



Is VAT incentivising housing demolition?

A literature review



Jules Moscovici

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About the author

Jules Moscovici is an independent researcher with 10 years' experience working for activist groups, charities, NGOs and public bodies. His expertise lies in housing, copyright law and racism in finance. He is especially skilled at demystifying complex areas of law, economics and policy to help organisations build compelling evidence and campaigns.

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Foreword

I can't remember the last time my G&T came with a single-use plastic straw. In so many areas of life, Britain seems to have recently and rapidly fallen out of love with disposability. The single-use carrier bag charge, for example, has cut sales in the main supermarkets by more than 98%, taking billions of plastic bags out of circulation. High street brands like Toast and Patagonia have begun offering clothes darning services. Repair cafes are opening all over the country with the EU even poised to launch legislation forcing tech companies to make their products easier to fix.

Yet when it comes to buildings, Britain is still seemingly addicted to disposability. An estimated 50,000 buildings are being demolished every year across the UK, many of them just a few decades old. News recently broke, for example, that a four storey block in Salford, only completed 29 years ago, was to be flattened despite winning Britain's highest architectural award, the Stirling Prize. Social housing is especially affected by demolition. London, for example, has knocked down at least 161 council and housing association estates since 1997 with many more including my sister's estate in Southwark under threat.

All this demolition is not just harming communities and our built heritage but is enormously polluting. As a rule of thumb, property development in the UK produces over a tonne of carbon dioxide and equivalent greenhouse gases per square metre. Cement alone accounts for 8% of the world's carbon emissions, and the construction industry consumes 50% of global steel and 25% of all plastics while producing 60% of UK waste. With such a high ecological footprint, some estimates suggest that current housing policy alone could eat up the UK's entire carbon budget by 2050.

Simply put, without radical change in contemporary construction practices, developing new buildings from scratch will remain a major contributor to climate breakdown. In this stark light, looking after, repairing, improving, converting, upgrading and refurbishing existing buildings is an urgent priority. The more old buildings are saved from the wrecking ball, the fewer new ones are needed, making Britain more sustainable, while better protecting our heritage and communities.

This landmark report investigates a critical question – whether the UK tax system incentivises demolition over refurbishment. Its findings are nothing short of a bombshell, suggesting that Britain's demolition addiction is fueled by an unequal VAT regime which punishes repairing and mending buildings. Like subsidising disposable plastic straws while imposing tariffs on re-usable cups, the research finds the UK tax system in the construction sector is complex but is ultimately creating topsy-turvy incentives that are contributing to climate breakdown. It is essential reading for policy makers and built environment professionals alike which I sincerely hope will contribute to the case for urgent and meaningful reform of this VAT loophole.

If Britain can end the era of single-use plastics, it can end the era of single-use buildings too. Reforming VAT is the place to start.

Phineas Harper is a built environmental writer and broadcaster. They are chair of the Design Council Homes Taskforce, a regular contributor to the *Guardian* and the former CEO of Open City

Introduction

Since 2011, value-added tax [VAT] has been set at 20% for refurbishment projects [with some exemptions]. The building of new housing, however, benefits from a 0% VAT rate.

The Climate Change Act 2008 binds the UK Government to cutting 100% of its carbon emissions by 2050 compared with 1990 levels. As refurbishing buildings is generally less carbon-intensive than building anew, it may be the case that VAT law is undermining these climate obligations by incentivising the building of new housing.

Over the past few decades, multiple groups have campaigned for VAT rates around refurbishment to be changed for environmental reasons. Others have pursued similar campaigns on the grounds of equity, economics or architectural heritage.

This review evaluates the evidence around this debate. It assesses research on VAT law, the incentives it may provide to demolish or renovate buildings, and the resulting consequences for carbon emissions.

Although there is considerable research regarding VAT's effects on construction through the lens of communities, employment, growth or other issues, these are out of scope here.

The review assesses 14 reports and offers critical analyses of each, including suggestions for further reading and research. It seeks to answer the following questions:

- What are the VAT rules surrounding retrofitting and building development?
- What incentives, if any, do these VAT rules create for building/demolition?
- What consequences might these incentives have for carbon emissions and the environment?

Overall, it finds that:

- VAT law around construction is highly complex, but does offer lower rates for building new housing compared to refurbishing existing buildings.
- There are several exemptions to this statement, adding further complexity for developers, architects, local authorities, and other stakeholders.
- Nonetheless, these varying rates have been found to incentivise developers and architects to prioritise demolition and rebuilding over refurbishment.
- These incentives have negative environmental consequences. The literature mostly agrees that rebuilding is more carbon-intensive than retrofitting.
- However, UK carbon accounting norms are lagging behind. They only require measurements of buildings' operational emissions, failing to capture 'Whole Life-Cycle Carbon' [WLC] which includes emissions from construction and demolition. This is resulting in a dearth of 'real-world' data to compare rebuilding versus retrofitting.
- There is also broad consensus that energy-efficient renovations are vital to reducing the UK's emissions, with only some types benefitting from reduced VAT.
- There is emergent research directly assessing this issue 'end-to-end'. Several reports have modelled the potential impact of changes in construction VAT on carbon emissions. They conclude that reducing VAT on renovation would be highly beneficial to reduce CO₂ and help the UK to achieve its environmental obligations.
- There is a need for further research. Priorities include further exploring architects' and developers' decision-making, further clarity on how VAT influences local authorities, as well as environmental assessments of similar policies in other countries.

Executive Summary

A Literature detailing VAT law for construction and previous attempts at change

The first part of this review surveys literature explaining current VAT legislation and its history.

Key points

- VAT law around construction is complex due to the number of exemptions and the difficulties in classifying projects.¹ It can be summarised as follows:
 - Construction
 - The construction of new housing/dwellings is zero-rated [0% VAT] or fully exempt from VAT.^{2,3,4} The same applies to buildings with a charitable purpose.⁵
 - Refurbishment
 - Most renovation and maintenance is subject to 20% VAT.⁶
 - This includes refurbishing housing which is *currently/recently occupied*, also subject to 20% VAT.⁷
 - Notable exemptions [subject to 0-5% VAT]^{8,9} include:
 - Refurbishing vacant property.¹⁰
 - Converting non-residential buildings into housing.¹¹
 - Changing the number of housing units in a building.¹²
 - Certain energy-saving refurbishment measures.¹³
 - There is a strong desire within civil society, the general public, academia, architecture, development and religious bodies to decrease VAT for refurbishment.^{14,15}

What does this entail?

- Current VAT law suggests that:
 - There is a financial incentive to build new housing.
 - There is a financial disincentive to refurbish or retrofit homes.
- The considerable number of exemptions mean it is vital to understand exactly what forms of refurbishment/retrofit work are being disincentivised.

- The case to decrease VAT on refurbishment has political backing.

Recommended reading [assessed in this review]:

- 2. House of Commons Library, 'VAT and Construction', 2019
- 3. Heighten Accountants, 'VAT on Construction: A Guide to Rates, Exemptions & Compliance', 2025
- 4. Designs in Detail, 'VAT on Home Renovations: Your Guide to Standard, 5%, and Zero Rates', 2024
- 5. HMRC, 'Buildings and Construction VAT Notice', 2024
- 6. House of Commons Library, 'VAT and Churches', 2025

Further reading [not yet assessed in this review]:

- UCL Urban Lab and Engineering Exchange, 'Demolition or Refurbishment of Social Housing? A review of the evidence', 2014

Gaps in literature to fill

- Detailed, clear summaries of VAT legislation and exemptions, with higher academic/scientific/legal authority.
- More precise reporting regarding exactly which types of refurbishment are currently disincentivised.
- Research confirming how financial incentives are changing developers'/architects' decisions in practice [see section B. immediately below].

