

Taxing carrots and sticks: Incentivising efficiency through property taxes

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eccee Summer Study 2013
La Presqu'île de Giens
7 June 2013

Outline

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- 1. Recap: the concept**
 2. Green Deal: where are we now?
 3. EE Stamp Duty - What could it cost?
 4. Conclusions

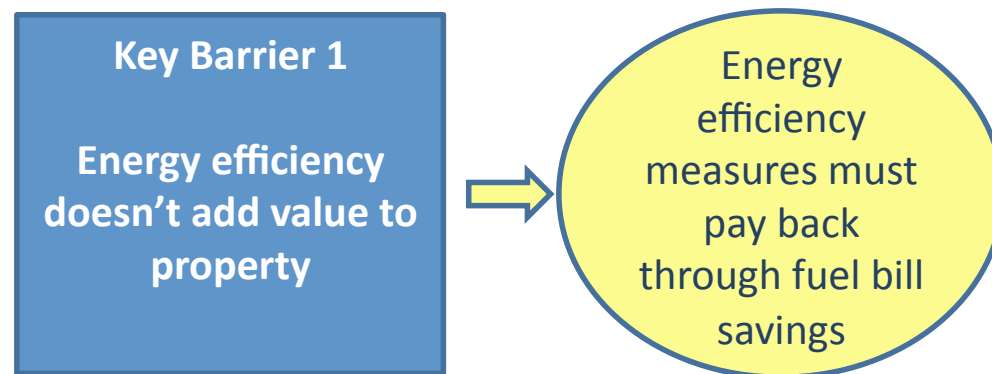
Why lack of motivation for EE?



