



# Call for Evidence Response

## Energy saving materials relief

Date: 31 May 2023

### Introduction

1. The Country Land and Business Association (CLA) is the membership organisation for owners and managers of land, property and business in rural England and Wales. As well as agriculture and forestry, our members operate nearly 250 different types of business located in the rural area.
2. The CLA welcomes this opportunity to respond to the call for evidence on Energy Saving Materials Relief – improving energy efficiency and reducing carbon emissions.

### General comments

3. The reduction in the VAT rate for energy-saving materials (ESMs) to zero from 1 April 2022 until 31 March 2027 and the removal of the social policy or threshold conditions to qualify for reduced rating thereafter was a welcome announcement at the Spring Statement 2022.
4. However, whilst the government has acknowledged that the purpose of this was to “support households to improve the energy efficiency of their homes, bolstering the UK’s energy security and contributing to our transition to Net-Zero”, the reduction does not go far enough to benefit everyone looking to improve the energy efficiency of their homes. With government net zero targets to be met and the need for all homes to be more energy efficient, it seems illogical that simple measures that could be taken are not encouraged through VAT rates. This includes switching to LED light bulbs, installing LED lights, double glazing or secondary glazing.
5. Householders could take the simple step of purchasing LED lightbulbs or loft insulation that they can fit to themselves to improve energy efficiency. Yet the purchase of LED lightbulbs or lighting and loft insulation at their local DIY stores is subject to 20% VAT.
  - LED lightbulbs and lighting do not appear on the list of qualifying technology. Adding these so that their price is reduced will make it more cost effective for more households to switch their lighting, at a faster pace, to energy efficient LED lights.
  - The reduced rating only applies to the installation of qualifying energy saving materials and not where the materials are purchased separately.
6. It is disappointing that the call for evidence takes the view that it would not be appropriate for the ESM element to be carved out of a wider supply. We do not believe that this would cause confusion as suggested. At the very least, if it should be possible for suppliers to provide a separate invoice for the ESMs themselves so that they can be zero-rated even if supplied at the same time as other refurbishment works.

## Specific Comments

7. We have the following comments in relation to the consultation questions, some of which we have answered together. We have limited our response to those questions which are relevant to the CLA and its members.

### **Battery storage**

**Do you think battery storage should be included in the relief when:**

**Question 1: Retrofitted to a solar panel or other ESMs (please provide details)?**

**Question 2: As a standalone technology not connected to another ESM?**

8. Yes, to both questions. It would be sensible to include battery storage in the relief and this should qualify when it is retrofitted to existing solar panels or other ESMs. This would recognise that the option of installing batteries may not have been available when the solar panels or other ESMs were originally fitted. It would also avoid penalising those that cannot afford to install battery storage at the same time as other energy saving measures, such as solar PV, but wish to take steps to decarbonise their homes in two or more stages.
9. Certainty of electricity supply is an important issue for rural properties, whether owner occupied or tenanted. Reducing the cost of standalone battery storage by removing VAT will encourage wider take-up of this technology as more households would be incentivised to install battery storage. This would provide an alternative to diesel generators that are often used to provide a back-up supply of electricity. This would benefit rural properties and help them to reduce their carbon footprint.
10. Battery storage can also play a role to help reduce overall energy costs even if they are installed as a standalone technology. Households can use battery storage to enable them to benefit from variable tariffs that allow them to buy electricity when it is cheaper and use at times of high demand (typically 4-7pm) when tariff prices are higher.

**If so:**

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

11. Including battery storage in the relief will mean that those households that generate electricity can store it when they generate more than they need to use in their homes during daylight hours to use later. This will minimise the electricity they use from the national grid that is derived from fossil fuels (Objective 1). It would also meet objective 2 in that reducing the costs for households may encourage more to add battery storage to an existing solar installation or to include it in a new solar installation, for example. Expanding the relief in this way would not undermine broader VAT principles as required by objective 3.

**Question 4: Can you explain how this type of battery storage operates?**

12. We have no comment. Manufacturers and suppliers of battery storage are better placed to provide an explanation.

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

13. Suppliers of battery storage are better placed to provide details of the costs. Whilst we are unable to specify the typical cost of installing battery storage in a residential property, we understand from one of our professional members that the costs are approximately £1,000 kw for domestic batteries of which a typical size might be 5 -10 kW. Some examples of costs incurred by members are:

- 8.2kWh Battery - £6,650 inc vat
- 9.5kWh Battery - £7,650 inc VAT
- 5kWh Battery - £5,700.00 net

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

14. We have already outlined some advantages in our response to question 3.

***Other technologies***

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

**If so, for each technology, can you answer the following questions:**

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

**Question 8: How does the suggested technology meet each of the 3 objectives in Chapter 2?**

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

**Question 10: What is the typical cost of installing this technology in residential accommodation?**

**Question 11: What are the advantages and disadvantages of including this technology within the relief?**

15. It is important that the list of qualifying materials remains a dynamic one to capture new technologies as they become available. CLA Members have suggested various technologies that should be included in the list of qualifying materials. These include small scale fly-wheels or hydro, and heat reserve technologies - which may all be better for the environment. Other items that should qualify for relief to facilitate the reduction of energy use in more homes are LED light bulbs and lights and double glazing or secondary glazing. In addition, to encourage more to move to electric vehicles, EV charging stations should also qualify for relief.