B Evidence that current VAT law is deterring refurbishment

The second part of this review contains analyses of developers' and architects' decision-making processes, assessing how VAT is influencing the decision to retrofit or rebuild.

Various reports make the assumption that higher VAT rates for refurbishment incentivise demolition. This is an intuitive idea, but further research is needed to establish a clear causal link.

Surveys and interviews with architects and developers are therefore vital to demonstrate exactly how higher VAT rates are affecting these actors' decision-making.

Key points

- Architecture¹⁶ and development¹⁷ firms have been found to prioritise demolition over refurbishment due to higher VAT rates for the latter. This is demonstrated through quantitative and qualitative evidence.
 - When deciding between demolition or refurbishment, VAT places high amongst other important factors such as technology,^{18,19} skills²⁰ or regulation.²¹
- Some interviews, however, are notable for their lack of explicit mention of VAT,²² while some architecture firms are unburdened by VAT law due to the exemptions cited above.²³

What does this entail?

- Where VAT is found to influence architects' and developers' decision-making, one can then begin to assess the consequences on carbon emissions [see sections C. and D. below].

Recommended reading [assessed in this review]:

- 7. UK Green Building Council, 'The choice between demolition or reuse: developer insights', 2021
- 1. London Assembly Planning and Regeneration Committee, 'Retrofit vs Rebuild?', 2024
- 12. Butt et al., 'Opportunities and barriers to business engagement in the UK domestic retrofit sector: An industry perspective', 2020
- 8. Osmani and Davies, 'An Assessment of Low Energy Design Practices in Housing Retrofit Projects', 2013
- 14. Osmani and Davies, 'Low carbon housing refurbishment challenges and incentives: Architects' perspectives', 2011

Further reading [not yet assessed in this review]:

- The Heritage Alliance, 'Treasury Committee VAT inquiry: Heritage Alliance Response', 2018
- UCL Urban Lab and Engineering Exchange, 'Demolition or Refurbishment of Social Housing? A review of the evidence', 2014
- Bergman and Foxon, 'Reframing policy for the energy efficiency challenge: Insights from housing retrofits in the United Kingdom', 2020

Gaps in literature to fill

- More recent surveys and interviews.

- More granular analysis of which types of refurbishment are being disincentivised by VAT.
- Surveys and interviews with all stakeholders involved in decision-making [e.g. planning officers, architects, developers, local government or final buyers].

C Evidence that refurbishment produces less emissions than demolition and rebuild

Third, this document reviews scientific and statistical evidence that demolition and rebuilding leads to higher carbon emissions than refurbishment.

Key points

- A large part of the UK's emissions come from the built environment. The evidence reviewed estimates this to represent 25% to 40% of total emissions.^{25,26}
 - In London, buildings account for over 2/3 of total emissions.²⁷
- 50,000 buildings are demolished each year in the UK.²⁸
- UK carbon reporting requirements for construction are undemanding. They only require operational emissions to be assessed – as opposed to Whole Life-Cycle Carbon [WLC] reporting.²⁹ WLC takes into account emissions from demolition and building.
- The majority of residential buildings' emissions are produced before the building is operational.³⁰
- Reusing existing structures is usually less carbon-intensive than demolishing and rebuilding, where the aims [e.g. the number of resulting dwellings] are the same.^{31,32}
- Low energy retrofit schemes are essential to achieve the UK's net zero obligations.^{33,34}

What does this entail?

- The literature suggests increasing refurbishment could considerably reduce carbon emissions from construction.
- In turn, this would significantly reduce the UK's carbon emissions as a whole due to the size of the construction sector.

Recommended reading [assessed in this review]:

- 1. London Assembly Planning and Regeneration Committee, 'Retrofit vs Rebuild?', 2024
- 7. UK Green Building Council, 'The choice between demolition or reuse: developer insights', 2021
- 8. Osmani and Davies, 'An Assessment of Low Energy Design Practices in Housing Retrofit Projects', 2013

- 9. Green Alliance, 'Added value: improving the environmental and social impact of UK VAT', 2020
- 10. Experian, 'An estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015 to 2020', 2014

Further reading [not yet assessed in this review]:

- Royal Institute of Chartered Surveyors (RICS), 'Whole life carbon assessment for the built environment', 2017
- Arup, 'Net zero carbon buildings: three steps to take now', 2020
- UK Green Building Council, 'Net Zero Whole Life Carbon Roadmap: A Pathway for the UK Built Environment', 2021
- Department for Environment, Food & Rural Affairs, 'UK statistics on waste', 2024

Gaps in literature to fill

- Up-to-date, exhaustive data on WLC versus operational emissions.

D Projections for VAT harmonisation's impact on emissions

This review also contains important economic and environmental projections on the consequences of changes in VAT.

Key points

- Reducing VAT on refurbishment has been directly modelled to reduce the UK's carbon emissions,³⁵ while providing a stimulus to economic growth and job-creation.^{36,37}

What does this entail?

- VAT could be assessed by the Government as a critical way to decrease emissions ahead of its 2050 net zero target.
- The economic benefits [while not directly in scope here] signify this would be a 'win-win' political move.

Recommended reading [assessed in this review]:

- 10. Experian, 'An estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015 to 2020', 2014
- 11. Federation of Master Builders, 'Cut the VAT: A proposal for building back better and greener', 2021

Gaps in literature to fill

- More precise projections including assumptions as to which types of refurbishment exactly would be incentivised.
- Government assessments.

E Evidence from other countries

Equally important are case studies from other economies, where value-added taxes have been changed to incentivise refurbishment for environmental reasons.

Key points

- Other countries such as the Netherlands and Isle of Man have reduced VAT rates on refurbishment.³⁸
- This has led to increased economic activity in the retrofit sector.³⁹

What does this entail?

- There is a practical evidence base from economies comparable to the UK, implying that VAT reductions would indeed incentivise refurbishment work.

Recommended reading [assessed in this review]:

- 9. Green Alliance, 'Added value: improving the environmental and social impact of UK VAT', 2020
- 10. Experian, 'An estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015 to 2020', 2014

Further reading [not yet assessed in this review]:

- Copenhagen Economics, 'Study on reduced VAT applied to goods and services in the Member States of the European Union', 2007

Gaps in literature to fill

- Further international assessments and detailed comparison with the UK.
- Detailed assessments of VAT changes' effects on fiscal income, *as well as on carbon emissions*.

F Political arguments and counter-arguments

Finally, this review assesses several political attempts to change VAT rates in construction and historical responses from Government officials, as well as potential counter-arguments.

Key points

- There have been many attempts to harmonise these VAT rates, on the grounds of urban regeneration,⁴⁰ carbon emissions, heritage⁴¹ or equity.⁴²
- The UK Government has often claimed, or could claim, that changing VAT on refurbishment would:
 - Reduce public fiscal receipts.^{43,44}
 - Go against obligations at the European level.⁴⁵
 - Increase the complexity of VAT assessments.⁴⁶
 - Be unfair and untargeted.^{47,48}
 - Be a 'slippery slope' to ceding to various other demands for VAT relief from different sectors.⁴⁹
- Potential responses to these arguments include:
 - Fiscal projections calculating that harmonising VAT on new builds and refurbishment at 5% would be revenue-neutral.⁵⁰
 - The 'subsidy' afforded to new build development is estimated at around £16bn a year.⁵¹
 - The argument that harmonising VAT would simplify the tax system. One of the principles of VAT should be its simplicity.
 - The fact that the UK now has full independence from the European Union to set VAT rates.