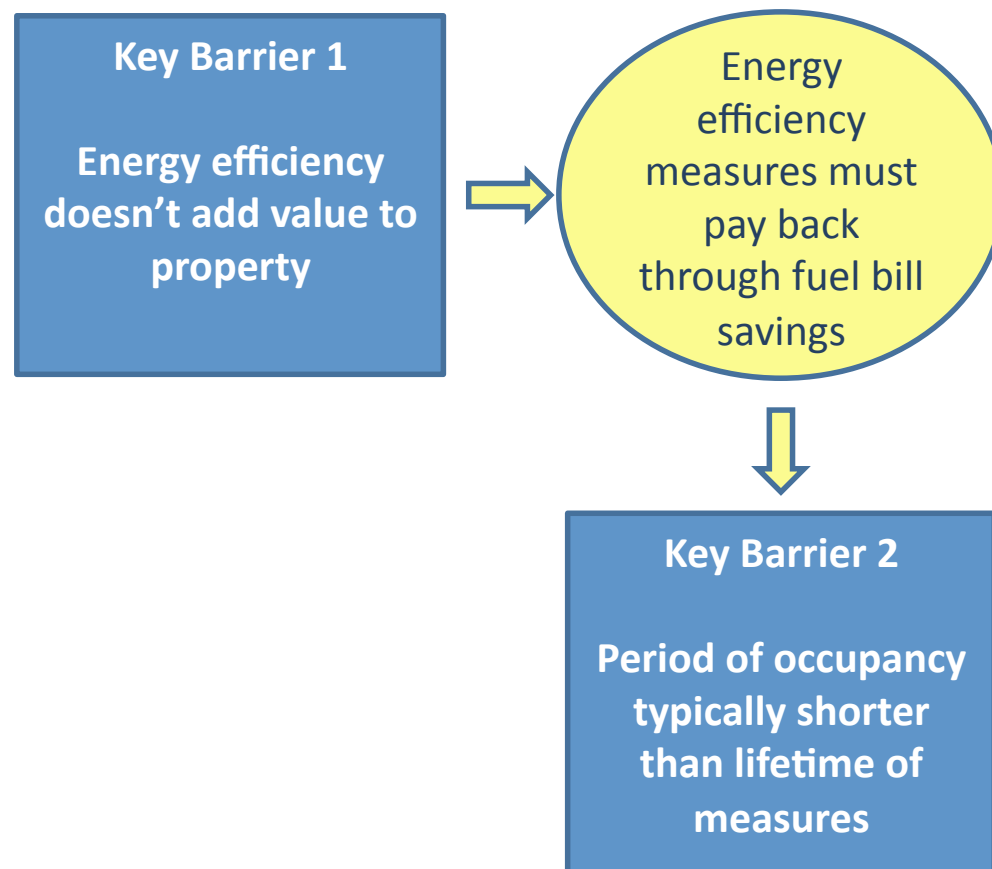
Key Barrier 1

Energy efficiency
doesn't add value to
property

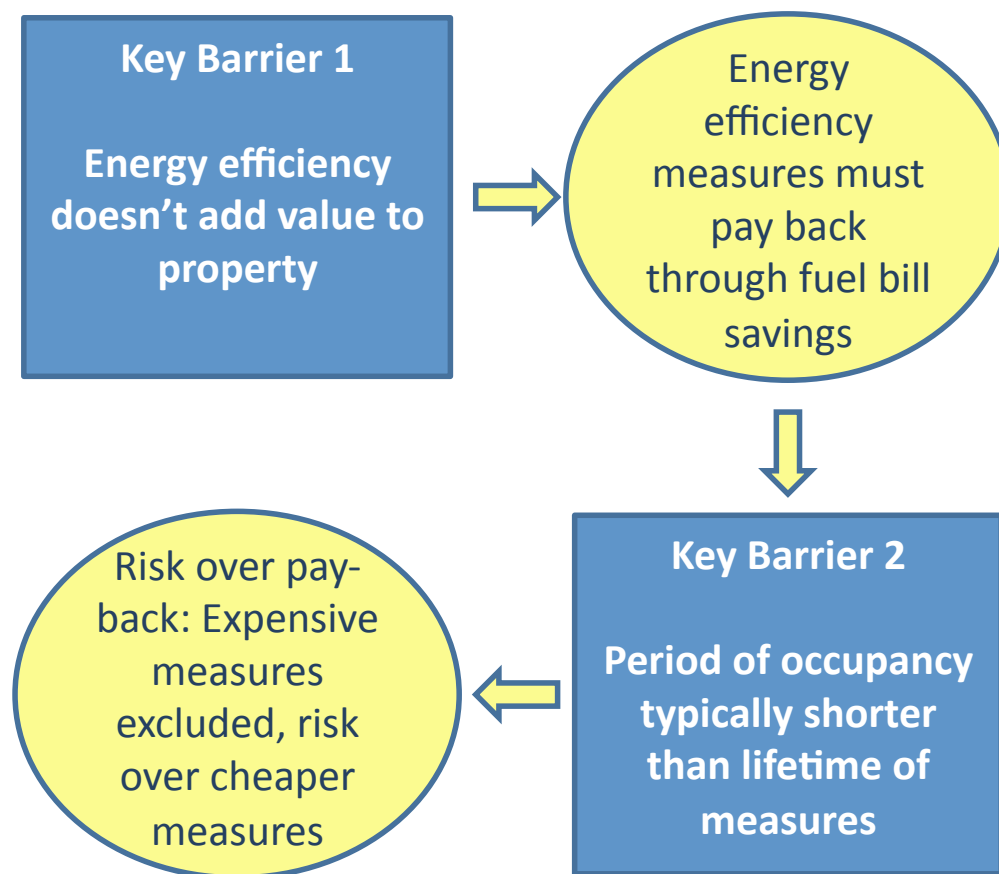
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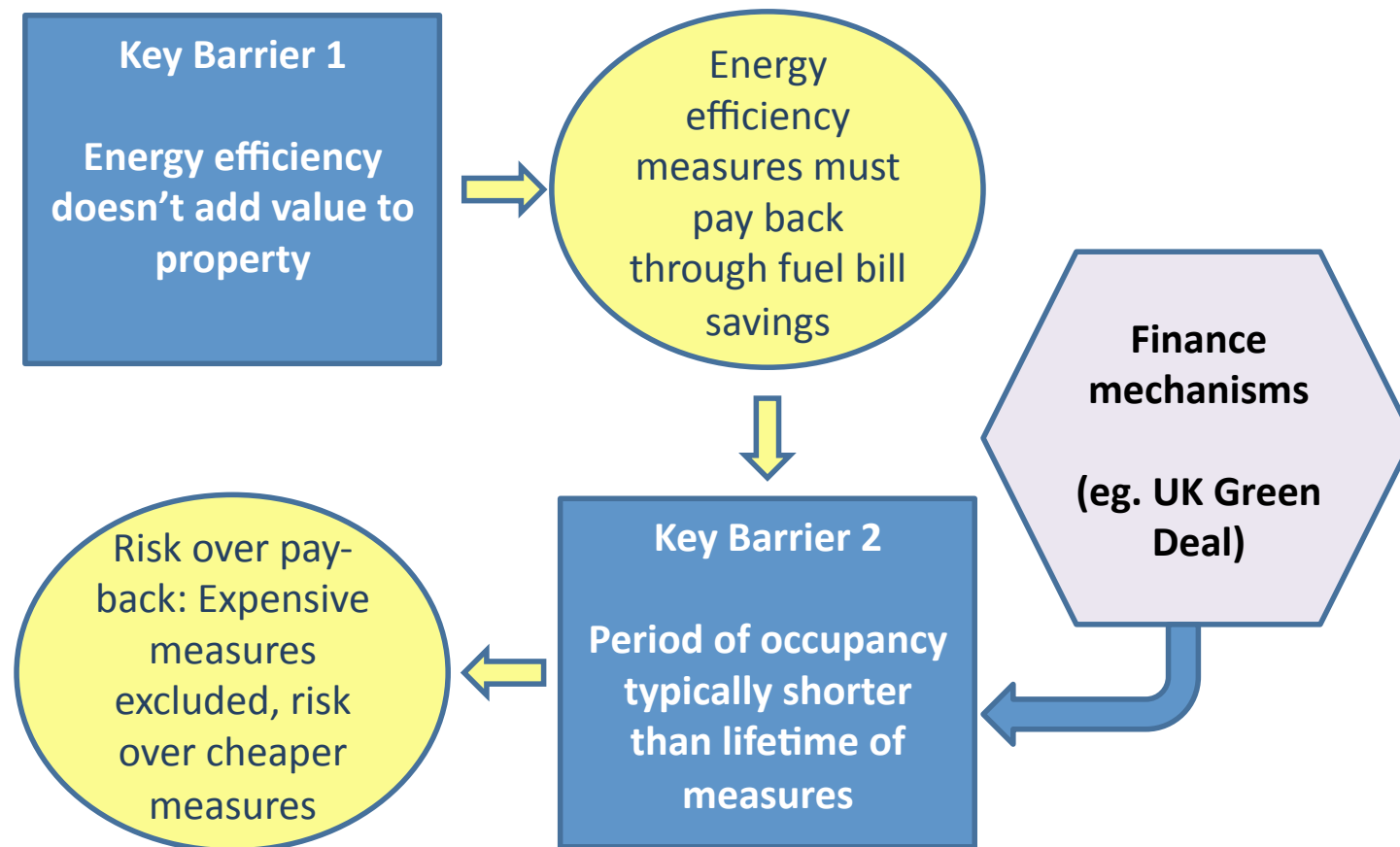
