Jo Swinson

Leader of the Liberal Democrats,

Liberal Democrats

8 – 10 Great George Street

London

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Monday 2nd December 2019

Dear Ms Swinson

**Call for a 5% rate of VAT on repairs, maintenance and management of homes**

The British Property Federation and the Federation of Master Builders have come together with the support of a number of organisations, to call on the main party leaders to commit to a reduction in the rate of VAT on repairs, maintenance and management of homes from 20% to 5%.

Building on the Liberal Democrats’ existing commitments to reduce VAT on home insulation, we would urge the party to go further by speaking for a 5% rate of VAT on all repairs, maintenance and management of homes during the General Election campaign.

We set out below the wide-ranging benefits of such a policy change, including:

* 1. **Helping to reach our net zero carbon targets**
	2. **Unleashing investment in housing – and improving quality**
	3. **Stimulating the economy.**

***Helping to reach our net zero emissions targets by 2050 – by ensuring that tax is not a blocker to anyone wanting to improve the energy efficiency of their home.***

The built environment accounts for approximately 40%1 of the UK’s carbon emissions – and therefore has a crucial part to play in meeting our net zero emissions targets by 2050. Given the rate of renewal of the built environment, the UK Green Building Council estimates that 80%[[1]](#footnote-1) of the buildings that will exist in 2050 have already been built, so decarbonising and improving the energy efficiency of our existing stock must be a high priority. To fully decarbonise the built environment both the operational carbon and embodied carbon in buildings must be tackled, retrofitting provides an opportunity to achieve significant embodied carbon savings through re-use rather than re-build.

Domestic buildings are accountable for about half of these emissions. The UK has some of the most energy inefficient housing stock in Europe, which will need radically upgrading if we are to reach our target of net zero by 2050. There are 8 million lofts that need insulating, 5 million uninsulated cavity walls, and 20 million uninsulated floors[[2]](#footnote-2). Homeowners will need to be incentivised to undertake these home improvement works, reducing the VAT burden associated with repairs and maintenance would be a clear way of stimulating demand.

***Unleashing investment in housing – and improving the quality of our existing housing stock***

In order to address the housing shortage in this country, the next government will need to support investment in all forms and all tenures of housing which meet the needs of our communities at all stages of our lives. In addition to improving the standards of older homes and those in rural areas, this measure would also help unleash investment in new housing. Build to Rent (BTR) is a relatively new asset class in the UK which provides high quality, purpose built rental housing, which is professionally managed. The BTR sector has grown from fewer than 30,000 homes to 148,000[[3]](#footnote-3) homes in the last five years – and delivered a quarter of London’s housing output last year. With fiscal reform this sector can deliver more.

The recoverability of VAT on construction costs is inordinately complex - with different costs recoverable depending on who the occupier is, whether the property is commercial or residential, and whether the property has been built for sale or for rent. In summary though, it is generally easier to recover VAT on expenditure incurred on commercial property than it is on homes. This makes large-scale investment in homes comparatively less attractive. Reducing the rate of VAT on repairs, maintenance and management on homes would help level the playing field in terms of VAT recovery for investors in different types of property.

***Stimulating the economy***

The suggestion of reducing the rate of VAT on repairs and maintenance of homes has been advocated for by a number of stakeholders for some time. Most notably, the Cut the VAT campaign, which was formed by a coalition of over 60 business and trade bodies, lobbied exclusively on this issue several years ago. Cut the VAT commissioned some research[[4]](#footnote-4) by Experian in 2015 to quantify the impact of reducing the rate of VAT on residential repairs and maintenance from 20% to 5% (over the 5-year period from 2015 to 2020). The measure itself was estimated to generate an economic stimulus of £15bn over the 5-year period to 2020 at a cost of £6.6bn over the same period. Some of the notable benefits of the policy include:

* 1. 42,000 extra full-time equivalent construction jobs and 53,000 jobs in the wider economy by the end of the period (with the majority of those jobs starting in the first year of the policy change).
	2. Extra expenditure of around £1bn on energy efficient measures.
	3. Help up to 92,000 homes benefit for retrofitting energy efficient measures over the five year period.
	4. Reducing the competitive advantage of the estimated £10bn informal economy in construction would help support compliance with building regulations, planning law, health and safety legislation etc, as well as additional tax collection from the sector in terms of income tax and NICs.

A more recent poll conducted by the HomeOwners Alliance, Resi architects and YouGov found that almost a quarter of people are put off from undertaking home improvements due to cost[[5]](#footnote-5), and almost a third confessed to paying cash to avoid VAT on home improvements. These findings support Experian’s estimates that such a policy change would result in a surge of demand for home improvements and boost economic activity – and more importantly, boost standards by reducing the competitive advantage of the informal ‘cash in hand’ economy.

Reducing the rate of VAT on all repairs, maintenance and management of residential property would have positive impacts on vast number of different areas of society, by greening our housing stock, addressing the housing crisis through helping the Built to Rent sector and raising standards by removing the competitive advantage of the informal economy. We therefore urge you to reduce the rate of VAT on residential repairs, maintenance and management costs.

**We would be pleased to meet you, alongside the signatories of this letter, early in the next parliament to discuss this policy recommendation in more detail or provide any further information as required.**

Yours sincerely





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Chief Executive Chief Executive

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This letter is supported by the following organisations:

* Tom Reynolds, Chief Executive, Bathroom Manufacturers Association
* Andrew Chalk, Director of Operations, British Blind and Shutter Association
* Helen Hewitt, Chief Executive, British Woodworking Federation
* John Newcombe, Chief Executive, Builders Merchants Federation
* Crispin Truman OBE, Chief Executive, CPRE The Countryside Charity
* Alasdair Reisner, Chief Executive, Civil Engineering Contractors Association
* Caroline Gumble, Chief Executive Officer, The Chartered Institute of Building (CIOB)
* Mark Bridgeman, President, Country Land & Business Association
* Tim Bonner, Chief Executive, The Countryside Alliance
* Rob Driscoll, ECA Director of Legal & Business, Electrical Contractors’ Association
* Lizzie Glithero-West, Chief Executive, The Heritage Alliance
* Paula Higgins, Chief Executive, HomeOnwers Alliance
* Simon Storer, Chief Executive, Insulation Manufacturers Association
* Paul Bogle, Head of Policy and Research, National Federation of Builders
* Anna Scothern, Chief Executive, National Home Improvement Council
* Richard Lambert, Chief Executive Officer, National Landlords Association
* Alex Patrick Smith, Chairman, Roof Tile Association
* Matthew Howell, Managing Director, UK & Ireland, Royal Institution of Chartered Surveyors
* Vaughan Hart, Managing Director, Scottish Building Federation
* Julie Hirigoyen, Chief Executive, UK Green Building Council
* Julie Park, Managing Director, The VAT Consultancy
1. https://www.ukgbc.org/climate-change/ [↑](#footnote-ref-1)
2. https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/173004.htm [↑](#footnote-ref-2)
3. https://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk [↑](#footnote-ref-3)
4. Cut the VAT campaign research by Experian: https://www.fmb.org.uk/about-the-fmb/policy-and-public-affairs/domestic-refurbishment-and-energy-efficiency/ [↑](#footnote-ref-4)
5. https://hoa.org.uk/campaigns/cut-vat-on-extensions/ [↑](#footnote-ref-5)