What does this entail?

- The UK Government may be overstating legal, financial/fiscal and political difficulties in changing VAT law.

Recommended reading [assessed in this review]:

- 6. House of Commons Library, 'VAT and Churches', 2025
- 2. House of Commons Library, 'VAT and Construction', 2019
- 9. Green Alliance, 'Added value: improving the environmental and social impact of UK VAT', 2020

Further reading [not yet assessed in this review]:

- Green Alliance, 'By popular demand: what people want from a resource efficient economy', 2018
- Copenhagen Economics, 'Study on reduced VAT applied to goods and services in the Member States of the European Union', 2007
- House of Commons Environmental Audit Committee, 'Building to net zero: costing carbon in construction', 2022

Gaps in literature to fill

- Government assessments of the potential impact of changes in VAT around construction.

Literature Review

1 London Assembly Planning and Regeneration Committee, 'Retrofit vs Rebuild?', 2024

Tags

- VAT legislation
- Environmental outcomes [retrofit vs. new build]
- VAT incentives
- Whole Life-Cycle Carbon accounting

Citation

London Assembly Planning and Regeneration Committee. 2024. "Retrofit vs Rebuild? Reducing Carbon in the Built Environment." At <https://www.london.gov.uk/sites/default/files/2024-02/Retrofit%20vs%20Rebuild%20-%20Reducing%20Carbon%20report.pdf>, accessed April 17, 2025.

Abstract [from press release page]

"In London, buildings account for an estimated 68 per cent of London's carbon emissions. These emissions arise from the construction, operation, and demolition of buildings.

If London is to meet the Mayor's 2030 net zero target, there is an urgent need to reduce emissions from buildings and to retrofit our housing stock.

The London Assembly Planning and Regeneration Committee carried out a two-part investigation into London's built environment, focussing on how decisions are made to either retrofit or rebuild properties and the carbon implications for both.

Whilst operational carbon emissions (the energy used to run buildings, heating and cooling systems) are regulated through building regulations, the Committee found during its investigation that embodied carbon is treated differently, and the building industry is not currently required nationally to measure and reduce the embodied carbon arising from construction."

Research questions

- How are decisions made to either retrofit or rebuild buildings?
- How do carbon accounting obligations influence this?

- What other factors exist [e.g. financial incentives]?
- What are the carbon implications of these decisions?
- What recommendations should be made to the Government and Mayor?

Methodology

- Legislation review, focused on the Greater London Authority [GLA]'s 'London Plan 2021'
- Qualitative analysis from two group meetings in March 2023 [transcript 1 and transcript 2], including evidence from:
 - GLA staff
 - AECOM
 - Chartered Institution of Building Services Engineers [CIBSE]
 - Hawkins\Brown
 - Targeting Zero
 - Twentieth Century Society
 - City of London Corporation
 - Climatise
 - Montagu Evans
 - JLL
- Document analysis of correspondence from experts at Hawkins\Brown, CIBSE and GLA officers [respectively links 1, 2 and 3]
- Analysis of planning decisions

Main argument and findings

The document finds that UK carbon reporting legislation is insufficient to assess the entirety of emissions arising from construction.

Developers are required to report *operational* emissions from a building's use such as heating and cooling. They do not need to report buildings' *embodied* emissions – "the energy used to extract, transport and assemble materials"⁵² as well as demolition and disposal.

Assessments which take both operational and embodied emissions into account are called 'Whole Life-Cycle Carbon' [WLC] assessments. However, even when developers are required to submit such

WLC assessments [e.g. with the GLA], these can be biased and inaccurate.⁵³

Contrary to national obligations, the GLA's London Plan requires WLC disclosure [for important developments]. The report finds that this is “incentivising industry to understand, and aim to reduce, embodied carbon”.⁵⁴

Most importantly for this review, the report also finds that:

- “Retaining and reusing existing buildings or components is usually more efficient, in terms of embodied carbon, than demolishing and rebuilding”.⁵⁵
 - This efficiency is expected to increase as the UK electricity grid decarbonises in the future.
- “The UK built environment is responsible for approximately a quarter of total UK greenhouse gas emissions”.⁵⁶
- VAT rates are lower for new builds than refurbishment projects:
 - “At present, standard VAT rates [20 per cent] apply to the supply and construction of building materials for project types such as extensions, renovations and partial rebuilding. New dwellings, depending on specific project details, may benefit from reduced VAT rates of zero per cent or 5 per cent, potentially influencing cost decisions”.⁵⁷

The report makes 6 recommendations:

- For the Government to introduce nationwide WLC assessment requirements, using the London Plan as a model.
- For the Mayor of London to publish annual data on WLC assessments.

- For the GLA to make its guidance more ambitious, accurate and accountable.
- For the Government to assess whether “VAT on building refurbishment could be removed or reduced (to bring retrofit in line with new buildings)”.⁵⁸
- For the Government and Mayor of London to support local authorities in promoting WLC and circular economy approaches.
- For the GLA to review circular economy requirements for the built environment.

Critical analysis

The document provides an important overview of carbon reporting requirements when choosing demolition or refurbishment. It helps readers to understand the environmental consequences of these decisions.

The section on VAT is short. The outline of different rates [as above] is useful, but it does not provide sufficient detail to understand consequent financial incentives.

Further reading required:

- Additional detail on current VAT legislation.
- Further detail on the varied factors that influence developers’ and architects’ decisions, including carbon accounting legislation and VAT.
- Additional detail on environmental outcomes arising from building new versus refurbishment.

2. House of Commons Library, ‘VAT and Construction’, 2019

Tags

- VAT legislation
- Political arguments

Citation

Seely, Antony. 2019. “VAT and Construction.” 587 House of Commons Library. At <https://researchbriefings.files.parliament.uk/documents/SN00587/SN00587.pdf>, accessed April 21, 2025.

Abstract [from release page]

“This note sets out the VAT treatment of construction work and the UK’s discretion in setting VAT rates under EU law, before looking at the debate on harmonising VAT rates on all types of construction work.”

Research questions

- What is the history of VAT law around construction?
- What attempts have been made to change it?
- What is the role of the European Union [EU] in setting rates?

Methodology

- Historical analysis
- Legal analysis

Main argument and findings

VAT law around construction is complex due to exemptions and difficult classifications. The report summarises the two most important parts:

- “The construction of new buildings is charged a zero rate of VAT, provided the supply in question is for a social purpose: in effect, this means that only the construction of new houses, dwellings and buildings with a charitable purpose is zero-rated.
- Generally VAT is charged at the standard rate - currently 20% - on repair, renovation and maintenance work whatever the status of the building concerned”.⁵⁹

The report presents an interesting history of changes in law which have led to the current VAT regime [summarised in sections 3, 4 and 5 below]. It is important to note that the difference between rates for new construction and repairs has existed in some form since the introduction of VAT in 1973.⁶⁰

It also notes a history of political attempts to harmonise VAT on all types of construction, most often as a way to “encourage urban regeneration, removing an important disincentive for developers to refurbish empty properties”.⁶¹ This includes the Environment, Transport and Regional Affairs Committee in 1998, the 1999 Urban Task Force, chaired by Lord Rogers, a series of motions submitted to Parliament over the past 30 years, as well as European-level public commissions.