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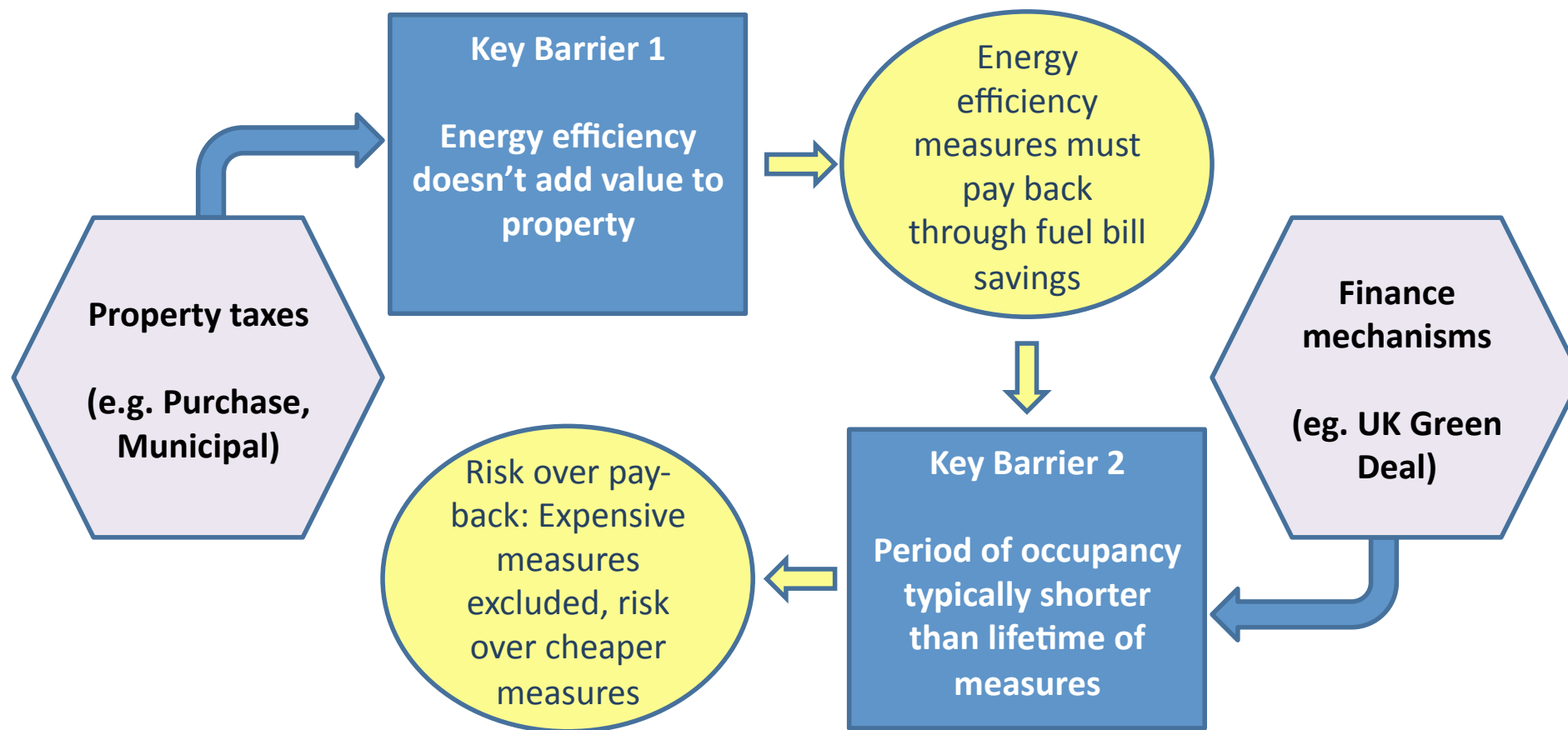
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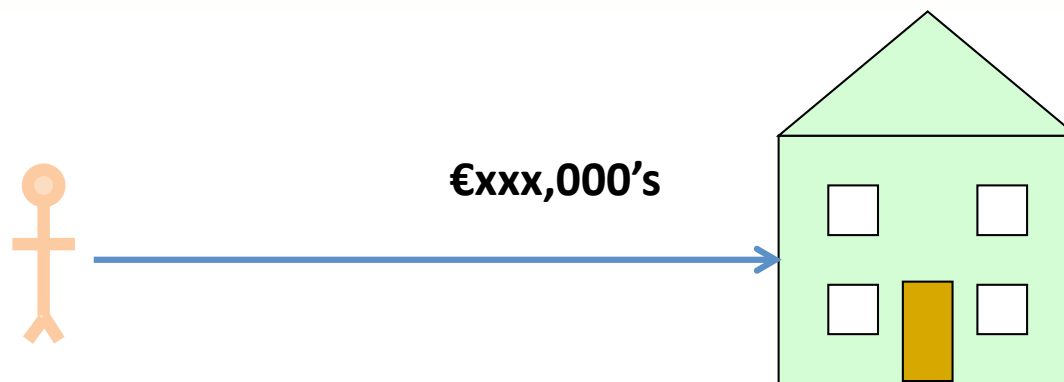
