



T: 0300 244 4000
E: scottish.ministers@gov.scot

Rt. Hon Jesse Norman MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

19 March 2021

Dear Mr Norman

VAT REDUCTIONS TO BOOST GREEN RECOVERY

Thank you for your reply of 2 October 2020 (your reference: MC2020/32206) to my letter of 24 August 2020 to the Chancellor of the Exchequer concerning a VAT reduction for construction works for existing buildings. I am responding to set out further detail on why the Scottish Government believes that further consideration should be given to change in specific areas of VAT.

I acknowledge the financial impact you outline in your letter, particularly in light of the increasing debt that the UK faces as a result of the pandemic. However, VAT could be a powerful lever in the response to the pandemic and supporting our green recovery over the longer term. Many industry partners have commented that this is probably the single most significant change that could support recovery in the domestic construction sector. I would therefore urge you to consider the range of options open to the UK Government to drive this recovery. Some of these options could include: application of a reduced rate of VAT to all renovations; expanding the eligibility criteria for this reduced rate and including a broader range of energy efficient products; and/or reducing the VAT rate to nil on energy efficiency measures.

On Monday, we published Scotland's first ever long-term Housing strategy, *Housing to 2040*. A copy can be found at <https://www.gov.scot/collections/housing-to-2040/>.

Housing to 2040 sets out a strategic direction for how Scotland's homes and communities should look and feel in 2040. Our aim is that by 2040, everyone will have a safe, high-quality and affordable home that meets their needs in the place they want to be. It puts housing at the centre in delivering many of our ambitions for Scotland including: tackling child poverty

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and eradicating homelessness; promoting equality and human rights; ending fuel poverty; tackling the effects of climate change; helping stem rural depopulation; and supporting inclusive economic growth.

As we highlight in the Housing to 2040 route map, some of the tax changes that would support these aims would require action from the UK Government. We highlight that reductions in VAT on household repairs would help incentivise the renovation of homes in Scotland, improving their quality, and helping to make Scotland's housing more energy efficient and responsive to the challenges of climate change and the transition to net zero.

Our draft Heat in Buildings Strategy sets out proposals for new regulation to set standards for zero emissions heating and energy efficiency between 2023 and 2025. We need to start now sending the right signals and creating the right incentives for homeowners and landlords. That Strategy also sets out the need to improve our existing homes, but current VAT rates act as a disincentive for this compared with new build.

In addition, I have previously raised the issue of exempting VAT on cladding remediation. The urgency of this request has not diminished. As you are no doubt aware, Scotland has a different system of property ownership. This means that the HMRC guidance on this matter is of little comfort to people in Scotland.

We also need to create the right incentives for the reuse of buildings and brownfield land. The independent Review of the Town Centre Action Plan chaired by Professor Leigh Sparks, published its report in February 2021. We strongly support its overarching aim to work with our communities to transform the future of our town centres, help us recover and learn from the impact of the pandemic and realise the necessary economic, environmental and social wellbeing benefits.

We are faced with a global climate emergency. It is essential that we make best use of existing buildings. Favourable VAT treatment for new buildings creates a perverse incentive in this respect. Making our existing buildings as heat and energy efficient as possible will be critical to meeting our net zero carbon emissions in the future. It is widely understood that the social benefits from investment in energy efficiency exceed the private benefits; therefore reducing or removing VAT from such investment would help to close this gap and undoubtedly incentivise such investment.

The Scottish Government has set ambitious climate change targets, with Scotland's 2019 Climate Change Act enshrining in law a target for net-zero emissions of all greenhouse gases by 2045 at the latest – and an interim target of a 75% reduction by 2030. Not only are Scotland's targets enshrined in law, but so too is our commitment to a just transition to net-zero, in which wellbeing and social justice are prioritised and no one is left behind. When COP26 takes place in Glasgow in November, the world will be watching and keen to see these commitments translate into action.

COP26 provides a unique opportunity to show the world what actions the Scottish and UK Governments are taking in response to the climate crisis, and the leadership they demonstrate. Working together on changes to VAT along the lines set out above would be a strong example of action to demonstrate both governments' commitment to tackling climate change.

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I am copying this letter to Kate Forbes MSP, Cabinet Secretary for Finance in the Scottish Government, the Rt. Hon Rishi Sunak MP, Chancellor of the Exchequer, the Rt. Hon Alister Jack MP, Secretary of State for Scotland, the Rt. Hon Robert Jenrick MP, the Secretary of State for Housing and Local Government, Julie James MS, Welsh Minister for Housing and Local Government and Rebecca Evans MS, Welsh Minister for Finance and Trefnydd, and Mr Conor Murphy MLA, Finance Minister of the Northern Ireland Executive.

Kind regards

A handwritten signature in black ink, appearing to read 'Kevin Stewart', with a long horizontal flourish extending to the right.

KEVIN STEWART

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St Andrew's House, Regent Road, Edinburgh EH1 3DG
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