities. It will also be important to make it clear to the general public that installers are following the correct protocol in requesting information on their personal circumstances.