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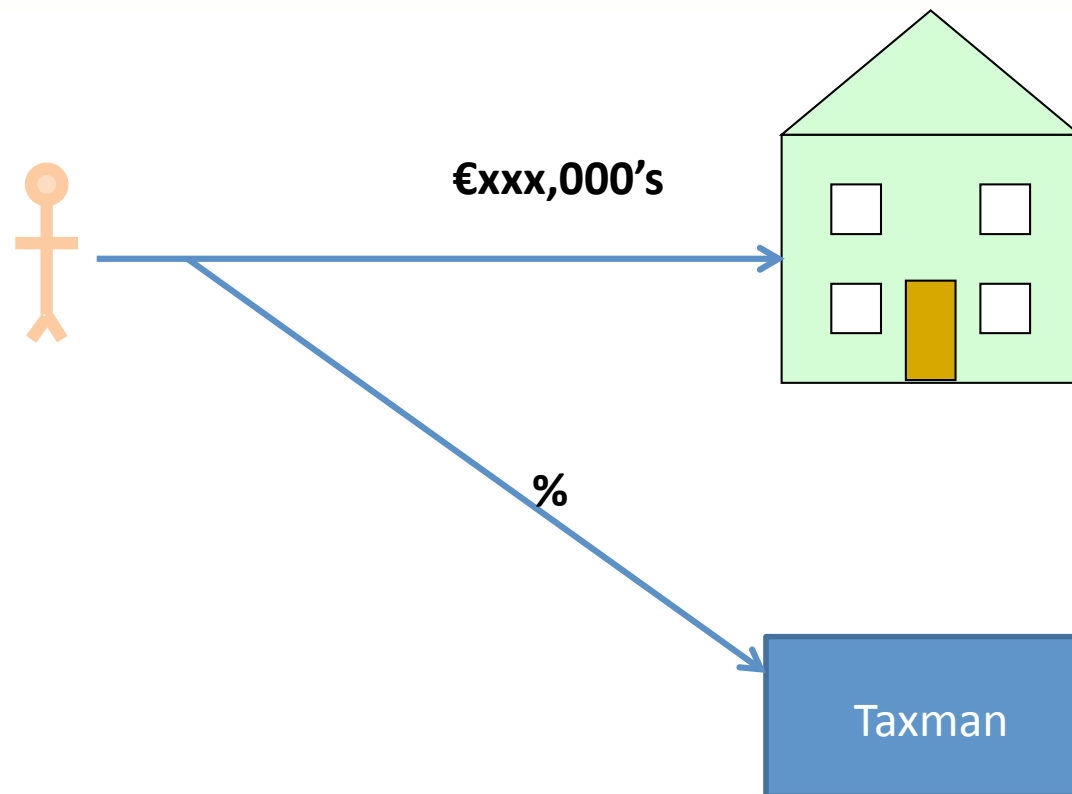
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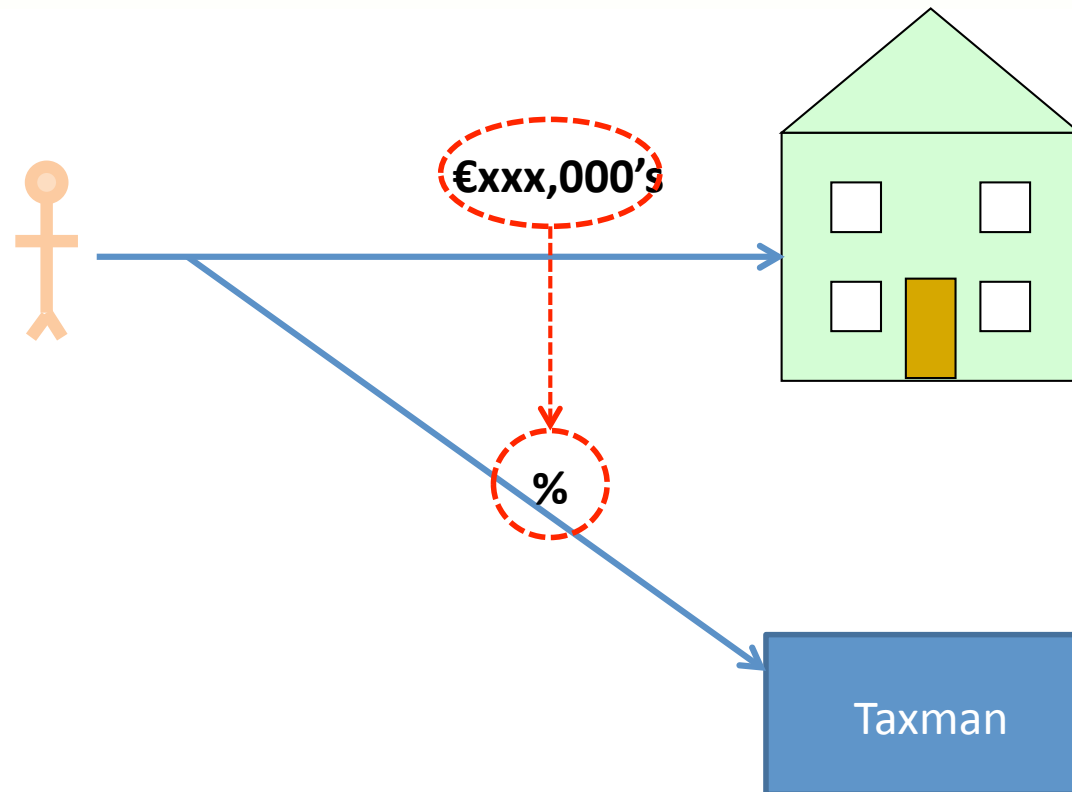
Stamp Duty Land Tax



