

Title of the measure:	UK3_Reduction in VAT Rate for Energy Saving Materials
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General description

Reduction in VAT Rate for Energy Saving Materials: In November 2011, HMRC policy on the reduced rate of VAT for installation of energy-saving materials and heating equipment was updated, modifying the historic policy (included below for completeness). The standard rate is currently 20% (since Jan 2011) and the reduced rate is currently 5% (since Sept 1997) further details of VAT rates can be found in the UK HMRC VAT Guide, see References.

The reduced rate of VAT applies to the installation (supply alone is not covered) of specific energy-saving materials in residential accommodation (including houses, flats, armed forces accommodation, children's homes, homes providing care for the elderly, disabled, or those with drug dependency or mental disorders, hospices, religious communes, student accommodation, holiday accommodation, static caravans and houseboats) or a building used solely for charitable purposes.

The reduced rate of VAT for energy saving materials is enforced by UK legislation under The VAT Act 1994 and there are two elements to the legislation; specifying when installations of energy-saving materials are subject to a reduced rate (Schedule 7A, Group 2) and when grant-funded installations of heating equipment and security good are reduced-rated (Schedule 7A, Group 3).

The list of energy-saving materials covered has been extended to also cover ground source heat pumps in 2004, and to include air source heat pumps, micro combined heat and power units and wood fuelled boilers in 2006. The reduced rate does not cover energy-efficient products such as boilers, double glazing, fridge freezers etc.

- controls for central heating and hot water systems
- draught insulation (eg around windows and doors)
- insulation on walls, floors, ceilings, lofts, etc
- solar panels
- wind turbines
- water turbines
- ground-source heat pumps
- air-source heat pumps
- micro combined heat and power units
- wood-fuelled boilers

For the grant-funded installations of heating equipment and security goods, the reduced rate applies to the grand-funded installation of certain heating appliances, central heating and renewable source systems (listed bullets below) in the sole or main residence of the qualifying person (criteria below). The reduction includes the price of the equipment itself but it only applies to the extent that the supply is grant-funded.

It applies to the following heating appliances:

- closed solid-fuel fire cassettes;
- electric dual-immersion water heaters;
- electric storage heaters;
- gas-fired boilers;
- gas room heaters with thermostatic controls;
- oil-fired boilers; and
- radiators.

Reductions also apply for central heating systems; renewable source heating systems; connection or reconnection to the mains gas supply. Those qualifying are those over 60 or receiving benefits such as child tax credit; council tax benefit; disability living allowance; disability living allowance; disablement

pension; housing benefit; income-based job seeker's allowance; income support; war disablement pension or working tax credit.

Impact evaluation (methods and results)

The impact of this measure is neither included in the UK's progress report on the UK NEEAP 2007 (published July 2011) nor in the 2014 NEEAP (published April 2014), likely due to the fact it has been implemented since 1998 and there is substantial interaction with other measures.

Historical description

The Government introduced various financial measures to incentivise energy efficiency, including a reduction on VAT for professionally installed energy saving materials and the Landlord's Energy Saving Allowance. In 1998, the Government introduced a reduced rate of 5% VAT for the grant-funded installation of certain energy-saving materials (ESMs) in the homes of elderly, less well-off and vulnerable households. This reduced VAT rate applied to all insulation, draught stripping, hot water and central heating controls. The level of VAT on the installation of energy saving materials was reduced for all households from 17.5% to 5% from 1 April 2000. The reduction covers the supply and installation of insulation, draught stripping, hot water and central heating system controls, and solar panels. The reduction does not apply to goods purchased for DIY installation. The Government has also introduced reduced VAT rates for microgeneration in order to support the development of micro technologies that use renewable energy sources and can help to improve energy efficiency. A reduced rate of VAT (5%) for grant funded central heating systems was also introduced. It was extended to cover the installation, maintenance and repair of central heating systems in the homes of less well-off pensioners. It also applies to the installation of heating measures in homes of the less well-off where these are funded by Government grants. VAT-reduced rates (from 17.5% to 5%) were introduced in Budget 1998, Budget 2000 and Budget 2002 on a number of residential insulation and heating products. Products, if professionally installed in premises used for residential or charitable purposes, receive the reduced rate of VAT.

