

The 2017 business rates revaluation: impact on self-owned commercial rooftop solar PV

What is the business rates revaluation?

Every five to seven years the Valuation Office Agency (VOA) revises business rates, a tax charged on non-domestic properties and business assets, to reflect as accurately as possible how values in a sector have changed over the years. The last revaluation was in April 2010, based on values pegged to April 2008, and the one in progress will come into effect from 1 April 2017 based on values in 2015. This will set 'rateable values' (RV) - used to calculate business rates - until 2022 and will apply to both existing and future assets. Rating is devolved in Scotland, Wales and N. Ireland, though will likely resemble the English valuation.

How will it apply to solar PV?

At the last valuation in 2008 the UK solar PV industry was in its nascent years; capital costs were high, few support mechanisms were available, and there were few installations to value. A universal RV of £8/kW was applied and there have been certain [exemptions and reliefs](#): for example for microgeneration (<50kW), agricultural premises, small businesses and charities. Since 2008 the cost of installation has fallen by 80%, and the additional financial support mechanisms have reduced considerably. There are now over 23,000 non-domestic rooftop installations between 10kW to 5MW and up to around 1,000 solar farms, all installed at different times and receiving different levels of support. The revaluation should seek to take all this into account. However, two methods are being used to calculate rates for solar, with key differences.

Why will there be two valuation methodologies for solar?

As solar is a unique asset it can be hard to determine an actual rent value, particularly as the costs and returns are frequently changing. The VOA will use alternative valuation methods: one for where electricity generation is intended 'mainly for export' and another where it is 'mainly for self-consumption.' Mainly export is where most (>50%) of the electricity is exported to the grid or to a third party: for example a solar farm, a Special Purpose Vehicle (SPV) (which counts as a separate legal entity), or where a landlord or third-party owns the solar and sells electricity to a building's tenants, e.g. via a Power Purchase Agreement. The STA has worked extensively with the VOA on this methodology, in which the RVs reflect the specific subsidy received by each asset. In the majority of cases, as the cost and subsidy have fallen considerably over the past seven years, the RVs have also fallen, though RVs for some older sites will be higher due to the earlier tariffs and high capex. This is logical and the STA is close to signing a memorandum with the VOA on this method. The major outstanding difficulty is the treatment of self-owned rooftop solar, where the proposed business rates will be six to eight times higher due to a quirk in the legislation introduced in 2000.

Why will rates for self-owned commercial rooftops increase by so much?

Existing legislation requires a distinction to be made between the owners of the electricity generating assets and the recipients of that generation: where the owner of the solar and the building's occupier is the same legal entity they are deemed to benefit from 'mainly self-consumption' (where <50% is exported). This could apply to many of the 23,000 commercial rooftop installations and in this case, the legislation requires that solar cells and solar panels should be considered rateable as 'plant and machinery'. Using this method the value gained from installing solar on a roof is to be represented as an addition to the value of the whole property. To achieve this, the VOA take an assumption about the capital cost of installing solar in 2015 and apply a decapitalisation rate (4.4%). The resultant RVs are therefore intended to represent the capital cost of the install spread out over the lifetime of the system, as follows:

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System size	Capital cost assumption (£/kW)	2017 rateable value (£/kW)	2010 rateable value (£/kW)	Increase
<4kW	£1,400	£61.60	£8	7.7x
4-150kW	£1,250	£55.00	£8	6.9x
>150kW	£1,100	£48.40	£8	6.1x

To get the rates bill a business would pay on their solar, you apply the business rates multiplier set by central government (currently 49.7%, but this changes annually) to the RV. For example, a 100kW system:

- In the 2010 valuation had a RV of £800 (100kW x £8/kW), and so a total bill of c.£397.60 p.a.
- From 2017 will have a RV of £5,500 (100kW x £1,250/kW x 4.4%), so a total bill of c.£2,733.50 p.a.

Why will the rates increase be a problem?

As shown, businesses that own the solar on their roof will see the rates payable on these installations increase by six to eight times, which will not have been anticipated at the time of installation for existing sites. Moreover, the new RVs do not reflect current Feed-in Tariff (FIT) levels, and neither were the new FITs calculated to factor in the rise in business rates. The implications of this are severe; for solar installed since the FIT reductions in February 2016 as well as future installations the new business rates will reduce the lifetime return on investment to near zero, and some are even showing negative returns. **This would make it uneconomic to install solar, all but eliminating the incentive to invest and seriously curtailing future deployment.** On the principle that tax should not prevent businesses from doing business, we are seeking prompt Government intervention.

What is the solution? All solar panels and cells should be treated as non-rateable

Unlike other forms of plant and machinery, one of the purposes of adding solar is to reduce the overhead costs of running the building through self-consumption of onsite generation. Reduced overheads result in the business paying higher corporation tax. Further, the business rates increase of six to eight times is an anomaly arising in specific circumstances. With the mainly export sites, solar panels are classed as ‘excepted plant and machinery’ so are non-rateable. This is not the case for mainly self-consumption assets, which is the root of the problem, but the VOA can only treat solar within the constraints of existing legislation. **We are therefore requesting Government intervention to change the legislation and exempt self-owned rooftop solar panels and cells from business rates.** To achieve this, we are exploring the following options:

- **All rooftop solar panels should be classed as ‘excepted plant and machinery’ under Class 1 in the regulations ([SI2000/540](#)), following the precedent of the exemption for CHP ([SI2001/846](#)), or the wording for solar cells and panels in Table 1 could exclude those intended for self-consumption.**
- **The microgeneration (<50kW) exemption should be retained and made permanent**, such that all existing and future microgeneration benefits, allowing businesses to plan ahead.

A fall-back option is for businesses to set up their solar installations as SPVs, though there are significant administrative and financial burdens associated with this; an impractical solution for smaller businesses.

How can I help?

We are asking MPs to write urgently to BEIS Secretary of State The Rt Hon Greg Clark MP; the Financial Secretary to the Treasury Jane Ellison MP; and Local Government Minister Marcus Jones MP. **Stakeholders, please [contact your MP](#) as soon as possible and register your concern to policy@solar-trade.org.uk for further actions as necessary.**