

Rt Hon Phillip Hammond
Chancellor of the Exchequer
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Damaging VAT rise for renewables & energy storage

We are writing to you as Chair of the All Party Parliamentary Group (APPG) on Energy Storage, the parliamentary grouping for those with an interest in the transition to a flexible, low cost, decarbonised energy system, and CEO of the REA regarding the proposed rise (with caveats) in VAT rates for Energy Saving Materials¹. The Renewable Energy Association (REA) provides the Secretariat to the APPG Energy Storage and represents renewable electricity, heat and transport, as well as Electric Vehicle companies and Energy Storage encompassing a generators, project developers, fuel and power suppliers, investors, equipment producers and service providers.

The VAT proposals as contained in the Energy Saving Materials consultation risk the transition to a flexible, low carbon energy industry, and with it lost jobs and investment. With an unprecedented level of change in the energy industry and grid charging regime, tax considerations are a critical area for the renewable energy and energy storage industries. The Imperial College report "Blueprint for a post Carbon Society" shows the whole system benefit of residential flexibility could be up to £6.9billion. Therefore, the VAT rise is not being considered against the negative impact this could have on the energy market and ultimately consumer pockets. They must be taken in the context of a myriad of negative policy change in recent years, with recent REA research suggesting a possible 6,200 job losses from changes to other policy measures (inadequate replacement of the FiT for example), and this would compound this situation.²

Suggested solutions:

In terms of a way forward we suggest the following options:

- The REA and our members are calling for recognition of the value for the energy system, opportunities for jobs and investment, of flexibility and renewable technologies, by implementing VAT relief on Solar, Solar and Energy storage, Biomass boilers and stand-alone Energy storage systems. This

¹ HMRC, 2019, <https://www.gov.uk/government/consultations/draft-legislation-vat-reduced-rate-energy-saving-materials-order-2019>

² Survey of Renewable Energy Consumer Code Renewable Installation companies, autumn 2018, <https://www.r-e-a.net/news/new-data-shows-significant-solar-job-losses-if-full-government-proposals-enacted>

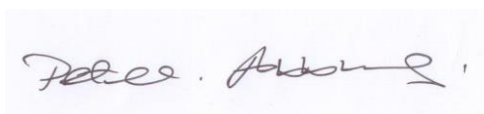
would mean retaining the 5% VAT level for all such installations, not just those meeting the proposed criteria.

- Alternatively, set the threshold to 85% of the total installation costs accounted for from equipment, rather than 60%, which appears an arbitrary number and would rule out energy storage and biomass boilers from the lower rate of VAT, despite their clear wider benefits and has a damaging distortionary effect on the residential market for solar and storage.
- Apply VAT relief for solar, energy storage and biomass boiler installations as environmental state aid (as opposed to merely implementing the VAT Directive), as Norway did to allow it to preserve and extend its zero-rate VAT for purchasing electric vehicles.


We understand this is being progressed to comply with a 2015 ECJ judgement. Nothing appears to have changed at the EU level (leaving aside higher level politics) since the earlier decision and guidance, which had come to be seen as final, to justify such a change, as far as industry is concerned.

Alongside the proposals on solar, biomass boilers and energy storage, we also oppose the removal of wind and water turbines from the list of eligible products and urge you to consider the solutions outlined above. In conclusion, the proposals increase the cost of going low carbon for average households and create perverse incentives that distort competition. They outwardly appear to be a reversal of previous policy which was understood by industry, and must be considered 'in the round' with recent policy changes to renewable and flexible energy policy, changes which have effectively made most such projects financially unviable, at complete odds with broader Government policy and public support (confirmed as 84% just this week)³.

Yours Sincerely,



Peter Aldous MP
Chair, All Party Parliamentary
Group on Energy Storage



Dr Nina Skorupska CBE FEI
CEO, REA

³ Wave 29 of the BEIS Public Attitudes Tracker can be found here: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800429/BEIS_Public_Attitudes_Tracker - Wave 29 - key findings.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800429/BEIS_Public_Attitudes_Tracker_-_Wave_29_-_key_findings.pdf)

Enc. REA Consultation response, HMRC VAT on Energy Saving Materials proposals