Pre-briefing for the press on solar ahead of Autumn Statement 2015

A summary of the solar industry’s hopes and expectations ahead of the Autumn Statement and Spending Review 2015

Top line: extreme plans to cut solar support put the need for fair and supportive tax and regulatory measures under the spotlight.

1. Provide clarity on Renewable Heat Incentive (RHI) funding
The UK is falling far short of its domestic targets on renewable heat. The Energy Secretary has indicated she is looking to boost the deployment of renewable heat. The solar thermal hot water heating market has collapsed in the UK as a result of insufficient or ineffective support under the Renewable Heat Incentive (RHI), which is funded out of general taxation and not the Levy Control Framework. We have been told to expect an announcement in the Spending Review. Therefore the Solar Trade Association is hoping for clarity on future funding for the RHI and would support any further effective initiatives.

2. Drive solar investment with tax incentives in the Business Efficiency Tax Review
If the Government proceeds with its proposed changes regarding the Feed-in Tariff and the Renewables Obligation, the extreme cuts to tariffs and maximum deployment caps planned for solar PV will damage the economics of business investment in solar. It is essential that complementary measures are implemented quickly. The Treasury’s consultation on “reforming the business energy efficiency tax landscape”¹, also known as the Business Efficiency Tax Review, is seeking to harmonise the complex array of requirements for carbon reporting and carbon taxation in the business sector. The review presents an opportunity to incentivise and reward businesses for investment in onsite solar power. The STA has submitted a response to the consultation² and is pressing for taxation based on accurate carbon reporting as a minimum.

3. Extend ISAs to debt-based investment instruments next April
With the removal of Enterprise Investment Scheme (EIS) and Social Investment Tax Relief (SITR) for community energy the STA is keen to see the Treasury confirm that debt-based investment instruments such as debentures can be rolled into ISAs from next April. This will enable crowd-funders and communities to benefit from tax relief from ISA investment in local solar projects and this may help restore solar project economics in due course, while benefitting local people.

4. Create a level playing field in taxation for solar power and fossil fuels
The Solar Trade Association is calling for the extension of 100% Enhanced Capital Allowances (ECAs) to solar power. Large-scale solar power has been left with no support in the UK. Unlike solar power, shale

gas and North Sea oil operations qualify for 100% capital allowances so development capital expenditure qualifies for immediate relief. Relief is also available for decommissioning oil infrastructure after production. The STA recommends Enhanced Capital Allowances of 100% in the first year for solar power. Currently Ireland offers solar 100% first year Capital Allowances [1], while Kenya is offering Accelerated Capital Allowances of 150% (with a 10 years limit). Solar thermal is currently eligible for 100% Enhanced Capital Allowances, and ECAs were extended to Energy-from-Waste plant in the last Budget. It is difficult to see why they should not be reinstated at 100% for solar power.

5. Extend Real Estate Investment Trusts to solar power
Real Estate Investment Trusts (REITs) apply special tax treatment to property portfolios. Solar farms are similar to property as long-term assets which provide an annual income and it should also be possible to develop a Solar Yieldco as a REIT. REITs are exempt from paying corporation tax on their rental profits, but must instead pay out 90% of profits to shareholders, subject to compliance with a number of conditions. REITs are a globally recognised structure, used in 34 countries. Interestingly in the UK, REITs shares can be held in ISAs, which may offer the prospect of tax efficient investment in solar farms by local communities.

6. Clarity on the National Infrastructure Commission’s role
The STA will be keen to get any further clarity on the role of the National Infrastructure Commission. The role of the Commission in energy and the split of responsibilities with DECC remain unclear.

7. Caution on DECC departmental budget cuts
We understand that cuts of 30% have been agreed in the DECC settlement and 200 staff will be made redundant. Energy is a complex and urgent policy area and the STA is concerned that it is a false economy to severely cut the department at this time.

8. Clarity on the Levy Control Framework from 2020 onwards
The Autumn Statement may include some kind of announcement on the Levy Control Framework green energy budget post 2020. The current budget caps only run to 2020/21. This is absolutely essential so that solar investors can plan ahead – 2020 is only 5 years away. Clarity on this is essential, and the LCF needs to become more transparent so that stakeholders can understand how the budget is being spent and how spend is forecasted.