The report highlights historic opposition from the Government to such attempts, on the grounds that harmonisation would be:

- Costly.⁶²
 - VAT in 2019 represented 16.8% of all receipts.⁶³
 - In 2011, the Treasury estimated that “introducing a 5% rate on all renovation and refurbishment work would cost about £2.2bn a year”.⁶⁴
- “Poorly targeted”.⁶⁵
- Illegal within EU law.⁶⁶

It also notes *potential* responses from the Government, who could argue that VAT harmonisation in construction could be:

- Unfair, as “VAT reliefs are not means-tested”,⁶⁷ meaning there is an argument to make as few as possible on the grounds of equity.
- Exploited, as increasing the number of reliefs would make the boundaries of eligibility “legally contentious” or result in an “unnecessary complication of the tax”.⁶⁸
- A ‘slippery slope’, leading to numerous other claims for VAT exemption outside of construction.⁶⁹

Critical analysis

Overall, this is a useful report to note the long history of advocacy for change to construction VAT within parliament, and the most common Government responses, including concerns about tax receipts.

Importantly, however, the document notes that the Treasury’s own estimates in 2004 stated that harmonising new build and refurbishment construction would be revenue-neutral.⁷⁰

We also know that the Government now has complete independence from the EU in setting VAT rates, meaning arguments against harmonising VAT in construction can no longer use EU restrictions as justification.

Finally, there is an argument that harmonising all construction VAT to 5% would make the currently highly complicated regime simpler, counteracting Government arguments that reducing VAT on refurbishment would complexify claims.

Further reading required:

- Additional clarity on current VAT laws and exemptions, updated for 2025.

3 Heighten Accountants, 'VAT on Construction: A Guide to Rates, Exemptions & Compliance', 2025

4 Designs in Detail, 'VAT on Home Renovations: Your Guide to Standard, 5%, and Zero Rates', 2024

5 HMRC, 'Buildings and Construction VAT Notice', 2024

Tags

- VAT legislation
- VAT incentives

Citations

Iqbal, Nadeem. 2025. "VAT on Construction: A Guide to Rates, Exemptions & Compliance." Heighten Accountants. At <https://heightenaccountants.co.uk/vat-on-construction/>, accessed April 22, 2025.

Coates, Aron. 2024. "VAT on Home Renovations: Your Guide to Standard, 5%, and Zero Rates." Designs in Detail. At <https://www.designsindetail.com/articles/vat-on-home-renovations-your-guide-to-standard-5-and-zero-rates>, accessed April 22, 2025.

HM Revenue & Customs. 2024. "Buildings and Construction (VAT Notice 708)." GOV.UK. At <https://www.gov.uk/guidance/buildings-and-construction-vat-notice-708>, accessed April 18, 2025.

Abstracts

"This guide will provide an overview of VAT rules in construction, outlining applicable rates, exemptions, and essential compliance tips to help businesses easily navigate this complex area".

"Learn how to save money on your home renovation with reduced VAT rates. Discover when you can pay just 5% VAT instead of 20%, and which works qualify for zero VAT. This essential guide will help you maximise your renovation budget".

"How to work out the VAT on building work and materials if you're a contractor, subcontractor or developer".

Research questions

- What are the different rates of VAT in construction?
- How does this affect builders, architects, developers and their customers?

Methodology

- Legislation review

Main argument and findings

Written by accounting and architecture firms, articles 3. and 4. provide the clearest summaries of VAT rates in construction this review has found thus far. The HMRC official guidance provides additional detail. Together, one can summarise relevant VAT laws as follows:

Standard rate [20%]

"The general rate of 20% VAT is charged on most building work, such as:

- Commercial building projects.
- Maintenance, refurbishments, and repairs of existing buildings.
- Extensions and modifications to domestic and commercial properties.
- Expert services like architecture, design, and project management".⁷¹
- Some energy-efficient refurbishment, including "high-efficiency boilers, double glazing, secondary glazing, and energy-efficient appliances".⁷²

Reduced rate [5%]

"A reduced VAT rate of 5% applies to certain residential construction projects, including:

- Renovation or alteration of homes that have been vacant for two or more than two years.
- Conversion of non-residential buildings (e.g., offices, barns, or churches) into homes".⁷³
 - If such a project is undertaken by a housing association, this is zero rated.⁷⁴
- Installation of certain energy-saving materials, such as insulation (under specific conditions)".⁷⁵
 - This only applies "for existing parts of a building. Insulation added as part of a new extension will incur the standard VAT rate".⁷⁶
- "Projects resulting in a change in the number of residential units (e.g., amalgamating flats back into a single house)".⁷⁷

Zero rate [0%]

"Some projects qualify for zero-rated VAT, meaning no VAT is charged. These include:

- Building of new residential properties, including houses and flats.
- Construction of qualifying buildings, such as care homes, student accommodations, and certain charitable buildings.
 - Similarly, 'alterations to suit the condition of people with disabilities'.⁷⁸
- The first sale of newly built residential properties by developers.⁷⁹
- "If a residential building has been unoccupied for at least 10 years, you may qualify for zero-rated VAT on the renovation work".⁸⁰

VAT-exempt construction projects

"These are two kinds of construction activities that may be VAT-exempt in the UK.

- Sales and Leases of pre-owned residences: The long-term lease (over 21 years) or sale of any such occupied property is VAT-exempt. Whereas any new developments are eligible for zero-rated VAT.
- Charitable Buildings: Activities for buildings that are to be used for non-business charitable purposes, such as places of worship or free healthcare facilities, can also be VAT-exempt".⁸¹

Construction Work Outside the Scope of VAT

"Some construction projects are considered outside the scope of VAT, meaning VAT is not applicable to them:

- **Public Infrastructure Projects:** construction of roads, bridges, and Government-funded utilities is outside the scope of VAT.
- **Local Authority-Funded Housing:** some social housing developments financed by local authorities are entitled to VAT relief.
- **DIY House-builders Scheme:** people constructing their own houses can reclaim VAT on eligible construction costs, which makes the project VAT-free".⁸²

To summarise, this means that:

- New build construction resulting in housing or a charitable outcome is zero-rated or exempt from VAT.
- Most refurbishment is subject to full 20% VAT, including renovating housing which is currently/recently occupied.
 - Notable exemptions [subject to 0-5% VAT] include:
 - Refurbishing vacant property

- Converting non-residential buildings into housing
- Changing the number of housing units in a building
- Certain energy-saving refurbishment measures.

Critical analysis

The HMRC guidance illustrates the complexity of VAT law around construction. The other two articles offer additional clarity. For the purposes of this review, it is important to note that:

- There are a considerable number of exemptions for retrofit projects to be zero or 5% rated.
 - This means that a legal case to harmonise VAT rates would have to be very clear around which types of refurbishment projects exactly one is seeking to incentivise.
- It remains unclear how much local authorities can reclaim VAT on refurbishment projects. As one VAT consultancy notes, "VAT rules for local authorities are different, and, in practice, councils can reclaim virtually all of the VAT [incurred] on major works contracts from HMRC". The complexity of this area has been debated in the House of Lords, see here for example.
- There is an argument to be made to simplify VAT laws overall in order to stimulate the incentives for refurbishment, as has been made by the Heritage Alliance. One could argue that the law is so complex that developers are drawn to the most simple exemption to VAT: the development of new housing units.
 - This argument would require further research into developers' decision-making processes.
 - This would be a potential response to Government claims that reducing VAT on refurbishment would complicate tax law [see section 2. above].

