



Solar Trade Association
Greencoat House
Francis Street
London
SW1P 1DH
Date: 13/05/2019

**The Rt Hon Mel Stride MP
HM Revenue and Customs
100 Parliament St,
Westminster, London
SW1A 2BQ**

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

Dear Minister,

On behalf of the UK's Energy-Saving Materials industries, we are writing to recommend that you reconsider this proposed amendment to the scope of VAT relief for Energy-Saving Materials (ESM). By arbitrarily excluding small-scale renewable energy generation and storage systems as well as heat pumps from the reduced VAT rate in all cases where the cost of materials exceeds 60% of the total cost of installation, HMRC would inflict significant damage on thousands of UK businesses, and would severely undermine the Government's ability to meet its legally-binding decarbonisation commitments.

In the consultation document, HMRC suggest that this amendment will ensure compliance with EU law, and that the impact on businesses and customers will be 'negligible' both in terms of the number of installations this will affect as well as the disruptive impact it would have to businesses administratively. We strongly disagree with both claims.

Firstly, you will be aware that the views of the European Commission (EC) on application of VAT have evolved considerably since the 2015 ruling against the UK's reduced rate for ESM, with an EC proposal to introduce more flexibility for member states to change the VAT rates they apply to different products currently under consideration by the European Parliament. The Commons Select Committee on European Scrutiny considered this proposal at their 19 December 2018 meeting, concluding: **'We agree with the Government's active stance in the negotiations, because it remains unclear whether the amendments will need to be applied in the UK despite its scheduled withdrawal from the EU on 29 March 2019.'**

Given both the current ambiguity as to the validity of the ECJ decision on UK VAT rates with regard to ongoing legislative reform, as well as the UK's imminent departure from the EU, it is wholly inappropriate for the UK to be using the 2015 ruling as justification for such sweeping changes to VAT implementation.

Secondly, we would strongly dispute the suggestion that the economic impact of these changes will be “negligible.” Evidence from across our sector suggests that if implemented, these changes could lead to bankruptcies and job losses, at a time when the small-scale renewables industries are already contending with the complete closure of any policy support mechanisms since March 31st.

Furthermore, these changes will severely constrain the benefit of further cost reductions in ESM due to efficiency improvements and reduced installation costs, and would deter a significant number of households and businesses from investing in them. This is particularly the case for systems including battery storage, a technology widely recognised as essential for the transition to a smart, flexible and decarbonised energy system.

We therefore strongly recommend this legislation not be implemented on the 1st October, and that the VAT reduced rate framework for ESM should remain the same. If legislation is to be changed, we would strongly urge the percentage threshold for material costs to be raised from 60% to 85%.

We would be glad to provide further evidence in support of our position as set out here, and look forward to further constructive engagement with you on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Hewett". The signature is fluid and cursive, with the first name "Chris" and the last name "Hewett" clearly distinguishable.

Chris Hewett
Chief Executive
Solar Trade Association

And on behalf of:

Ian Rippin, Chief Executive, MCS
Merlin Hyman, Chief Executive, Regen
Joanne Wade, Deputy Director, Association for Decentralised Energy
Dr Howard Porter, CEO, BEAMA
Leslie Rudd, Chief Executive, Sustainable Energy Association
Graham Wright, Chairman, Heat Pump Association

cc Rt.Hon. Claire Perry MP, Minister for State for Energy & Climate Change