



CUT THE VAT



A proposal for building back better and greener



March 2021

The coronavirus pandemic has brought significant challenges and difficulties for businesses and households across the UK. While the Government's support for business has been welcome during these turbulent times, further action must be taken to create new jobs, stimulate the economy and propel the drive to deliver zero carbon.

In the year of the United Nations Climate Change Conference, the Government should dovetail any economic stimulus with steps to achieving net zero carbon emissions by 2050. 'Building back greener' is supported by 79% of Climate Assembly UK members and is imperative to positioning the UK as a global leader in the low carbon economy post-Brexit.¹

It is not possible to achieve a 68% reduction in carbon emissions by 2030, nor net zero, if we do not reduce carbon emissions from our homes and improve their energy efficiency. Cutting VAT on the labour element of Repair, Maintenance, and Improvement (RMI) works from 20% to 5% for a temporary period of five years would meet the urgent dual challenges of delivering economic stimulus, creating jobs, and accelerating decarbonisation.

¹ <https://www.climateassembly.uk/report/read/covid19-recovery-and-the-path-to-net-zero.html>



The benefits of cutting VAT on home improvement works to 5% for the period 2021 - 2025



£51bn
stimulus



344,721
jobs



£24.8 bn
GVA

-£2.76 bn 
cost to Government

Improving the quality and energy efficiency of existing homes

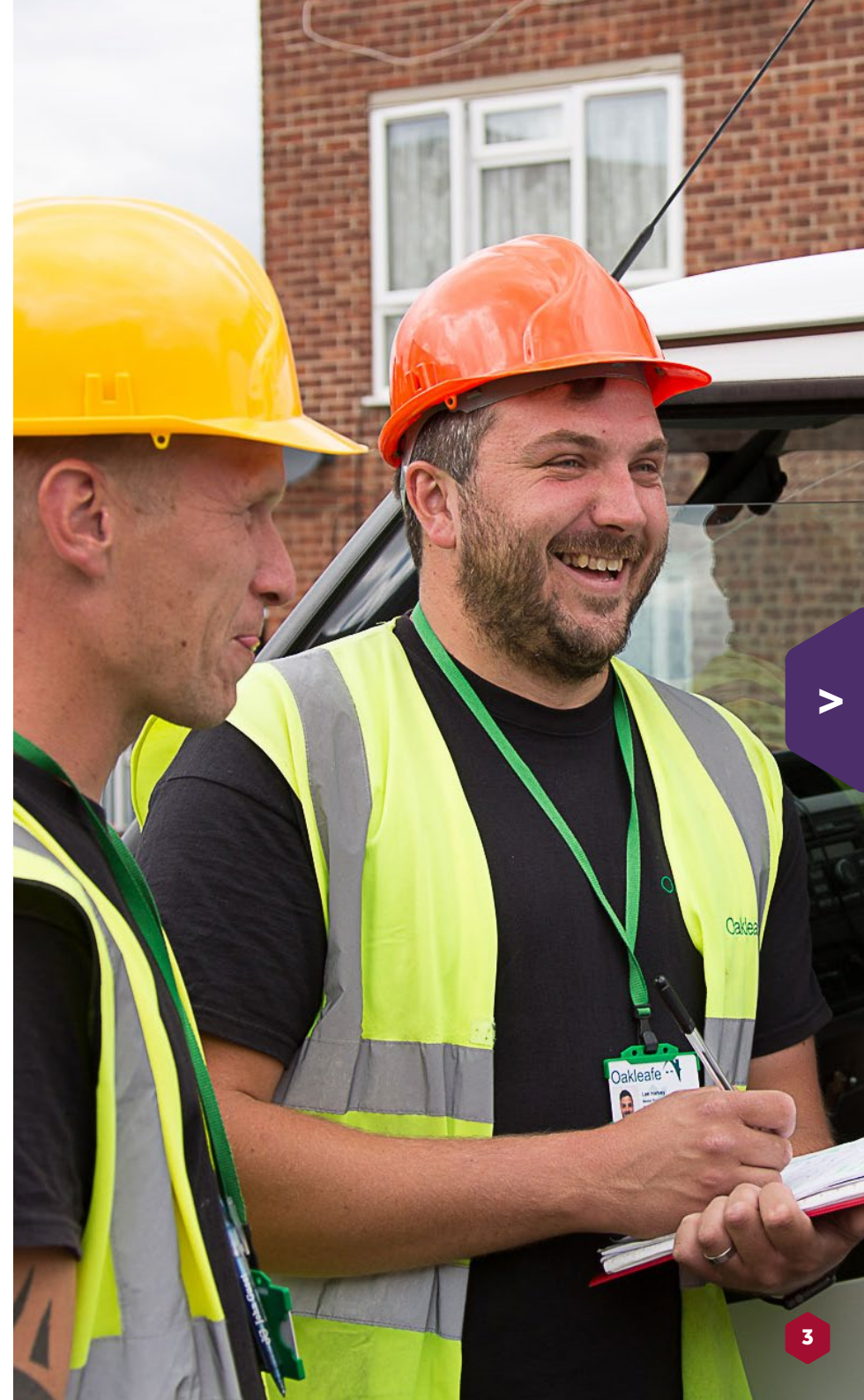
Spending more time indoors has meant that we value our homes more than ever, as their quality and comfort are inextricably connected to our health and productivity. The Green Homes Grant (GHG) Scheme is a welcome step towards helping more people to improve and decarbonise their properties. Cutting VAT in parallel to this scheme would promote much wider take-up for two reasons. First, by unlocking additional private capital to go towards improving the general repair of homes. Secondly, because energy efficiency upgrades are more likely to take place alongside additional home improvement works.²

Cutting VAT on the labour element of the RMI sector would generate an additional £15.4 billion spent on home improvements in the period 2021 – 2025, and a larger number of home improvement projects to tag the GHG scheme onto (Table 2). Furthermore, reducing the cost of home improvements while also offering grant funding means that home upgrades are more accessible to lower income households.