Further reading required:

- Additional detail on VAT relief for local authorities, especially in the context of social housing development/refurbishment.
- Insights into developers' decision-making processes around VAT and financial incentives.
- Statistical analysis of which types of refurbishments exactly are being disincentivised by VAT laws.

6 House of Commons Library, 'VAT and Churches', 2025

Tags

- VAT legislation
- Political arguments

Citation

Seely, Antony. 2025. "VAT and Churches." At <https://researchbriefings.files.parliament.uk/documents/SN01051/SN01051.pdf>, accessed April 21, 2025.

Abstract [from online page]

"Construction work to repair buildings, including historic churches, is charged VAT at the 20% standard rate. The Listed Places of Worship Grant Scheme provides grants to mitigate the VAT costs for these repairs."

Research questions

- What is the history of VAT law around construction?
- What attempts have been made to change it on the grounds of heritage and conservation of religious sites?
- How has the Government responded to these attempts?

Methodology

- Legislation review
- Historical review

Main argument and findings

The paper is very similar to the House of Commons Library briefing on VAT and construction

[see section 2.] The report specifically outlines the history of VAT laws around refurbishment for churches, how the Government in 2012 removed a previous exemption for alterations to listed buildings, and how 'The Listed Places of Worship Grant Scheme' was introduced to compensate for this.

Beyond what is already covered in the other briefing on construction, the report highlights:

- The scale of current spending on VAT relief for new builds: "it is estimated that the annual cost of zero-rating the construction and sale of new dwellings is around £16 billion".⁸³
- How zero rates of VAT [as with newly built houses] are more beneficial than VAT exemptions [e.g. food]. This is because those producing zero-rated goods can reclaim VAT incurred as an 'input' into its production, which is not possible for exempt goods.⁸⁴

Critical analysis

Again, this report is useful to understand the historical precedent for campaigns to harmonise construction VAT rates, as well as Government responses. The document also helps to understand how:

- The movement to change VAT has varied political allies, including religious lobbies.
- Political pressure can lead to Governments creating specific grants to compensate for negative outcomes of VAT law.
- Could such a grant be created to further stimulate refurbishment/retrofit work?

7 UK Green Building Council, 'The choice between demolition or reuse: developer insights', 2021

Tags

- VAT incentives
- Other developer incentives

Citation

UK Green Building Council. 2021. "The Choice between Demolition or Reuse: Developer Insights." UKGBC. At <https://ukgbc.org/news/the-choice-between-demolition-or-reuse-developer-insights/>, accessed May 4, 2025.

Abstract

"A series of interviews with developers about their insights into factors that influence the decision to demolish or refurbish buildings, as part of our involvement in the CIRCuiT Project."

Research questions

- Which factors come into play when developers are choosing between refurbishment or rebuilding?

Methodology

- Interviews with nine 'leading developers' within the UKGBC network
- Qualitative analysis

Main argument and findings

The paper provides further statistics on the environmental cost of building new and insights as to developers' decision-making:

- "Approximately 40% of the UK's emissions are attributable to the built environment, while construction, demolition, and excavation activities generate approximately 60% of the UK's waste".⁸⁵
- "51% of a residential building's carbon is emitted before the building is operational".⁸⁶
- 50,000 buildings are demolished each year in the UK.⁸⁷

Nonetheless, two developers interviewed question the environmental and social value of retrofitting, asking "whether it would always be the case that a refurbished building could meet operational emissions and social value targets, even if embodied carbon were reduced compared to a new build".⁸⁸

In terms of developer decision-making, four out of nine developers interviewed "tended to default to an assumption that a new build would be most cost effective and practical".⁸⁹

The interviews highlight the additional factors that influence developers, including:

- "Income generating possibilities for the developer".⁹⁰
 - Beyond VAT, this is also influenced by the difficulty to estimate rising costs of refurbishment.
- "Structural soundness, material quality and aesthetic appeal e.g. the condition of mechanical and electrical (M&E) services and finishes.
- Occupant safety and a comfortable internal environment".⁹¹
- Regulatory requirements [e.g. for listed buildings].
- Data availability.

- Technological availability.
- Training and skills in the construction industry.⁹²

Interestingly, it may be the case that refurbishment will increase in the future due to factors outside of 'traditional' financial incentives, including:

- Financial investors "demanding proof of climate resilience within physical assets".⁹³
- "Increasingly engaged occupiers demanding high-quality, sustainable work and living spaces".⁹⁴

The paper also provides a further reason to prioritise changes on VAT rather than regulatory changes in order to stimulate refurbishment. One developer states that "incentivisation is more powerful than legislation and would be preferred. Legislation adds further delays to planning",⁹⁵ while interviewees' "final decision-makers (generally investors and board members) were unlikely to provide their support for any refurbishment works without being presented with a positive financial business case".⁹⁶

Critical analysis

The discrepancy between environmental statistics across the reports reviewed here demonstrate the importance of gathering a stronger body of data on construction's carbon emissions.

The multitude of factors that go into developers' decision-making highlights the difficulty in isolating the potential positive consequences of VAT harmonisation.

There is also an argument to be made that incentives outside of VAT [e.g. the wishes of developers' boards, house buyers/renters or changing regulation] will lead to increased rates of refurbishment regardless, reducing the need for VAT harmonisation as a political tool.

Further reading required:

- Quantitative analysis of developers' incentives [to add to this qualitative insight].

8 Osmani and Davies, 'An Assessment of Low Energy Design Practices in Housing Retrofit Projects', 2013

Tags

- VAT legislation
- Environmental outcomes [retrofit vs. new build]
- VAT incentives
- Other developer incentives
- Whole Life-Cycle Carbon accounting

Citation

Osmani, Mohamed, and Philip Davies. 2013. "An Assessment of Low Energy Design Practices in Housing Retrofit Projects." *Energy Procedia* 42 Mediterranean Green Energy Forum 2013: Proceedings of an International Conference MGEF-13: 193–200.

Abstract

“The UK housing sector accounts for approximately 30% of total energy demand and accounts for 27% of carbon emissions. The uptake of low energy retrofit (LER) within the existing housing stock is piecemeal and currently not sufficient to achieve the 80% carbon reduction legally binding commitment by 2050 in the UK. Literature reveals that improving thermal insulation is the most preferred LER design approach in housing projects. Furthermore, there are no legislative requirements to drive architects to design in low energy housing retrofit strategies in their current projects. Therefore, this research engaged architects specializing in housing refurbishment through a questionnaire survey to investigate LER design challenges and enablers. Results indicate that high capital costs for micro-generation technologies; disparity in VAT between new build and refurbishment; and the complexity of the UK existing housing stock are the most considerable LER housing design challenges. On the other hand; a tax rebate for LER driven projects; removal of the VAT difference between new build and refurbishment; increased research to produce affordable low energy technologies; and increased government low carbon programs were identified as the key incentives to drive the LER housing agenda.”

Research questions

- Which factors are currently blocking architects from increasing low energy retrofit projects?
- Which factors would incentivise such projects in the future?

