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VAT Reliefs Team
100 Parliament Street
London, SW1A 2BQ

Re: Draft legislation: VAT (Reduced Rate) (Energy Saving Materials) Order 2019

To whom it may concern,

We disagree with the decision to remove the reduced rate of VAT for energy saving materials and counter HMRC's assertion that businesses will not be impacted by these changes.

1. Removing VAT reductions is likely to decrease the number of renewable and energy saving domestic installations, given the relatively high capital cost of energy saving materials.
2. There is no explanation from HMRC why this legislation is unexpectedly being proposed now, three years after the initial consultation. There has also been no government response to the original consultation or justification of the decision.
3. This decision is inconsistent with the action of the government to provide numerous tax reliefs for the oil and gas industry.

1. This change will have more than a 'negligible effect' on industry

The capital costs for domestic consumers when installing renewable generation assets have reduced significantly, but are still relatively high and rates of return are marginal. An additional 15% VAT will reduce these rates of return – we estimate that an average domestic solar installation will see payback time increased by 2 years and the value of export payments will be negated for around 6 years. This is likely to reduce the number of installations and in turn affect businesses in the renewable, storage and energy efficiency industries.

This should also be considered in the context of, and in addition to, other policies affecting the small-scale renewable industry, in particular the removal of the Feed-in Tariff (FIT). The timing of this decision to increase VAT is particularly adverse for the industry, given that the FIT has just ended (March 2019) and that there is a long gap between this closure and the introduction of the Smart Export Guarantee (SEG)[1]. The limited returns expected from the SEG at the domestic level would be negated by this VAT increase.

We have already seen significant decreases in deployment since the reduction and subsequent closure of the FIT – since 2015/6 deployment has fallen from 15–20,000 renewable installations a month to 1–2,000. This has had an impact on jobs in the sector, with the solar industry particularly badly hit, causing a 32% reduction in jobs in 2015-16 alone[2]. Any further reductions in deployment will have a similar, negative effect on the industry, resulting in reduced economic growth in the sector and job losses.

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[1] The Smart Export Guarantee is the proposal from BEIS to mandate suppliers to provide small-scale generators with a payment for renewable electricity exported to the grid.

[2] https://www.pwc.co.uk/power-utilities/assets/solar-report-2016.pdf

2. **There has been no response to the previous consultation or justification given for the delay in making these changes**

Very little contextual information has been given around this consultation, other than a referral back to the 2015/6 consultation. There is also no link provided to an official government response to the 2015/6 consultation, if it exists, and therefore it is difficult to understand the justification for making this change, beyond complying with the 2015 CJEU ruling, and whether initial concerns from industry were in fact considered by HMRC.

The gap between the initial proposal in 2015 and its implementation in law is significant. In that time, the EU position on VAT relief has changed and the renewable and storage industries in the UK have evolved. These changes should have been taken into account when making this change, but there is no evidence of such consideration in this consultation.

3. **In comparison to the favourable tax relief given to fossil fuel industry, this change is disproportionate**

The tax reliefs offered to the oil and gas industry are significant and, as noted by the National Audit Office[3], potentially incompatible with climate change targets. If the government is willing to use tax relief as a method of stimulating growth in the fossil fuel industry, why is the same principle not being applied to renewable energy, storage and energy efficiency – all of which are necessary to meet our carbon budgets?

Beyond the domestic level, renewables are being penalised through taxation including high business rates for solar and storage and the removal of Social Investment Tax Relief (SITR) for community energy projects.

In the context of the recently released net-zero report from the Committee on Climate Change, the way we incentivise low carbon technologies must reflect the speed and ambition necessary to decarbonise.

We ask that HMRC provide responses to the above questions and engage further with industry before making a decision on these changes.

Yours faithfully,

Madeleine Greenhalgh

Policy and Advocacy Manager, Regen and the Electricity Storage Network

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Regen is an independent, not-for-profit centre of expertise on sustainable energy with 15 years frontline experience of working in the renewable energy sector. Regen manages the Electricity Storage Network - the UK industry group formed in 2008 dedicated to electricity storage.

Regen and the ESN have 180 members from business, local authority, community energy, consultants, academic institutions, and research organisations across the energy sector.

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[3] Oil and gas in the UK – offshore decommissioning, NAO report, 2019. https://www.nao.org.uk/wp-content/uploads/2019/01/Oil-and-gas-in-the-UK-offshore-decommissioning.pdf