The FMB and RICS believe that fiscal measures and incentives are necessary tools to developing a successful market for domestic energy efficiency. However, they must be brought together under one Government-backed National Retrofit Strategy that sets a clear pathway to net zero and gives confidence to businesses to invest.³

² https://tyndall.ac.uk/sites/default/files/verd_summary_report_oct13.pdf

³ <https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2020/12/CLC-National-Retrofit-Strategy-final-for-consultation.pdf>



Improving professionalism in the built environment

Cutting VAT would remove the competitive advantage of rogue traders in a relatively unregulated building industry, improving consumer protection, and minimising the risk of poor-quality building work that degrades public confidence in the construction industry.

Assumptions behind this modelling predict a 20% shift from the informal to formal economy by the end of the 5-year period. This would serve to increase standards in the built environment and drive-up other Government revenues including corporate tax (Table 2).

Levelling-up across the country

The construction industry has historically suffered from a skills shortage across a broad range of skill levels from bricklayers to surveyors, meaning it has the capacity to absorb young new entrants and people looking to change careers.⁴ Cutting VAT on home improvement works for the next 5 years would unlock 344,721 additional jobs in construction and the wider economy. Jobs in construction represent sustainable long-term opportunities as our homes continuously need repairing, maintaining and improvement.

Investment in the RMI sector will drive the Government's levelling-up agenda. Small to medium-sized firms train 71% of apprentices in construction and dominate the RMI sector in each community across the country. Cutting VAT would drive up Gross Value Added (GVA) in the RMI sector, its associated professional services, and the wider economy by £24.8 billion over five years, representing additional company resource to invest in training and apprenticeships.

⁴ <https://www.fmb.org.uk/news-and-campaigns/reports-and-publications.html>



Appendix

Table 1 – Summary of the economic and fiscal impacts of a temporary 5-year VAT reduction*

Economic/fiscal contribution	2021 Year one	2022 Year two	2023 Year three	2024 Year four	2025 Year five
Output (£m)	9,527	19,613	29,919	40,412	51,076
Gross Value Added (£m)	4,606	9,508	14,521	19,633	24,834
Full-Time Equivalent Jobs	64,240	132,305	201,864	272,713	344,721
Tax receipts (£m)	-572	-1,174	-1,750	-2,282	-2,760

Table 2 – The economic and fiscal impacts of a temporary 5-year VAT reduction – initial vs. wider contributions*

Economic/fiscal contribution	2021 Year one	2022 Year two	2023 Year three	2024 Year four	2025 Year five
Output (£m)					
Initial	2,911	5,955	9,058	12,209	15,400
Wider	6,617	13,659	20,860	28,204	35,676
Total	9,527	19,613	29,919	40,412	51,076
Gross Value Added (£m)					
Initial	1,158	2,369	3,603	4,857	6,126
Wider	3,448	7,139	10,918	14,776	18,709
Total	4,606	9,508	14,521	19,633	24,834
Full-Time Equivalent Jobs					
Initial	16,256	33,254	50,587	68,183	86,001
Wider	47,984	99,050	151,277	204,530	258,720
Total	64,240	132,305	201,864	272,713	344,721
Tax receipts (£m)					
VAT	-2,340	-4,823	-7,371	-9,966	-12,603
Corporate tax	204	442	711	995	1,289
PAYE/Income tax	906	1,855	2,839	3,867	4,948
NICs	657	1,352	2,072	2,832	3,606
Total	-572	-1,174	-1,750	-2,282	-2,760

CBI Economics

Economic Analysis provide by CBI Economics

*Initial (impacts on the construction and professional built environment sector); Wider (impacts generated through the wider supply chain and economy).

*All figures are cumulative. The figures relate to a baseline scenario of a 5-year reduction. The analysis considers alternative scenarios where VAT cut is applied for shorter time frames, and shows that short-term reductions result in lower economic impacts in the earlier years, suggesting that a long-term time frame provides a greater return to the Exchequer.

About the Federation of Master Builders

The Federation of Master Builders (FMB) is the largest trade association in the UK construction industry representing more than 7,000 firms across the UK. Established in 1941 to protect the interests of small and medium-sized (SME) construction firms, the FMB is independent and non-profit making, lobbying for members' interests at both the national and local level.

For more information about the FMB please visit www.fmb.org.uk.

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We are RICS

Everything we do is designed to effect positive change in the built and natural environments.

Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure.

Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

For more information about the RICS please visit www.rics.org/uk/.

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