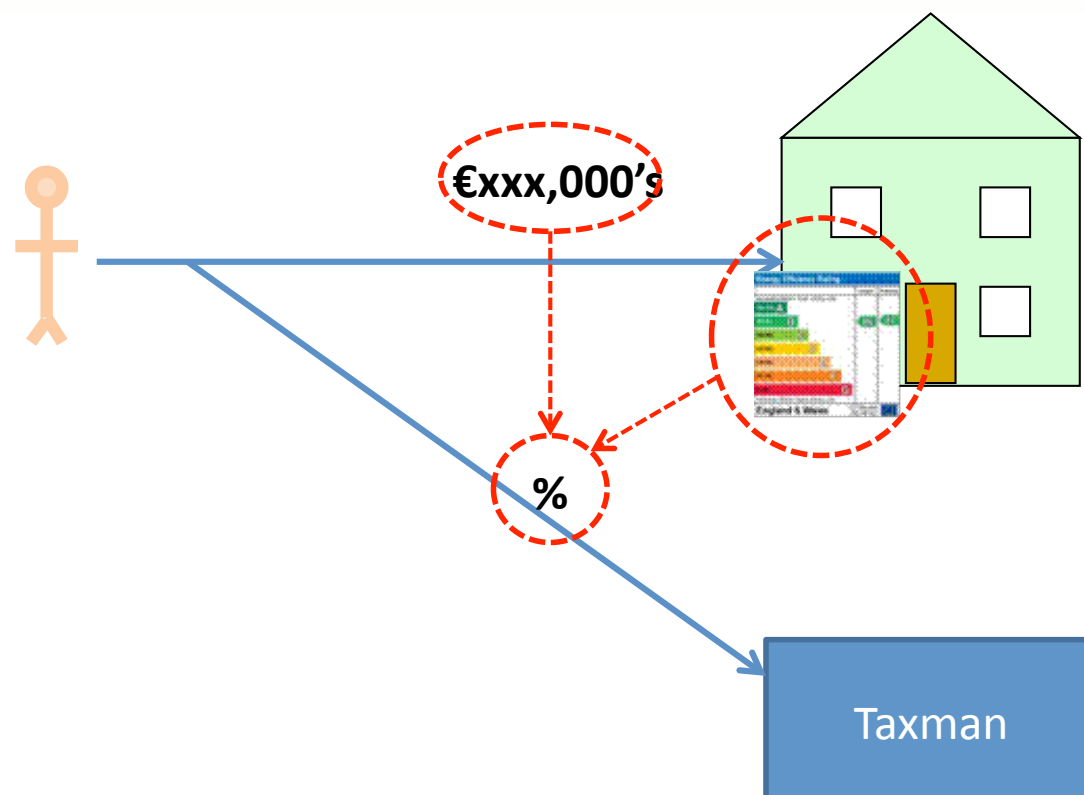
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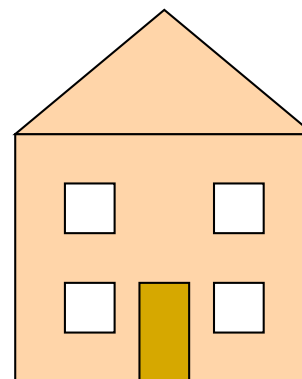
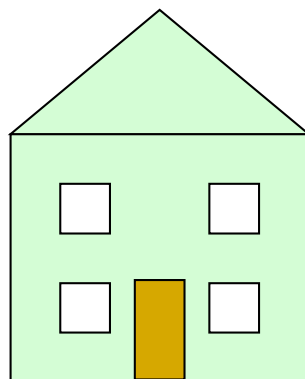