Methodology

- Questionnaire survey of architecture practices specialising in housing refurbishment
 - 100 surveys with 45% response rate
- Quantitative analysis
- Qualitative analysis

Main argument and findings

Through interviews with architecture practices, this paper highlights the most considerable low energy retrofit challenges:

- “High capital costs for micro-generation technologies
- Disparity in VAT between new build and refurbishment [the second-highest rated challenge]
- The complexity of the UK existing housing stock”⁹⁷

Meanwhile, the most important incentives to increase low energy retrofit [LER] housing in the future are found to be:

- “Tax rebate[s] for LER driven projects.
- Removal of the VAT difference between new build and refurbishment [ranked second most important incentive].
- Increased research to produce affordable low energy technologies.
- Increased Government low carbon programs”⁹⁸

The paper also offers additional statistics on environmental outcomes and the low takeup of retrofit projects for architecture firms, even those specialised in refurbishment:

- “The UK housing sector accounts for approximately 30% of total energy demand and accounts for 27% of carbon emissions”⁹⁹
- “The uptake of low energy retrofit (LER) within the existing housing stock is piecemeal and currently not sufficient to achieve the 80% carbon reduction legally binding commitment by 2050 in the UK”¹⁰⁰
- “80% of respondents relied on personal research [...] rather than in-house training” for LER-related information”¹⁰¹

Critical analysis

- This is a critical piece of evidence to ascertain the impact of VAT on architects’ decision-making.
- It is also helpful as it focuses on a more narrow form of refurbishment [low energy retrofit], rather than speaking about incentives to refurbish more broadly.

Further research needed:

- More recent analysis.
- Surveys and interviews of other stakeholders, e.g. developers or local authorities.
- More detailed statistics as to the contribution of low-carbon refurbishment to the UK’s legally-binding climate targets.

9 Green Alliance, 'Added value: improving the environmental and social impact of UK VAT', 2020

Tags

- VAT legislation
- Environmental outcomes [retrofit vs. new build]
- VAT incentives

Citation

Peake, Libby. 2020. "Added Value: Improving the Environmental and Social Impact of UK VAT." Green Alliance. At <https://green-alliance.org.uk/publication/added-value-improving-the-environmental-and-social-impact-of-uk-vat/>, accessed May 4, 2025.

Abstract

"For too long, governments have avoided fundamental changes to tax, tinkering only with the rates of existing taxes, rather than conducting a root and branch review of the system.

As the government conducts fundamental reviews as part of its economic recovery plans, now is the time to rethink what taxes are for, including what is taxed and why.

This first report for our TransformTax project, supported by the Joseph Rowntree Charitable Trust, outlines three changes to VAT that can be made relatively easily in the near term. We believe they should be made soon to begin the long overdue process of embedding environmental and social benefits in the tax system."

Research questions

- How can the VAT regime be amended to support environmental and social benefits?

Methodology

- Legal assessments
- Economic projections

Main argument and findings

This report places VAT in a broader political and environmental context. As such, it campaigns for changes to VAT on construction, combined with increased VAT for gas and domestic fuel, as well as lower rates for consumer product repairs.

It also signposts to research showing public support for VAT changes: "76 per cent of people in the UK would either support or are neutral about the idea of replacing or changing VAT to better reflect environmental impact".¹⁰²

Critical analysis

- The report is useful to understand construction-related VAT as part of broader sustainability and economic questions in the tax system.
- It is useful as a source of other reading but does not offer primary research.

10 Experian, 'An estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015 to 2020', 2014

Tags

- VAT legislation
- Environmental outcomes [retrofit vs. new build]
- VAT incentives
- Whole Life-Cycle Carbon accounting
- Political arguments

Citation

Experian. 2014. "An Estimate of the Effects of a Reduction in the Rate of VAT on Housing Renovation and Repair Work: 2015 to 2020." At <https://www.ihbc.org.uk/resources/VAT-research-FINAL.pdf>, accessed May 4, 2025.

Abstract [from press release]

"A VAT reduction on housing renovation and repair could boost the UK economy by more than £15 billion from 2015 to 2020 according to a new independent research report by Experian. This reduction could also create more than 95,000 jobs and save 240,000 tonnes of CO2 from thousands of homes."

Research questions

- What would be the consequence of a cut from 20% to 5% for VAT on renovation on:
 - Economic indicators [growth, unemployment, fiscal revenue]?
 - Carbon emissions?

Methodology

- Economic modelling

Main argument and findings

This report, produced by Experian on behalf of the Cut the VAT Coalition, uses economic, employment and PAYE data.

It concludes that a cut from 20% to 5% on the labour element of renovation over five years would result in positive outcomes for growth, including:

- “A huge economic stimulus of more than £15 billion”.¹⁰³
- “42,000 extra full-time equivalent construction jobs and an additional 53,000 jobs in the wider economy”.¹⁰⁴

It also concludes that this change in VAT would result in considerable environmental benefits, including:

- Total additional spending of “around £1.08bn on energy efficiency measures”.¹⁰⁵
- Consequent savings of “up to 237,128 tonnes of CO₂ as 91,660 homes are retrofitted with loft and wall insulation, double glazing and energy efficient boilers”.¹⁰⁶

The report also suggests that a reduction to 5% for VAT on refurbishment would lead to a “reduced perverse incentive to demolish existing buildings to avoid the excessive VAT liabilities concomitant with refurbishing them”.¹⁰⁷

The projections are made with 2014 data as a starting point. Further detail around the report’s assumptions regarding labour, price elasticity and the informal economy can be found on page 11.

The report also makes fiscal projections over this five-year period, with the measure leading to a “cumulative net loss of £6.6bn to the Treasury”.¹⁰⁸ This takes into account “gains and losses from lower

unemployment benefits, higher income tax and national insurance”,¹⁰⁹ as well as changes to the informal economy.

Also vital are the references to similar measures in other countries, namely the Netherlands and Isle of Man. There, the change in VAT has led to considerable economic activity, with “96% of traders registering a rise in the Isle of Man”.¹¹⁰

The report also contains a useful outline of exemptions on certain forms of renovation and repair [see section A. of the executive summary above].¹¹¹

Critical analysis

This report is vital to connect the dots between different parts of the literature seen in this review. Instead of assuming a VAT cut would necessarily result in increased refurbishment and lower emissions, it uses economic data to demonstrate this effect.

The projected losses to the Treasury do not take into account tax-raising measures suggested in other reports, such as increasing the rate of VAT for new build housing to 5%. This could result in a fiscally neutral or positive outcome for the Treasury.

The projections only suggest changes to the *labour* element of renovation. It is not clear why this is not broadened to materials too.

The analysis of VAT changes in the Netherlands and Isle of Man fail to mention any effect on CO₂, despite an encouraging rise in output for construction firms concerned.

It would also be useful to understand what proportion of the Government’s 2050 100% reduction target would be satisfied by this five-year effect on emissions.

Further reading required

- Full assessments of VAT cuts in other countries, especially environmental outcomes.
- Similar projections with more recent data.

11 Federation of Master Builders, 'Cut the VAT: A proposal for building back better and greener', 2021

Tags

- VAT legislation
- Environmental outcomes [retrofit vs. new build]
- VAT incentives
- Political arguments

Citation

FMB. 2021. "Cut the VAT: A Proposal for Building Back Better and Greener." At <https://www.fmb.org.uk/resource/cut-the-vat.html>, accessed May 11, 2025.

Abstract [from press release]

"This report in partnership with RICS shows that a temporary five year cut would generate an economic stimulus of £51 billion and unlock 345,000 jobs, in construction and the wider economy."

Research questions

- What would be the consequence of a cut from 20% to 5% for VAT on renovation on economic indicators [growth, unemployment, fiscal revenue]?

Methodology

- Economic modelling

Main argument and findings

This report is very similar to the Experian one above [see section 10.], updated for 2021. It was produced in partnership with CBI Economics.

The results are even more promising here, with projected economic and job growth 3-5 times greater than the Experian report.

VAT harmonisation is also suggested as a way to complement existing environmental schemes such as the Green Homes Grant, increasing the incentives around it.