The grant-funded market was primarily covered by home energy efficiency schemes operating in England, Scotland, Wales and Northern Ireland. However, Northern Ireland had not set up its scheme so as to warrant the reduced rate. The only other scheme included in the grant sector analysis is that offered by the DTI, covering solar panels.

On 21 February 2013, the European Commission referred the UK to the EU Court of Justice for its application of the reduced VAT rate on the supply and installation of energy-saving materials. The Commission took the view that the exemptions were exceeding the scope of the VAT Directive.

Landlord's Energy Saving Allowance (LESA): A Landlord's Energy Saving Allowance (LESA) was also introduced in April 2004 to provide an incentive for private landlords to improve the energy efficiency of the residential properties that they let. This offers upfront relief (up to £1500 per dwelling) for capital expenditure on investment in cavity wall and loft insulation. This was extended in 2005 to include solid wall insulation, in 2006 to include draught proofing and hot water system insulation, and again in 2007 to include floor insulation. It has been available to individual landlords since 2004 and for corporate landlords since 2008. The allowance has been extended to 1 April 2015 when the availability of the allowance will end.

Historical data

The impact of a Package of Measures (includes the Green Landlord Scheme, improved enforcement of Building Regulations, reduced VAT for wood fuelled plants and the Low Carbon Building Programme) was set out in the 2007 UK Energy Efficiency Action Plan:

Ex-post evaluation	1995	2000	2010	2020
CO ₂ (kt)				
Energy (TJ)				
Ex-ante evaluation	1995	2000	2010	2020
CO ₂ (kt)			367*	367*
Energy (TJ)			5,040**	5,400**

*Carbon reported as (2010) 0.1MtC/year; (2016) 0.1MtC/year and (2020) 0.1MtC/year;
(Multiplied by 44,000 divided by 12 to convert to ktCO₂)

**Energy reported as (2010) 1.4 TWh; (2016) 1.5 TWh and (2020) 1.5 TWh;
(Multiplied by 3,600 to convert to TJ)

Source: 2007 UK Energy Efficiency Action Plan

Measure Impact Level		
<input checked="" type="checkbox"/>	low	<input type="checkbox"/> medium <input type="checkbox"/> high

Definition of the qualitative impact level

- The categories (low, medium, high) are linked to the aggregate electricity or energy consumption of the respective sector (households, transport, industry or tertiary), and not to a particular end-use, because the aggregation of the impacts is easier.
- The following limits (in each case in % of the overall final energy or electricity consumption of the sector; in case of fuel substitution and CHP: of primary energy consumption) are defined for the three impact levels:
- **low impact:** <0.1%
- **medium impact:** 0.1-<0.5%
- **high impact:** ≥0.5%.

Interaction of measures

*Reduced VAT rates effectively increase the number of installations under a grant programme (with fixed funding) such as the UK5_Warm Front and Fuel Poverty Programmes. The savings are therefore counted as part of the relevant grant programme and are not additional. The non-grant-funded market is primarily covered by the UK20_ Carbon Emission Reduction Target (CERT) and energy supplier obligations. Sources suggest that the only substantial market to fall outside of the CERT is central heating and hot water system controls which are estimated to account for savings of <0.05 MtC/year (183 ktCO₂/year) by 2010.

References

2007 UK Energy Efficiency Action Plan

http://ec.europa.eu/energy/demand/legislation/doc/necap/uk_en.pdf

UK HM Revenue and Customs - Energy Saving Materials

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageOnlineServices_ShowContent&propertyType=document&columns=1&id=HMCE_CL_000514

UK HM Revenue and Customs - VAT Guide

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageOnlineServices_ShowContent&id=HMCE_CL_001596&propertyType=document

2006 UK Climate Change Programme (historic)

<http://www.official-documents.gov.uk/document/cm67/6764/6764.pdf>

Landlord's Energy Saving Allowance (Direct Gov)

http://www.direct.gov.uk/en/HomeAndCommunity/Privaterenting/RentingOutYourProperty/DG_175186

Last update: May 2013

Landlord's Energy Saving Allowance (HMRC)

<http://www.hmrc.gov.uk/manuals/pimmanual/PIM2072.htm>

Historic levels of VAT receipts

<http://www.tax.org.uk/Resources/CIOT/Documents/2013/03/VAT%20historic%20table.pdf>