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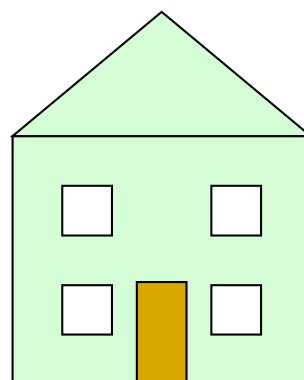
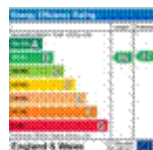
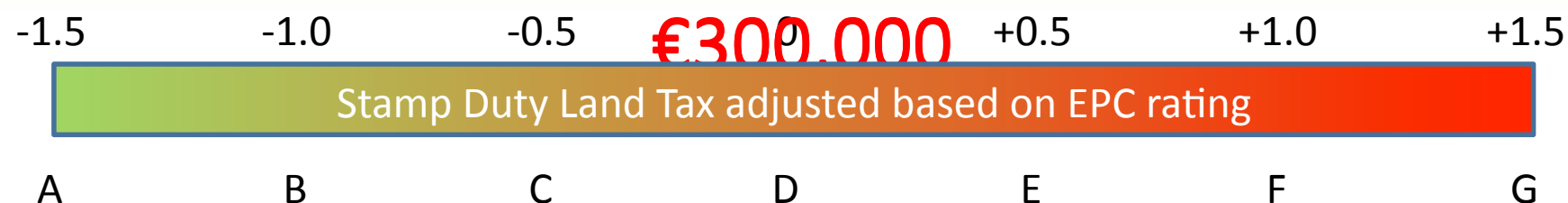