Critical analysis

The report is a welcome addition to the economic projections. It is, however, less detailed than the Experian report above, and is lacking:

- Detailed explanations of its methodology.
- Carbon emission projections.

Further reading required

- Carbon reduction modelling for VAT changes.

12 Butt et al., 'Opportunities and barriers to business engagement in the UK domestic retrofit sector: An industry perspective', 2021

Tags

- Environmental outcomes [retrofit vs. new build]
- VAT incentives

Citation

Butt, Ben, Rory V. Jones, and Alba Fuertes. 2021. "Opportunities and Barriers to Business Engagement in the UK Domestic Retrofit Sector: An Industry Perspective." Building Services Engineering Research & Technology 42, no. 3 SAGE Publications Ltd STM: 293–305.

Abstract [from press release]

"This paper investigates the opportunities and barriers to business engagement in the UK domestic retrofit sector. There are approximately 28 million UK dwellings

accounting for 30% of UK total energy consumption. Almost all of the existing housing stock will require some form of retrofit in order to meet the UK Government's Net Zero emissions target by 2050. However, adoption has been much lower than required. Semi-structured interviews were undertaken with industry professionals to investigate the key barriers and opportunities for businesses in the retrofit market. The results suggest that there is significant opportunity for businesses, but engagement has been suppressed by three main categories of barriers: (1) Those that cause lack of consumer demand; (2) Those that constrain retrofit projects, limiting their volume and scalability; (3) Those resulting from a lack of government will or direction. Business opportunity for retrofit was seen to extend globally, with substantial market growth possible. The paper suggests potential roles and solutions key stakeholders could take to achieve the volume of retrofit required. The findings should be of interest to all stake-

holders who wish to overcome the multitude of barriers to business engagement in the retrofit sector and realise the potential opportunities.

Practical application: This study aims to understand the barriers preventing the large-scale adoption of domestic retrofit in the UK in order to identify avenues for increasing business engagement in the sector. Potential areas believed to present significant opportunity for businesses when engaging in, developing and upscaling the retrofit process and solutions are highlighted. This paper should be of interest to building industry professionals already or wanting to undertake domestic retrofit works in future. The paper also gathers the views of current building industry professionals through semi-structured interviews providing an industry centric assessment of the sector's challenges and possible solutions."

Research questions

- Which factors most influence industry professionals to choose retrofit projects?

Methodology

- Semi-structured interviews with a broad base of industry professionals.
- Qualitative analysis.

Main argument and findings

This paper is useful in:

- Highlighting the importance of retrofitting to achieve the UK's 2050 net zero target.
- Listing the varied factors that are frustrating this type of work, including technical, cultural, skills-based or consumer barriers.

Importantly however, the research notes that "higher VAT rates for retrofit than new-build projects was not mentioned by any of the participants in this study, but [it] is known to be a potential barrier".¹¹²

Critical analysis

The lack of VAT mentions [unprompted] reaffirms the variety of factors at play beyond tax in deciding between rebuilding or refurbishing. It is therefore important to further explore this issue directly with decision-makers.

Further reading required

- Further primary research with industry decision-makers regarding VAT/financial incentives specifically.

13 Architects' Journal, 'VAT chance: Can tax reforms spur a retrofit renaissance?', 2020

Tags

- Environmental outcomes [retrofit vs. new build]
- VAT incentives
- VAT legislation

Citation

Kaminski, Isabella. 2020. "VAT Chance: Can Tax Reforms Spur a Retrofit Renaissance?" *The Architects' Journal*. At <https://www.architectsjournal.co.uk/news/vat-chance-can-tax-reforms-spur-a-retrofit-renaissance>, accessed May 11, 2025.

Abstract [from press release]

"Isabella Kaminski looks at the renewed and growing calls to slash VAT on building repairs and alterations".

Research questions

- Which factors most influence industry professionals to choose retrofit projects?

Methodology

- Journalistic interviews with architects
- Legal and historical research

Main argument and findings

This blog contains:

- A detailed history of VAT rates in the UK.
- A list of 100 architectural practices supporting the 'RetroFirst' campaign.
- The hypothesis that the building industry is lobbying to keep the status quo due to positive outcomes for "business deal-flow".¹¹³

It also contains:

- Important quotes from leading architects, who report that VAT is indeed disincentivising refurbishment.
- A suggestion that VAT relief on refurbishment could disproportionately benefit wealthy homeowners building house extensions, and a suggestion instead for a zero VAT rate for projects with “deep retrofit with clear environmental benefits”¹¹⁴ only.

Critical analysis

The blog is useful in providing further evidence of how VAT is distorting the industry’s decisions, leading it to prioritise demolition. It also touches upon

the political lobbying which may be contributing to this phenomenon.

It furthermore offers an important critique of how VAT harmonisation may benefit wealthier homeowners, without improving environmental outcomes – though this subject requires further research.

Further reading required:

- Further interviews with architects concerning decision-making around refurbishment.
- Environmental assessments of the types of projects potentially incentivised by VAT harmonisation.

14 Osmani and Davies, ‘Low carbon housing refurbishment challenges and incentives: Architects’ perspectives’, 2011

Tags

- Environmental outcomes [retrofit vs. new build].
- VAT incentives.
- VAT legislation.

Citation

Davies, Philip, and Mohamed Osmani. 2011. “Low Carbon Housing Refurbishment Challenges and Incentives: Architects’ Perspectives.” *Building and Environment* 46, no. 8: 1691–98.

Abstract [from press release]

“The UK has a legally binding commitment to reduce CO2 levels by 80% by 2050 relative to the 1990 emissions baseline. The existing housing stock, which accounts for approximately 30% of total UK energy demand, has the potential to provide significant opportunities for this reduction; however, currently there are no legislative measures driving widespread low carbon housing refurbishment (LCHR) design and construction. Architects have a decisive role to move forward the LCHR agenda owing to their leadership and significant involvement in the initial briefing, conceptual and design development phases of a project, regardless of project procurement types and project sizes. Hence, the aim of this research is to investigate the key challenges and incentives for achieving LCHR in England from architects’ perspectives.

The research adopted a triangulated methodological approach, consisting of a desk study, postal questionnaires, and follow up semi-structured interviews. The questionnaires and interviews were executed amongst

a wide geographical sampling frame of architects in England with previous housing refurbishment experience. The research concluded that high capital costs for micro-generation technologies and energy efficient materials; disparity in VAT between new build and refurbishment; and the complexity of the UK existing housing stock are the most considerable LCHR challenges. In contrast, the research indicated that a tax rebate; removal of the VAT difference between new build and refurbishment; increased research to produce affordable micro-generation technologies; and increased government supplied low carbon programmes were identified by the participants as the key incentives to drive the LCHR agenda”.

Research questions

- Which factors most influence industry professionals to choose retrofit projects?

Methodology

- Desk study
- Postal questionnaires and follow up semi-structured interviews with architects

Main argument and findings

This publication is similar to the other Osmani and Davies paper [number 8. above].

As such, it outlines architects’ main blockers and enablers around retrofit, with VAT ranking high amongst technological, legislative, financial and technical factors.

It is notably different however, in that some architects highlighted how VAT disparities are less important as “different types of housing refurbishment work qualify for lower VAT”.¹¹⁵ Here, the exemptions listed above [executive summary section A] mean some architects are not blocked by VAT.

Critical analysis

The point about VAT exemptions highlights the need for more detailed research as to which types of refurbishment exactly need further incentivisation, and the best ways to do this through tax law.

