

Changes to the reduced rate of VAT for Energy Saving Materials consultation

HHIC Response

1. About HHIC

The Heating and Hotwater Industry Council (HHIC) are the leading representative body for the UK domestic heating and hot water industry, worth £3-4 billion per year. HHIC's membership base covers approximately 94 per cent of heating and hot water solutions available in the UK. HHIC are a division of the Energy and Utilities Alliance (EUA).

2. Response Summary

HHIC represents all the major heating product manufacturers in the UK. We are at a critical point in developing renewable and low carbon industry and continued support is vital for the growth and development of this industry.

We understand that the UK government has to find a way to implement the CJEU ruling, however, we are concerned that it could unduly affect installations of energy saving products such as Heat Pumps and Micro CHP. The UK has international obligations to reduce Green House Gas emissions, the proposed implementation would hamper the growth of the products that will contribute to reducing these.

3. The Response

1. Does the legislation as drafted achieve the objectives as described in this document? If not, why not?

HHIC agrees that a practical solution has to be found to address that the CJEU found that the UK had failed to correctly apply the relief.

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2. Do you have any other comments on the proposed implementation of these changes?

We understand that the UK government has to find a way to implement the ruling, however, we are concerned that it could unduly affect installations of energy saving products such as Heat Pumps and Micro CHP. The UK has international obligations to reduce Green House Gas emissions, the proposed implementation would hamper the growth of the products that will contribute to reducing these.

If this cannot be overcome then we would ask that these products are afforded a higher FIT or RHI rate to compensate for the costs that will arise from the implementation of this legislation.

We agree that Solar PV and Wind power shouldn't attract a discounted rate of VAT as they are not technically energy saving materials. However there should be recompense for this through the Feed In Tariff and therefore, the tariffs should be amended to take this into account.

We are concerned that the current legislation talks about 'solar panels'. We do not believe that Solar Thermal panels should be excluded from attracting a lower rate of VAT. Unlike PV panels that generate electricity, thermal panels warm water for use, which reduces the energy needed to heat water. These would be part of a renovation project to reduce energy demand in the same way that qualifying technologies like Heat Pumps and Heating Controls are.

We are also concerned with the interpretation of this vires:

This relies on the vires in Category10a of Annex III ('Category10a') - 'renovation and repairing of private dwellings, excluding materials that account for a significant part of the value of the service supplied'.

In particular its impact on Micro-CHP and Heat Pump devices. We would suggest that a better definition of 'significant part of the value of the service supplied' be determined. New, innovative technologies that save energy are often higher in material cost when compared to installed cost. The UK government's interpretation will penalise these technologies by making them more expensive to install.

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The current proposal could be abused in borderline cases where an installer could inflate installation costs to keep the labour cost above the 'cost of material' to attract the lower rate of VAT. But this could be to the ultimate detriment of the end user who could face a higher overall cost even with a reduced rate of VAT

We would suggest that a fairer way would be to define a threshold rather than immediately once materials are higher than installation costs.

Contact

If HMRC wishes HHIC to clarify any of the points outlined in this consultation please contact us at:

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