



Existing Homes Alliance Scotland brief for chamber debate on Stage 1 of the Land and Buildings Transaction Tax Bill

The Existing Homes Alliance Scotland (ExHA)¹ calls upon the Parliament to support the widespread calls for the LBTT Bill to include a specific commitment for a revenue neutral relief related to the energy performance of domestic properties in order to incentivise investments in improvements.

Advancing broader aims

The consultation on the proposals for the Bill noted, “*The replacement of SDLT [Stamp Duty] with a LBTT also offers the opportunity to support key Scottish Government priorities through incentivisation*”

ExHA agrees that the LBTT provides such opportunity. In particular we would point to the following key legislative and policy priorities which would be advanced through the incentivisation of investments in energy efficiency;

- **Cut carbon emissions by 42% by 2020** - Climate Change (Scotland) Act 2009,
- **End fuel poverty by 2016** - Housing (Scotland) Act 2001,
- **Reduce energy demand by 12% by 2020** - Conserve and Save: The Energy Efficiency Action Plan for Scotland,
- **Create thousands of green jobs and a sustainable economy** - The Government Economic Strategy: Transition to a Low Carbon Economy.

Moreover, work on the Scottish Government’s *Sustainable Housing Strategy* has market transformation as a key focus and the use of LBTT to ensure transaction costs reflect the energy performance of a home make much sense within that context.

Widespread support

The consultation on the proposals for a Bill also noted the potential of “... *building on the relief offered for zero carbon homes by offering lower rates for more energy efficient properties...*” and went on to state, “*We would be grateful for any views about how the ... [LBTT]... could be used to support [wider] priorities of this kind.*”

66% of respondents felt the tax should be used to support such priorities and of those who identified a priority “... *by far the most common theme was energy efficiency.*” (table 3.2 & s. 3.15 in the [analysis of responses](#)).

There is then a significant spread of support for the use of LBTT to be used to support energy efficiency measures and a stated openness on the part of the Scottish Government to consider alternatives to the relief for zero-carbon homes.

We are therefore disappointed that despite such clear representation and support the Scottish Government has not brought forward proposals for an effective mechanism to incentivise energy efficiency.

¹ ExHA is a coalition of organisations seeking improvements in the energy performance of Scotland’s existing housing stock. It is an alliance of environmental, anti-poverty, consumer, housing and building organisations who believe that urgent action is required to transform Scotland’s existing housing stock Steering Group: Association for the Conservation of Energy, Consumer Focus Scotland, Chartered Institute of Housing, Energy Saving Trust, WWF Scotland, Energy Action Scotland, Scottish Federation of Housing Associations, Scottish Building Federation, Verco. Supporters: Age Scotland, Changeworks, National Insulation Association, Scottish Energy Installers Alliance, Shelter Scotland, Scottish and Northern Ireland Plumbing Employers’ Federation see www.existinghomesalliancescotland.co.uk

The Finance Committee in its Stage 1 report also rejected calls for such a relief and noted:

49. The Cabinet Secretary stated that at this stage he is not persuaded He points out that a lot of properties will not be covered by LBTT and therefore would not be encouraged to become more energy efficient by the proposed relief. While he supports fiscal incentives to encourage behavioural change he suggests that a better option is to make more effective use of the council tax discount scheme which was introduced as part of the Climate Change (Scotland) Act. He suggests: "that is a much more tangible way of reducing the costs of a property for the person occupying the property if they invest in some green energy measures."

ExHA response to objections to proposals

Too costly / would endanger income from LBTT

- A proposal put forward by the UK Green Buildings Council (see attached) for a relief system based around the average energy efficiency of properties is designed to be revenue neutral. In other words, additional income from a levy on the least efficient properties would be matched by reduced income from a relief on the most energy efficient. ExHA believes this proposal could form the basis of an effective revenue neutral scheme.
- The rate of relief / levy would be set through secondary legislation so could easily be adjusted to increase or decrease the rate of relief and levy in order to increase or decrease the effectiveness.

Introducing an energy efficiency relief would increase the likelihood of tax avoidance

- We recognise and acknowledge the Scottish Government's desire to minimise opportunities for tax avoidance.
- However, if a modifier were based on an Energy Performance Certificate (EPC), this is an existing requirement at sale/rental of all properties, and is a well-regulated process. Suppliers of EPCs must be members of a protocol organisation approved by the Scottish Government and must have strict quality control processes in place.
- EPCs are being discussed as a method of setting mandatory minimum standards under section 64 of the Climate Change (Scotland) Act, so are already sufficiently robust for regulation purposes.
- EPCs are also considered sufficiently robust to support the operation of the Green Deal loan system.
- However, if the Scottish Government feel further tightening of regulations is required, this could be done. Other EU countries such as Germany already use methods equivalent to EPCs for regulation and for fiscal incentives.

May not be an effective incentive

- It is clear that the principle of using tax to encourage energy efficiency investments has already been established and evidence suggests it could be effective in doing so².
- It has been noted that the energy efficiency of a home is not a high priority in the list of considerations when purchasing – despite the fact that the more efficient a home is the cheaper it is to heat. That is precisely why we are keen to see the relief in order to shape the cost of buying and help deliver the market transformation required to help energy, climate and fuel poverty targets.
- Any fiscal incentive is designed to be effective at the margins, rather than be 100% effective. This also applies to other incentives such as council tax discount; Green Deal and Green Homes Cashback.
- We will not know for certain how effective it will be until we introduce it. For that reason it would be sensible to start with a modest incentive and to increase this over time through secondary legislation as evidence of its effectiveness emerges.

² EST, *Changing climate, changing behaviour Delivering household energy saving through fiscal incentives (2006)*

- The relief is no silver bullet and should be seen as just one more tool in the box to incentivise behavioural change.

Council tax relief as more effective route

- Incentivisation through Council Tax or LBTT are not mutually exclusive. Indeed, given the urgent need to improve the energy efficiency of our housing stock, both will probably be needed.
- Council Tax does not cover all households due to the existing range of benefits and reliefs.
- Because a policy cannot reach all households does not entirely negate its impact.

LBTT relief would be regressive

- Concerns have been raised that a relief applied to more expensive homes could mean significant sums being used to benefit the already well off. There is nothing to stop a maximum cash level of relief being set.
- Only homes over a set value will be covered by LBTT, and therefore able to benefit from the relief. A revenue neutral relief whereby revenue remains the same but is distributed among LBTT liable properties to reflect their energy performance would avoid any burden on houses with value lower than the LBTT threshold.
- Low-income households will be able to make improvements through schemes such as the Scottish Government's Energy Assistance Scheme or Affordable Warmth Scheme.

Upfront costs would depress the market

- The relief would operate to give relief to the buyer and would not stop householders from putting their homes on the market.
- All households will be able to afford improvements through measures such as the Green Deal; Green Homes Cashback and ECO. There is then no need for any household to face up-front costs to improve the EPC of their homes.

What would the relief look like?

We call for the introduction of a revenue neutral relief based upon EPCs. We believe the proposal from the UK Green Building Council (UKGBC) for an energy efficiency modifier which would vary the LBTT payable on a transaction by a certain percentage depending on energy rating is an example of an effective method for achieving this. Full details are in the attached paper.

The UKGBC proposal aims to guarantee fiscal neutrality and is based on a robust and well-regulated system of providing EPCs to homes which itself has been in place since 2009.

We therefore urge MSPs to call on the Cabinet Secretary to engage in discussions with the Existing Homes Alliance and other interested parties with a view to bringing forward amendments at Stage 2 to establish an energy efficiency modifier.