16. We although we are not in a position to explain how the suggested technologies work or provide details of the costs.

**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?**

**If so:**

**Question 12: Which technology does not meet the 3 objectives?**

**Question 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?**

17. We have no comment.

**Charities**

**Question 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?**

18. We support the proposal to reinstate the relief for charitable buildings. Reinstatement would benefit those members that operate a charity and enable more money to be available to spend on charitable work.
19. When Schedule 7A was introduced to the VAT Act 1994 in 2001, the meaning of “use for a relevant charitable purpose” was set out in paragraph 3 of the notes for Group 2. This provided that “use for a relevant charitable purpose” use of a building by a charity “as a village hall or similarly in providing social or recreational facilities for a local community.” To support local communities, particularly in rural areas, the relief should apply to the installation of ESMs in all village halls and community centres and churches regardless of whether they are owned and operated by charitable organisation. This would facilitate the installation of ESMs in more of these buildings to help reduce the running costs of these community buildings.

**Question 15: As a charity are you considering installing ESMs in your buildings? if yes, what ESMs are you considering installing? what impact would VAT relief have on this decision?**

20. We have no comment.

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

21. We have no comment.

**Question 17: What are the advantages and disadvantages of reinstating the relief?**

22. Reinstatement of relief from VAT would encourage the installation of ESMs to charitable buildings. This would save charities costs on the installation works and also ongoing energy costs. This would free up more funds to be spent on providing their charitable services.

**Other issues**

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

23. The relief would be more effective and efficient if it was not limited to the installation of qualifying ESMs. This limitation means that it is not available where the materials are purchased separately. So, for example, a homeowner who purchases loft insulation from a local DIY retailer must pay 20% on the cost of that insulation because they are going to install it themselves, whereas if they had asked a local trader to supply and fit

the insulation it would be subject to zero-rating. This means they must incur the cost of the labour, for something they could easily do themselves.

24. To make the reduction in VAT more workable and accessible to more households at a time when many want to reduce their heating costs to counter high energy prices, the scope of the zero-rating should be extended to the purchase of energy-saving materials as well as their installation.

*Deliverability*

25. One CLA member was completing energy upgrade works on four properties to make them suitable for reletting. The member was cautious about upcoming changes to minimum energy efficiency standards so was completing work to meet EPC 'C'. The four properties had the following spend on energy efficiency upgrades:

Property	Cost without VAT	VAT @20%
1	£13,978	£2,795.60
2	£7,825	£1,565
3	£21,145	£4,229
4	£32,093	£6,418.60
		<b>£15,008.20</b>

This member could have saved £15,008.20 in VAT. This is the equivalent of upgrading another property to meet EPC 'C'.

**Question 19: Are there any other issues that you would like to raise?**

26. There is also a practical problem where the energy-saving materials are installed at the same time as other improvement works are undertaken to a residential property. For example, a property may also need to be upgraded with new wiring, plastering, new bathroom and kitchen with associated redecoration at the same time as the new energy-saving materials, such as loft insulation, air source heat pumps, etc are installed. Where these works are all provided by the same contractor, the benefit of the zero-rate on the ESMS is denied. This is because the current HM Revenue and Customs guidance is that there is a single composite supply of refurbishment works and that the energy efficiency installation works are ancillary to the overall property refurbishment.
27. In many rural residential properties, landlords seeking to meet EPC C also need to fit internal wall installation when installing air source heat pumps so that they are effective in heating the home. However, to do so requires taking out kitchens, bathrooms etc to access the walls, and reinstating/replacing them, rewiring, plastering and redecorating, etc to make good. In these circumstances the additional works should be regarded as ancillary to the installation of ESMS as they are a necessary consequence of that installation. However, the examples in paragraphs 2.9 in VAT Notice 708/6, do not provide assurance that they will be accepted as ancillary enabling all the works to qualify for relief.
28. There are good reasons why such works may be undertaken at the same time by the same contractor. It is convenient for the homeowner or landlord (both private landlord or social housing provider) to deal with one contractor and to minimise the disruption

this will involve if this means that the owner or tenant has to vacate the property while the works are undertaken.

29. With a government target for all homes, regardless of tenure, to achieve a minimum of EPC band C by 2035, we recommend that where the installation of energy efficient materials are supplied as part of a larger contract for refurbishment services that this should be viewed as a mixed supply, with each element being taxed accordingly. This would mean that the installation of the ESMs qualify for the zero rate in accordance with the government's intention to provide relief.

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