SOLAR TRADE ASSOCIATION

Budget Briefing

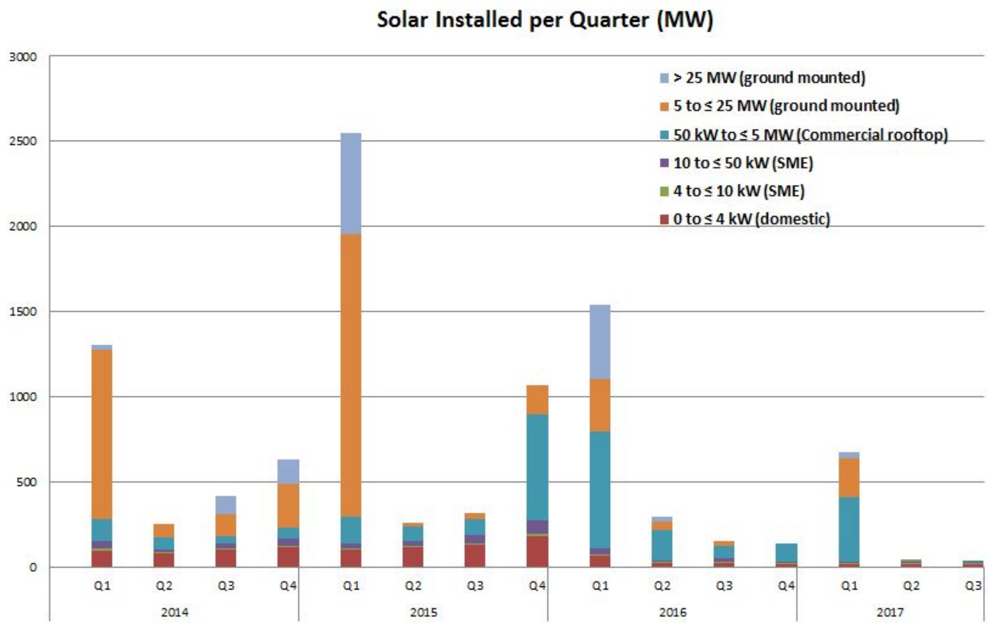
Deployment plummets - tax policy now key to sustained recovery

Treasury tax policies are vital to securing a level playing field for solar power and for laying solid foundations for a strong, post subsidy industry. The **STA is not looking for new subsidies**. However, for over a year we have been seeking **urgent reform of the FIT** where this is clearly failing, and **a level playing field** in terms of **market access** & **tax treatment**.

Key Budget asks:

- ***All* domestic battery storage installations should qualify for a reduced VAT rate of 5%**
- **All rooftop solar panels should be classed as 'excepted plant and machinery' under Class 1 Business Rates in the regulations** ([SI2000/58])
- **Solar panels and energy storage should be added to the eligibility list for Enhanced Capital Allowances.**
- **Government should establish a subsidy free CfD auction mechanism for mature low carbon technologies, including large scale solar, as soon as possible**.
- **Stamp Duty Land Tax adjustments based on Energy Performance**
- **Retention of Carbon Floor Price & details of carbon pricing in 2020s**

The graph below shows quarterly solar PV deployment Q1 2014 to Q3 2017. The STA is concerned about the health of all solar sub-markets in the UK solar industry with deployment overall falling by 85% compared to 2015. The severe drop in deployment has been exacerbated by the introduction of discriminatory business rate rises of up to 800% last April.



Domestic solar & storage; solar and storage are increasingly being offered together, given their obvious compatibility. We have secured 5% VAT for storage installed alongside *new* solar, however we need this applied to *retrofit* systems too. There are 875,000 homes with solar in the UK. It will help the establishment of the storage market if they are treated fairly for VAT purposes. The STA also supports the long-advocated policy of adjusting Stamp Duty Land Tax to promote energy efficiency upgrades in existing homes. We agree with the Energy Efficiency Infrastructure Group that this revenue neutral measure provides an important incentive for timely upgrades to homes, when the production of an up-to-date Energy Performance Certificate is already a requirement.

- **All domestic battery storage installations should qualify for a reduced VAT rate of 5%, as long as it is clear that it is being installed as an ancillary service to a PV panel, even if the PV panel is an existing system.**
- **Stamp Duty Land Tax adjustments, on a revenue neutral basis, to reward homes sold with higher Energy Performance**

Industrial & commercial (I&C) rooftop solar & storage; larger rooftop deployment has been low historically in the UK but this already struggling market is down 85% compared to 2015. Under such difficult circumstances it was particularly surprising that business rates for self-supply with rooftop solar increased by up to 800% last April. The STA and many others have raised serious concerns about the impact this has had on the deployment of commercial solar PV installations. The only other viable technology for the great majority of I&C investors in onsite power is gas CHP, which is excepted from business rates. The other onsite technology where there is increasing interest in the I&C sector is energy storage, where business rate treatment has yet to be decided. At a minimum, rooftop solar power and storage should be treated equitably with fossil fuels & likewise excepted from the hereditament for business rates to level the playing field.

Any capital expenditure on oil and gas, including shale gas, in the UK or in the Continental Shelf, if it qualifies for plant or machinery or oil exploration or for mineral extraction allowances (drilling costs), attracts capital allowances at a rate of 100%. General plant and machinery attracts an 18% capital allowance but 2012 the Government changed the rules specifically for solar[1] so that solar PV get a Special Rate of 8% whether FITs or RO are claimed or not.

- **All rooftop solar panels, and onsite energy storage, should be classed as 'excepted plant and machinery' under Class 1 Business Rates in the regulations** (SI2000/58)
- **Solar panels and energy storage should be added to the eligibility list for Enhanced Capital Allowances.**

Solar farms; solar has been prevented from competing in clean power auctions for 2.5 years, despite coming in as the cheapest technology in its only auction. We welcome recommendations by the Committee on Climate Change, the National Audit Office & the National Infrastructure Commission that solar should be allowed to compete in clean power auctions, in the interests of consumers. We anticipate the next wave of projects for large scale solar would come in at £50-54/MWh by 2020, which is extremely competitive and offers huge savings for consumers compared to most other technologies. Naturally the STA wishes to see carbon pricing consistent with achieving the 5th Carbon Budget & the energy sector in general urgently requires clear signals for low carbon investment. Treasury said last Spring they 'remain(s) committed to carbon pricing to help decarbonise the power sector.' We therefore expect to see retention of the Carbon Floor Price and look forward to details on carbon pricing for the 2020/21 framework, combining the EU ETS with the Carbon Price Support promised last Spring.

- **Government should establish a subsidy free CfD auction mechanism for mature low carbon technologies, including large scale solar as soon as possible**.
- **Retention of the Carbon Floor Price & detail on 2020/21 'total carbon price'**

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192109/capital_allowances_fits.pdf