



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Phillip Dunne MP
Chair of the Environmental Audit Committee
House of Commons
London
SW1A 0AA

26 April 2022

Dear Phillip,

Thank you for your questions to the Exchequer Secretary at the Committee evidence session on 9 March. At the evidence session, Caroline Lucas MP asked the Exchequer Secretary about the VAT treatment of retrofitting; I am responding to this query as the Minister responsible for the UK tax system. Please accept my apologies for the delay in responding.

As you will know, the Government recognises that, as well as being vital to the UK's transition to Net Zero, boosting energy efficiency is key to improving the country's energy security and managing household bills.

This is why, alongside the £9.7 billion we have committed to invest since March 2021 to increase the energy efficiency and decarbonisation of our homes and buildings, the Chancellor announced at Spring Statement 2022 that the Government would expand the VAT relief available on the installation of energy saving materials (ESMs) in Great Britain.

This reform has reversed the restrictions imposed by a Court of Justice of the European Union ruling, removing burdensome eligibility conditions implemented in 2019, and reinstating wind and water turbines as technologies which qualify for the relief.

In addition, now that the UK has left the EU and is free to set its own law in this area, the Government has gone further by introducing a VAT zero rate for the installation of ESMs for the next five years. These changes took effect from 1 April 2022.

As the Chancellor also announced, the Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.

These reforms reduce the tax paid on specific types of green retrofitting rather than wider renovation works, representing an additional £280 million of support for households looking to install ESMs in their homes. Details of the scope of the reforms announced at Spring Statement 2022 can be found here:

<https://www.gov.uk/government/publications/changes-to-the-vat-treatment-of-the->

[installation-of-energy-saving-materials-in-in-great-britain/the-value-added-tax-installation-of-energy-saving-materials-order-2022.](#)

The Government also maintains a reduced rate of VAT at five per cent, subject to certain conditions, for residential renovations such as building services and materials. This includes conversions of buildings from one residential use to another, conversions from commercial to residential use, and the renovation of properties that have been empty for two years or more prior to the renovation work.

Expanding these reliefs further would come at a cost to the public finances. For example, introducing a reduced rate of VAT on all renovations and repairs to residential properties would cost around £3.75 billion per year. The introduction of new VAT reliefs, and the expansion of existing ones, must always be viewed in the context of over £50 billion of requests for relief from VAT received since the EU referendum. Such costs would have to be balanced by increased taxes elsewhere or reductions in Government spending. Given this, the Government has no current plans to change the VAT treatment of retrofitting works. However, all taxes are kept under review, and I thank you for bringing this issue to our attention.

I hope that the Committee welcomes the changes announced at Spring Statement 2022 and that this letter clarifies the Committee's questions on the matter.

Yours sincerely,

A handwritten signature in black ink that reads "Lucy Frazer". The signature is written in a cursive, flowing style.

THE RT HON LUCY FRAZER QC MP