



CALL FOR EVIDENCE: VAT ENERGY SAVING MATERIALS RELIEF – IMPROVING ENERGY EFFICIENCY AND REDUCING CARBON EMISSIONS

Issued 30 May 2023

ICAEW welcomes the opportunity to comment on the Call for evidence: VAT energy saving materials relief – improving energy efficiency and reducing carbon emissions published by HM Revenue & Customs on 15 March 2023, a copy of which is available from this [link](#).

For questions on this response please contact the Tax Faculty at taxfac@icaew.com quoting REP 47/23.

This response of 31 May 2023 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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EXECUTIVE SUMMARY

1. Thank you for this opportunity to provide comments on this call for evidence regarding the VAT energy saving materials relief.
2. As per the Tax Faculty's Ten Tenets for a Better Tax System (see Appendix 1), we believe that the tax system should be simple.
3. When applied to VAT, this means that a broader tax base is preferable to one with many reliefs. This approach has been supported by the [OECD](#) and by the [Mirrlees review](#).
4. Complexity is introduced at the definitional margins of any rate of VAT additional to the standard rate.
5. Evidence based on the recent extensions of the UK zero rate (to women's sanitary products and e-books) suggests that VAT relief is generally not passed through to consumers.
6. Furthermore, a paper evaluating the impact of a cut to the VAT rate for French sit-down restaurants in 2009 found that consumers benefitted the least from the cut, with firm owners 'pocketing' 55% of the benefit of the rate cut: [Who Really Benefits from Consumption Tax Cuts? Evidence from a Large VAT Reform in France - American Economic Association](#)
7. On this basis, we would generally prefer to see specific VAT reliefs removed and replaced with targeted grants.
8. However, we appreciate the overarching complexity of the structure of the UK's VAT regime is not within HMRC's gift alone to solve.
9. Furthermore, ICAEW is committed to helping to achieve the UN's Sustainable Development Goals. This includes 'ensuring access to affordable, reliable, sustainable and modern energy for all' and 'taking urgent action to combat climate change and its impacts'.
10. Taking these factors into account, ICAEW's Tax Faculty considers that the VAT energy saving materials relief should be extended to electrical battery storage and other technologies that provide energy saving (and/or energy generating) benefits.
11. We cannot comment on which other technologies this may include and will leave this to those with more expertise in energy saving materials to comment on.
12. It should be considered by HMRC whether, to simplify the relief and create a bigger impact in this sector, the relief should be extended to the supply of energy saving materials rather than just the installation of these materials, or the supply and installation of these materials.

ANSWERS TO SPECIFIC QUESTIONS

Battery Storage

1. ***Do you think battery storage should be included in the relief when retrofitted to a solar panel or other ESMs?***
13. Yes, there is no reason why those that have already had solar panels installed should not benefit from retrofitting battery storage.
2. ***Do you think battery storage should be included in the relief as a standalone technology, not connected to another ESM?***
14. Yes, assuming this will save energy, either for the household or for the national grid. On the face of it, the wider this relief, the less likely it is that it will have a distortionary impact and the less likely it is that there will be legal debate at the margins of the relief.

3. Can you explain how this type of battery storage would meet each of the 3 objectives set out in Chapter 2?

15. Solar panels become more viable for some households with the addition of battery storage. This would therefore reduce carbon emissions and have an impact on consumer behaviour. We can see no reason why this is not compatible with broader VAT principles.

4. Can you explain how this type of battery storage operates?

16. No.

5. What is the typical cost of installing this type of battery storage in residential accommodation?

17. We cannot comment on this aspect of the call for evidence.

6. What are the advantages and disadvantages of including this type of battery storage within the relief?

18. As stated above, battery storage makes the installation of solar panels more viable for some consumers, so removing the VAT on this should increase take-up.
19. Although we note that the removal of VAT may not directly lower prices, as the VAT relief is generally not passed through to consumers based on recent evidence, it should support businesses in this sector and make the sector more competitive.
20. The only disadvantage remains that VAT may not be the most effective tool for encouraging take-up and specifically targeted grants might be more suitable.

Other technologies

Are there any other technologies you believe meet the 3 objectives, but do not currently qualify for the relief?

7. How would you describe and define this technology for the purposes of the ESMs relief?

21. We are not able to comment on this section of the call for evidence.

8. How does the suggested technology meet each of the 3 objectives in Chapter 2?

22. We are not able to comment on this section of the call for evidence.

9. Can you explain how this technology operates and does it work conjunction with other technology? If so, how?

23. We are not able to comment on this section of the call for evidence.

10. What is the typical cost of installing this technology in residential accommodation?

24. We are not able to comment on this section of the call for evidence.

11. What are the advantages and disadvantages of including this technology within the relief?

25. We are not able to comment on this section of the call for evidence.

Are there any technologies which currently qualify for the relief which you believe do not meet the 3 objectives and should not qualify for the relief?

12. Which technology does not meet the 3 objectives?

26. We are not able to comment on this section of the call for evidence.

13. Can you explain why you think that this technology does not meet any of the 3 objectives and therefore should not be included within the relief?

27. We are not able to comment on this section of the call for evidence.

Charities

14. Do you think the relief for the installation of ESMs in a building intended for use solely for a relevant charitable purpose should be reinstated? And if so, why?

28. The charitable sector will no doubt be making their own submissions in response to this consultation.

29. However, it is our view that reintroducing a VAT relief for installing ESMs in a building intended for use solely for a relevant charitable purpose does complicate the UK VAT regime.

30. In principle, if you are going to use a VAT relief to try to improve the take-up of energy saving materials, to ensure simplicity, the relief should not depend on who the customer is.

31. It would be simpler and more impactful for the relief to apply to all installations of ESMs and, indeed, any supply of ESMs.

15. As a charity are you considering installing ESMs in your buildings?

32. We are not able to comment on this section of the call for evidence.

16. To what extent do you think that charities would benefit from the reinstatement of this relief?

33. We are not able to comment on this section of the call for evidence.

17. What are the advantages and disadvantages of reinstating the relief?

34. The advantages of reinstating this relief are that ESMs should become more affordable for some charities, thus encouraging wider take-up across the country.

35. Even if suppliers do not pass on the entirety of the VAT saving, it will become more profitable for them to supply charities so prices may indirectly be lowered.

36. The disadvantage of reinstating this relief is that it adds complexity to the VAT system, particularly around the definition of relevant charitable purpose.

Other issues

18. Are there any other suggestions you have for making the relief more effective and efficient?

37. As mentioned in our executive summary and throughout our response, widening the VAT relief is not the most effective and efficient way of encouraging take-up of ESMs.

38. We would prefer for VAT to be kept as simple as possible, with take-up of ESMs encouraged by carefully targeted grants.

19. Are there any other issues that you would like to raise?

39. We are not sure what is meant by HMRC's assertion in Objective 3 that 'it would not be appropriate to enable the ESMs element to be carved out of the wider single supply'.

40. For example, assume a customer spends £30,000 on building renovations, including £15,000 on energy saving materials. Is this a wider supply such that the whole of the supply, including the installations of the ESMs, should be standard-rated (assuming the renovations do not qualify for the reduced rate)?

41. We recommend that this is considered further.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).