EESD - An Illustration

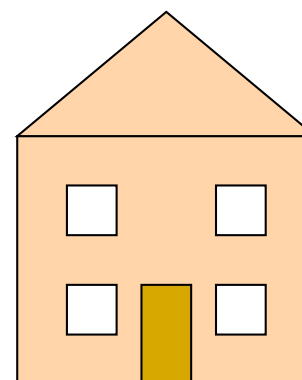
€300,000



EESD - An Illustration



EPC Band B



EPC Band E



Standard SDLT:

3%

3%

EE adjustment:

-1%

+0.5%

Final rate:

2%

3.5%

Cost:

€6,000

€10,500

EESD - Theoretical Impact

- EE property requires €4,500 lower tax payment
 - ↳ EE property more attractive to purchaser since invokes a lower tax payment
 - ↳ EE property has increased value as a result
 - ↳ Incumbent household has confidence that improving efficiency will increase value
 - ↳ Household chooses to invest in energy efficiency immediately: in addition, they benefit from lower fuel bills until point of sale

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Green Deal: Where are we now?



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- New financing scheme to allow households to install package of measures at no upfront cost
 - Charge stays with the property – passes on to future occupants
 - Allows for longer repayment periods

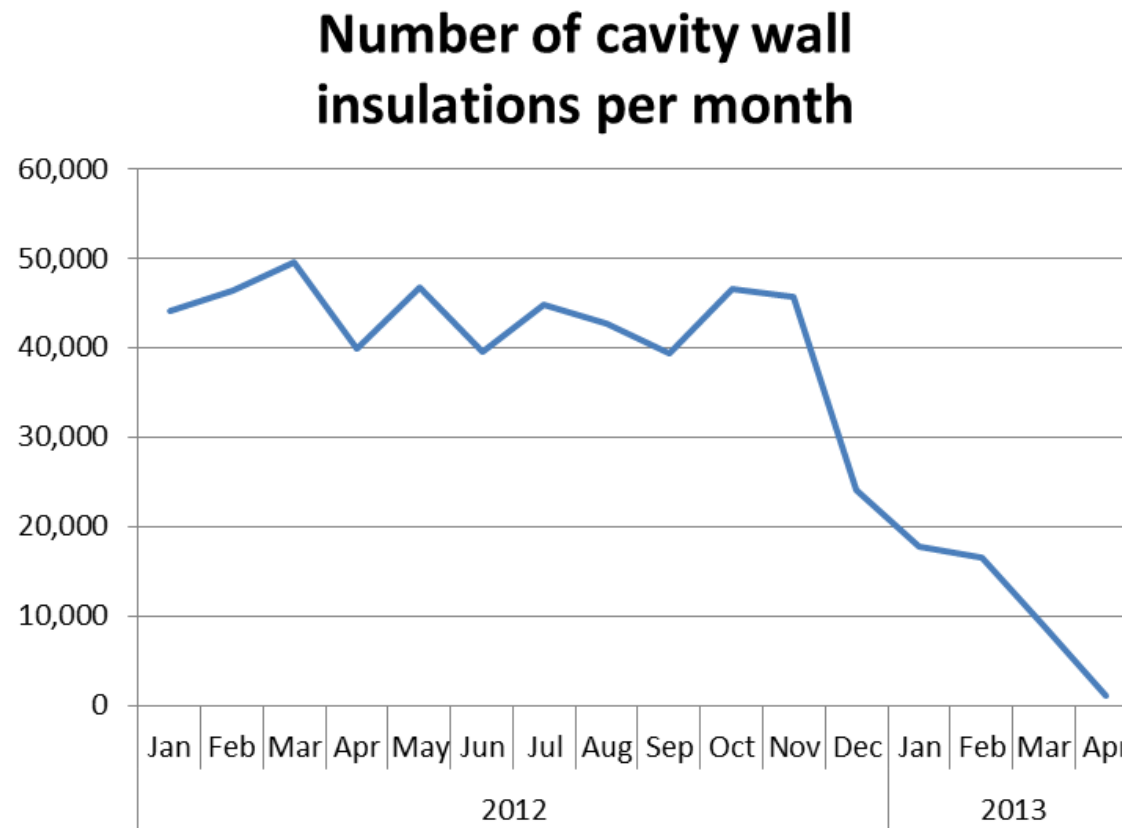
Green Deal: Where are we now?



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- New financing scheme to allow households to install package of measures at no upfront cost
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 - Allows for longer repayment periods
-
- Interest rate undermines benefit of spreading repayments
 - Fuel bill savings displaced by repayment charge – why do it?
 - **Fear that Green Deal charge attached to the property have a negative impact on property value**

Green Deal: Where are we now?

- In trouble. Need for a financial incentive to trigger take up.



