

VAT: reduced rate energy saving materials in charity buildings

Who is likely to be affected?

Businesses in the construction sector who install energy saving materials (ESM) and charities that use buildings solely for a non-business use such as a village hall or similar.

General description of the measure

The reduced rate for the installation of ESM in buildings used solely for a relevant charitable purpose is to be withdrawn.

Policy objective

This measure is a response to the European Commission's position on the UK's reduced rate of VAT on the installation of ESM in residential accommodation and 'charitable buildings'.

The Commission considers that there is no legal basis for a reduced rate of VAT for ESM. The UK disagrees but accepts that this VAT relief can only apply to housing and does not extend to 'charitable' buildings which are not housing. This measure therefore announces the Government's intention to withdraw this VAT relief in relation to charitable buildings in 2013 to ensure that UK legislation fully complies with EU law.

Background to the measure

The UK applies a reduced rate of VAT to the installation of ESM in various types of building. The Commission has initiated legal proceedings against the UK on the basis that this reduced rate is not allowed in EU law.

Whilst the Government does not agree with all the arguments put forward by the EU, it has reluctantly accepted that in applying the reduced rate for charitable buildings, the UK is applying the provisions too widely. Consequently, at Budget 2012, the Government announced its intention to withdraw this reduced rate from charitable buildings as part of Finance Bill 2013 and informed the Commission of this.

The subsequent publication of the Commission's Reasoned Opinion indicates that it intends to proceed with the infraction against the UK in any event. The Government will continue to defend the remainder of the reduced rate.

Detailed proposal

Operative date

The measure will have effect on the installation of ESM supplied on and after 1 August 2013

Current law

The reduced rate for the installation of ESM is legislated for in Group 2 of Schedule 7A to the Value Added Tax Act 1994.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Group 2 to exclude all reference in Items 1 and 2 to "a building intended for use solely for a charitable purpose".

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure will affect only those individuals and households who hire out or make use of charitable buildings and will have the costs of installation passed on to them. The impact will be negligible and will diminish over time.					
Equalities impacts	No impacts have been identified on any groups sharing protected characteristics.					
Impact on business including civil society organisations	One-off compliance costs have been considered and are expected to be negligible. Only a small number of businesses, some of which are likely to be small businesses, are estimated to routinely work on the installation of ESM; these are expected to incur small costs from familiarisation with the new guidance and additional bookkeeping. A further 100,000 businesses who provide construction services may incur very minimal familiarisation costs.					
Operational impact (£m) (HMRC or other)	The changes are not expected to have an impact on the operations of HM Revenue & Customs.					
Other impacts	<p><u>Small firms impact test</u>: there will be a minimal affect on some small businesses as a result of this measure.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

This measure may be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact: John Egerton on 020 7147 0238 (email: john.egerton@hmrc.gsi.gov.uk).

1 Reduced rate for energy-saving materials

- (1) Group 2 (installation of energy-saving materials) of Part 2 of Schedule 7A to VATA 1994 (reduced rate supplies of goods and services) is amended as follows.
- (2) For items 1 and 2 substitute—
 - “1. Supplies of services of installing energy-saving materials in residential accommodation.
 2. Supplies of energy-saving materials by a person who installs those materials in residential accommodation.”
- (3) Omit Note 3 (meaning of “use for a relevant charitable purpose”).
- (4) The amendments made by this section have effect in relation to supplies made on or after 1 August 2013.

EXPLANATORY NOTE

VAT: REDUCED RATE FOR ENERGY-SAVING MATERIALS

SUMMARY

1. This clause amends the legislation relating to the reduced VAT rate for the installation of energy-saving materials (ESM). Its effect is to reduce the scope of this reduced rate. Previously, the reduced rate applied to installations of ESM in residential accommodation or buildings intended for use solely for a relevant charitable purpose. Following the change to the law, the reduced rate will cease to apply in the case of buildings intended for use solely for a relevant charitable purpose but will continue to apply in the case of residential accommodation.

DETAILS OF THE CLAUSE

2. This clause amends Items 1 and 2 of Group 2 of Schedule 7A to the Value Added Tax Act (VATA) 1994 by removing the references to buildings intended for use solely for a relevant charitable purpose so that the reduced rate is restricted to supplies of services of installing ESM in residential accommodation.

BACKGROUND NOTE

3. The UK applies a reduced rate of 5 per cent VAT to the supply and installation of certain ESM (listed in the attached Annex) in a building that consists of a dwelling or a number of dwellings, a building or part of a building used for a relevant residential purpose, a caravan used as a place of permanent habitation, a houseboat or a building intended for use solely for a relevant charitable purpose (i.e. by charities for non-business purposes or as village halls or similar buildings).
4. The relevant UK legislation for the reduced rate of VAT can be found at Section 29A of Schedule 7A VATA. The EU vires for this legislation is contained within European legislation, specifically article 98 of, and Category (10) of Annex III to, the Principal VAT Directive Category (10) (Category (10) refers to the '*provision, construction, renovation and alteration of housing, as part of a social policy*').
5. The European Commission (Commission) has taken the view that the UK's application of the reduced rate for the installation of ESM exceeds the possibilities offered to Member States by Category (10). In the Commission's view, the UK is unlawfully applying the reduced rate since ESM are not listed in Category (10) and, even were they, the UK has applied a reduced rate to their installation as part of an environmental, not

a social, policy. In addition, buildings intended to be used solely for a relevant charitable purpose are not, in any case, housing as referred to in Category (10). The UK Government disagrees with the Commission's first two points but accepts its final point, namely that charitable non business buildings and village halls cannot properly be described as housing.

6. Although the Commission takes the view that the UK's entire application of the ESM reduced rate is ultra vires, the UK government takes the view that it is only its application to buildings intended for use solely for a relevant charitable purpose that is in breach of European law. As such, UK law needs to be amended to restrict this reduced rate to supplies of services of installing ESM in residential accommodation by removing the references to buildings intended for use solely for a relevant charitable purpose.
7. If you have any questions about this change, or comments on the legislation, please contact John Egerton on 020 7147 0238 (email: john.egerton@hmrc.gsi.gov.uk).