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## BRIEFING: 'ENERGY SAVING' STAMP DUTY INCENTIVE

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Modernising 'Stamp Duty Land Tax' to become an 'Energy Saving' Stamp Duty would stimulate the housing market to 'value' energy performance in the same way it does kitchens, bathrooms and the state of repair of a home. A 'rebate to renovate' reward would incentivise homeowners to improve the energy performance of their homes within 2 years of purchase, driving a long-term mass-scale sustainable market for measures such as insulation, heat pumps and solar panels.

- ▶ Stamp duty would be nudged lower for better energy performing homes and higher for poorer performing homes, encouraging negotiation over selling prices
- ▶ Energy performance improvements within 2 years of purchase would trigger a rebate
- ▶ The incentive would be revenue neutral to the Treasury
- ▶ In addition, low-income households can be supported with an enhanced rebate worth around £1.8 billion per year, funded by Government
- ▶ It could drive over £8 billion of investment a year and stimulate jobs and skills nationwide
- ▶ It could reduce homeowner energy consumption by 8.5% by 2030

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The UK Green Building Council has been working with the Energy Efficiency Infrastructure Group over a number of years to develop the policy proposal and build widespread support. Over 50 major businesses and industry groupings are calling on the Government and all parties to back the proposal to get the retrofit market moving at scale.

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### 1. The Problem: Leaky homes account for 35% of UK energy demand

The UK's leaky homes are a significant part of the fuel poverty, energy security and climate problem. Heating and powering the UK's 29 million homes accounts for 20% of UK carbon emissions and uses 35% of the energy. Energy security and net zero cannot

be cost effectively delivered without tackling them.

However, over the last decade, programmes to improve the UKs owner occupied homes (circa 65% of all homes) have largely ceased and the industry delivering improvements has collapsed.

## **2. The Answer: It isn't simply more grants but a blend of investment**

Whilst long term targeted subsidy programmes form a crucial part of any fair energy saving and net zero strategy, it will be important to attract private investment from those who have means or access to finance, in order to deliver the majority of improvements.

Indeed, the prospect of grant funding, for those who can pay, simply causes them to hold off until grants are available and distorts what they chose to buy and from whom - to maximise the 'free money'. Stop start grant funding hasn't created the sustained market that can skill up and scale up industry to deliver high quality work in large volumes.

## **3. The Approach: How do we stimulate such a significant level of private investment?**

A market-based approach is required which gives householders and home buyers choice and becomes part of the existing home improvement culture.

a) As a structural incentive, it provides flexible solutions and allows innovation.

As it does not rely on Treasury funding, it can reasonably be expected to remain in place as, and when, administrations change, providing the long- term demand so essential for success allowing businesses to invest and drive efficient delivery, high standards and low costs.

b) Structural-incentives and subsidy working together

An Energy Saving Stamp Duty Incentive, combined with grants for lower value homes will be a workable and effective structural solution, working seamlessly with existing green finance arrangements and policies as well as driving innovative new approaches to delivering home upgrades. Critically, it strongly catalyses industry engagement with any short-term initiatives the Government may introduce because it provides confidence that the market created will not simply fall away again when the grants are reduced or withdrawn.

#### 4. The How: How would the Energy Saving Stamp Duty Incentive work?

- First, the energy demand (total kWh) of the home is calculated from the independently produced Energy Performance Certificate (already a requirement of a house sale).
- The Stamp Duty to be paid is then adjusted up or down based on the home's calculated energy demand – the better the energy performance, the lower the tax paid.
- Low energy improvements made within 2 years of purchase, validated by an updated EPC, trigger a rebate to be paid – as if the home had been improved before purchase.
- For lower value homes, Government could enhance the rebate to subsidise cost of measures.
- Any recognised improvement in a home's energy efficiency (fabric, heating, services) would reduce the Stamp Duty paid.
- There will also be provisions sensitive to the particular challenges of listed homes.

#### 5. The Benefits: What are the key benefits of the Energy Saving Stamp Duty Incentive?

- ✓ Catalyses significant growth – underpins an owner occupier low energy retrofit market of circa £17Bnpa and 300,000 new jobs covering every part of the UK.
- ✓ Explicitly highlights to homebuyers the energy performance of the home they are considering purchasing, motivating them to: seek advice, understand the improvements needed, appreciate the likely costs and to develop a plan – alongside their other home improvement ideas.
- ✓ Provides confidence that a home's energy performance will be reflected in its selling price and rewards homebuyers that act to improve their homes.
- ✓ Embeds a home's energy performance in the wider discussion about financing the purchase alongside other improvements the homebuyer may be considering.
- ✓ Recognises most homeowners undertake significant improvement works shortly after they move in. Combining these with energy improvements reduces the faff, time and disruption.
- ✓ Acting at the point of purchase equity is not 'tied up', capital can be retained to fund improvements.
- ✓ It 'nudges' homebuyers to take action on energy efficiency in a way that is proportionate to the home's value, and doesn't impede housing sales, affordability

or social mobility.

- ✓ Is not a subsidy. The Energy Saving Stamp Duty Incentive could be revenue neutral for government or could allow Stamp Duty to taper out altogether, over a decade or two.
- ✓ It is capable of being blended with grant funding for those who are struggling.

## 6. Ensuring fairness

- For the poor performing homes, the increase in stamp duty paid is typically approximately 1% and no more than 4% of purchase value (average house price increase 4% per year since 2015)
- All home purchasers have the opportunity to undertake energy improvements after sale, to recover any additional stamp duty paid and benefit from an overall decrease.
- For home below the SDLT threshold:
  - better performing homes – receive a bonus
  - worse performing homes – still do not pay stamp duty
  - better and worse performing homes – receive a bonus energy performance improved within 2yrs
  - OPTION – lower value homes receive an ‘enhanced’ rebate to contribute to the costs of energy improvements (not revenue neutral)
- For listed home: With the ‘listed home energy survey report’ the owner would pay the same stamp duty as today
- Homes in a conservation area: Energy Saving Stamp Duty introduced in 4 years from announcement of scheme.

## 7. Next steps: Statement of intent, certainty for businesses and creating a market

If the government made an announcement or statement of intent now, with implementation in 18 months to 2 years, homeowners considering selling would have time to act, should they wish, and businesses and government would have the time to prepare.

This approach would encourage immediate action whilst also smoothing roll-out and allowing companies to ramp-up capacity and get ready to deliver – ensuring a quality retrofit programme for all, giving certainty to businesses that there is guaranteed market demand.

A rapidly growing number of organisations have added their support, from banks, estate agents and retailers to manufacturers and installers and beyond. They include:



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