Further reading required:

- More recent interviews with architects concerning decision-making around refurbishment.
- More precise research detailing which forms of refurbishment exactly should be incentivised by VAT changes.

Conclusion

This literature review gathers evidence around VAT law and construction, and the resulting implications for demolition, refurbishment and carbon emissions.

It finds that differences in VAT are incentivising building new over certain forms of refurbishment. This can lead to increased carbon emissions, harming progress towards the UK's legally-binding carbon targets.

The review answers the following questions:

1 What are the VAT rules surrounding retrofitting and building development?

HMRC notices, House of Commons Library reports and guidance from consultancies allow us to summarise complex VAT rules as follows:

- The new construction of housing/dwellings is zero-rated or exempt from VAT. The same applies to buildings with a charitable purpose.¹¹⁶
- Most refurbishment is subject to full 20% VAT.
 - This includes renovating housing which is currently/recently occupied, also subject to full 20% VAT.
 - Notable exemptions [subject to 0-5% VAT] include:
 - Refurbishing vacant property
 - Converting non-residential buildings into housing
 - Changing the number of housing units in a building
 - Certain energy-saving refurbishment measures.

2 What incentives, if any, do these VAT rules create for building/demolition?

The gap in VAT rates suggests there is a financial incentive to demolish and rebuild housing that is currently/recently occupied, rather than refurbishing or retrofitting buildings.

To examine the incentive in more detail, this report also reviews academic and industry publications

which analyse developers' and architects' decision-making. Several of these find that despite other factors such as technology, labour, skills or public demand, VAT incentives are indeed influencing key stakeholders to prioritise demolition and build new, over refurbishment.

3 What consequences might these incentives have for carbon emissions and the environment?

Finally, the review outlines the environmental consequences of incentivising demolition. Academic and industry reports show that destroying and rebuilding buildings is generally more carbon-intensive than refurbishment or retrofit.

Conversely, several reports offer econometric and carbon modelling to demonstrate how reductions in VAT on refurbishment could result in significant reductions in emissions over a five-year period.

This has legal consequences, as the UK Government is bound to its 2050 net zero target.

Political findings

This review has also found adjacent evidence that:

- The movement to harmonise VAT around construction has numerous political allies.
- Such harmonisation could have economic benefits for employment, growth and taxation.

Consequences for housing, law and communities

The evidence gathered here suggests that:

- The Government should pursue its own assessment to examine in more detail how construction VAT is affecting its legal carbon targets.
- Tax incentives and exemptions may be increasing the number of housing demolitions and/or related evictions, and contributing to a lack of housing maintenance.

Gaps in evidence

The report has found several priorities for further research, namely:

- Summaries of VAT law with additional clarity and academic or legal authority, including detail on VAT incentives for local authorities.
- More recent analyses of developers' and architects' decision-making process, with additional clarity on exactly which types of refurbishment are being disincentivised.
- Further comparisons with other economies who have pursued harmonisation such as the Netherlands and Isle of Man, with analyses of environmental outcomes.

Notes

- 1 HM Revenue & Customs 2024
- 2 London Assembly Planning and Regeneration Committee 2024, 27
- 3 Seely 2019, 3
- 4 Iqbal 2025
- 5 E.g. recreational facilities for a local community.
- 6 HM Revenue & Customs 2024
- 7 HM Revenue & Customs 2024
- 8 Iqbal 2025
- 9 Experian 2014, 9
- 10 Iqbal 2025
- 11 Iqbal 2025
- 12 Coates 2024
- 13 Iqbal 2025
- 14 Seely 2019
- 15 Seely 2025
- 16 Osmani and Davies 2013, 193
- 17 UK Green Building Council 2021
- 18 UK Green Building Council 2021
- 19 Osmani and Davies 2013, 193
- 20 UK Green Building Council 2021
- 21 UK Green Building Council 2021
- 22 Butt, Jones, and Fuertes 2021
- 23 Davies and Osmani 2011
- 24 London Assembly Planning and Regeneration Committee 2024, 10
- 25 UK Green Building Council 2021
- 26 Osmani and Davies 2013, 193
- 27 Place Commission 2023, 6
- 28 UK Green Building Council 2021
- 29 London Assembly Planning and Regeneration Committee 2024, 6
- 30 UK Green Building Council 2021
- 31 London Assembly Planning and Regeneration Committee 2024, 12
- 32 House of Commons and Environmental Audit Committee 2022, 52
- 33 Osmani and Davies 2013, 193
- 34 Butt, Jones, and Fuertes 2021, 294
- 35 Experian 2014, 4
- 36 Experian 2014, 4
- 37 FMB 2021
- 38 Experian 2014, 5
- 39 Experian 2014, 5
- 40 Seely 2019, 3
- 41 Seely 2025, 6
- 42 Seely 2019, 3
- 43 Seely 2019, 3
- 44 Seely 2019, 4 [see footnote 11]
- 45 Seely 2019, 7
- 46 Seely 2019, 11
- 47 Seely 2019, 3
- 48 Seely 2019, 4
- 49 Seely 2019, 11
- 50 Seely 2019, 15
- 51 Seely 2025, 10
- 52 London Assembly Planning and Regeneration Committee 2024, 6
- 53 London Assembly Planning and Regeneration Committee 2024, 23
- 54 London Assembly Planning and Regeneration Committee 2024, 6
- 55 London Assembly Planning and Regeneration Committee 2024, 12
- 56 London Assembly Planning and Regeneration Committee 2024, 10
- 57 London Assembly Planning and Regeneration Committee 2024, 27
- 58 London Assembly Planning and Regeneration Committee 2024, 8
- 59 Seely 2019, 3 [bold is mine].
- 60 Seely 2019, 5
- 61 Seely 2019, 3
- 62 Seely 2019, 3
- 63 Seely 2019, 4 [see footnote 11]
- 64 Seely 2019, 17
- 65 Seely 2019, 3
- 66 Seely 2019, 7
- 67 Seely 2019, 4
- 68 Seely 2019, 11
- 69 Seely 2019, 11
- 70 Seely 2019, 15
- 71 Iqbal 2025
- 72 Coates 2024
- 73 Iqbal 2025
- 74 HM Revenue & Customs 2024
- 75 Iqbal 2025
- 76 Coates 2024
- 77 Coates 2024 [bold mine]
- 78 HM Revenue & Customs 2024
- 79 Iqbal 2025
- 80 Coates 2024 [bold mine]
- 81 Iqbal 2025
- 82 Iqbal 2025
- 83 Seely 2025, 10
- 84 Seely 2025, 6
- 85 UK Green Building Council 2021
- 86 UK Green Building Council 2021

- 87 UK Green Building Council 2021
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- 94 UK Green Building Council 2021
- 95 UK Green Building Council 2021
- 96 UK Green Building Council 2021
- 97 Osmani and Davies 2013, 193
- 98 Osmani and Davies 2013, 193
- 99 Osmani and Davies 2013, 193
- 100 Osmani and Davies 2013, 193
- 101 Osmani and Davies 2013, 195
- 102 Peake 2020, 4
- 103 Experian 2014, 2
- 104 Experian 2014, 2
- 105 Experian 2014, 4
- 106 Experian 2014, 4
- 107 Experian 2014, 5
- 108 Experian 2014, 4
- 109 Experian 2014, 4
- 110 Experian 2014, 5
- 111 Experian 2014, 9
- 112 Butt, Jones, and Fuertes 2021, 302
- 113 Kaminski 2020
- 114 Kaminski 2020
- 115 Davies and Osmani 2011, 1694
- 116 E.g. recreational facilities for a local community.