Rosenow, Croft & Eyre, 2013

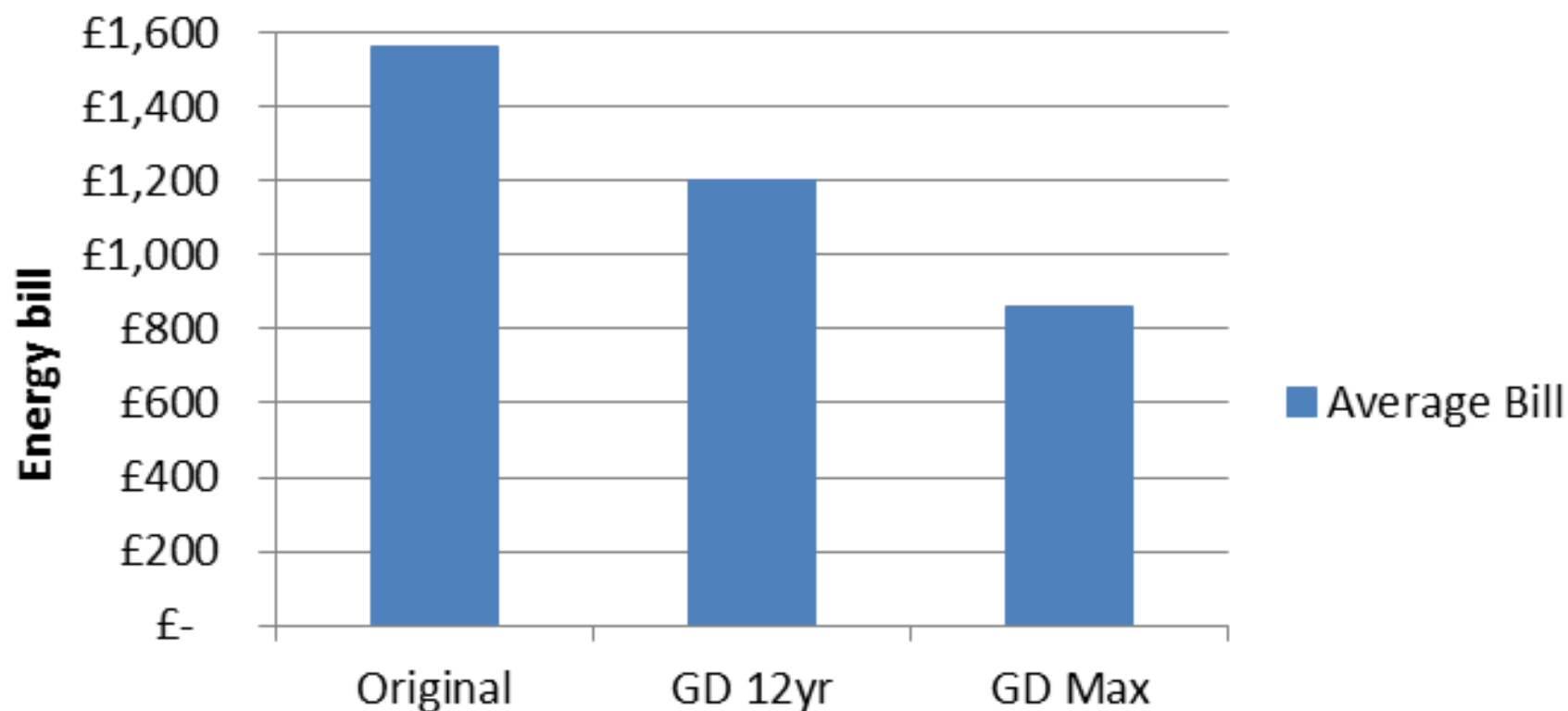
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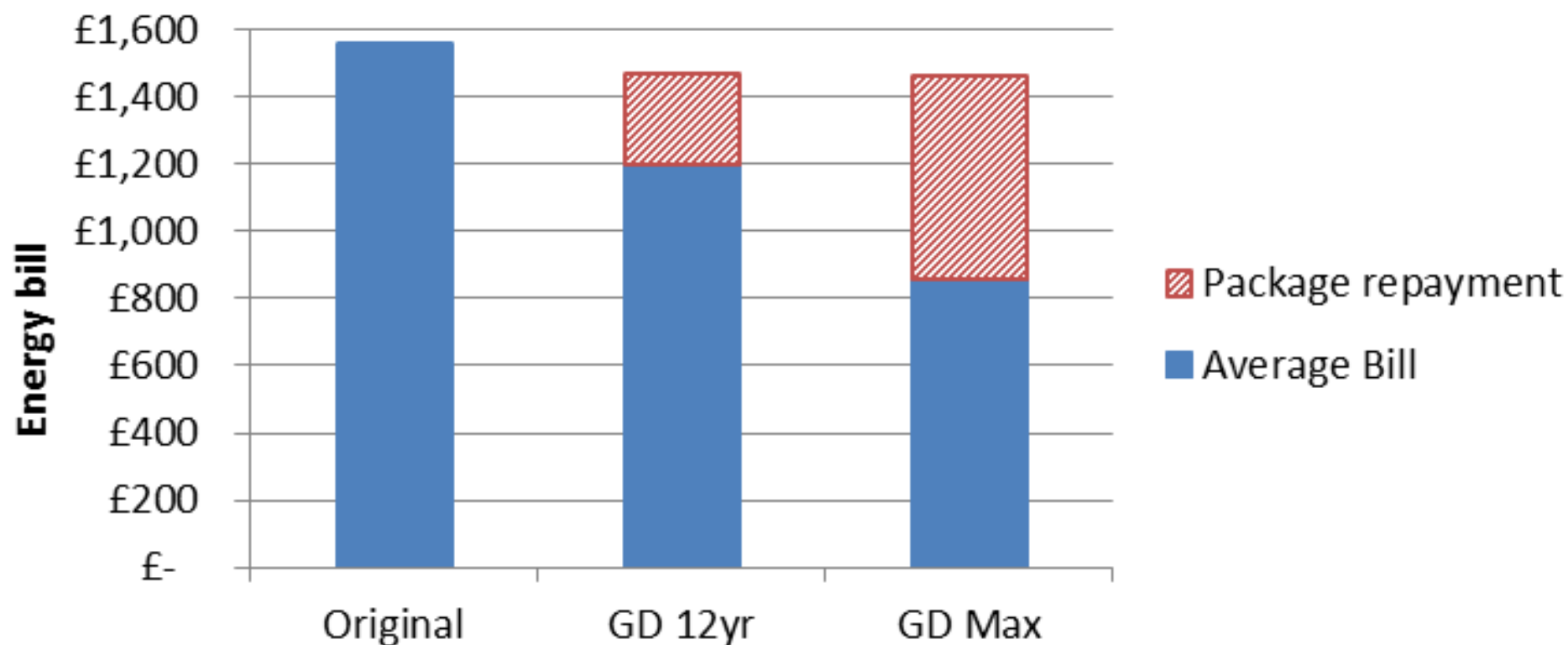
EESD - What could it cost?

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- ***What would it cost Government or were to introduce an Energy Efficient Stamp Duty (EESD)?***
 - Depends upon:
 - The magnitude and position of the tax differentials
 - The amount of efficiency work that's triggered (resulting in reduced payments)
 - Full methodology within the paper (it's complex!)
 - Three efficiency improvement scenarios
 - Three tax differential scenarios

What could it cost?

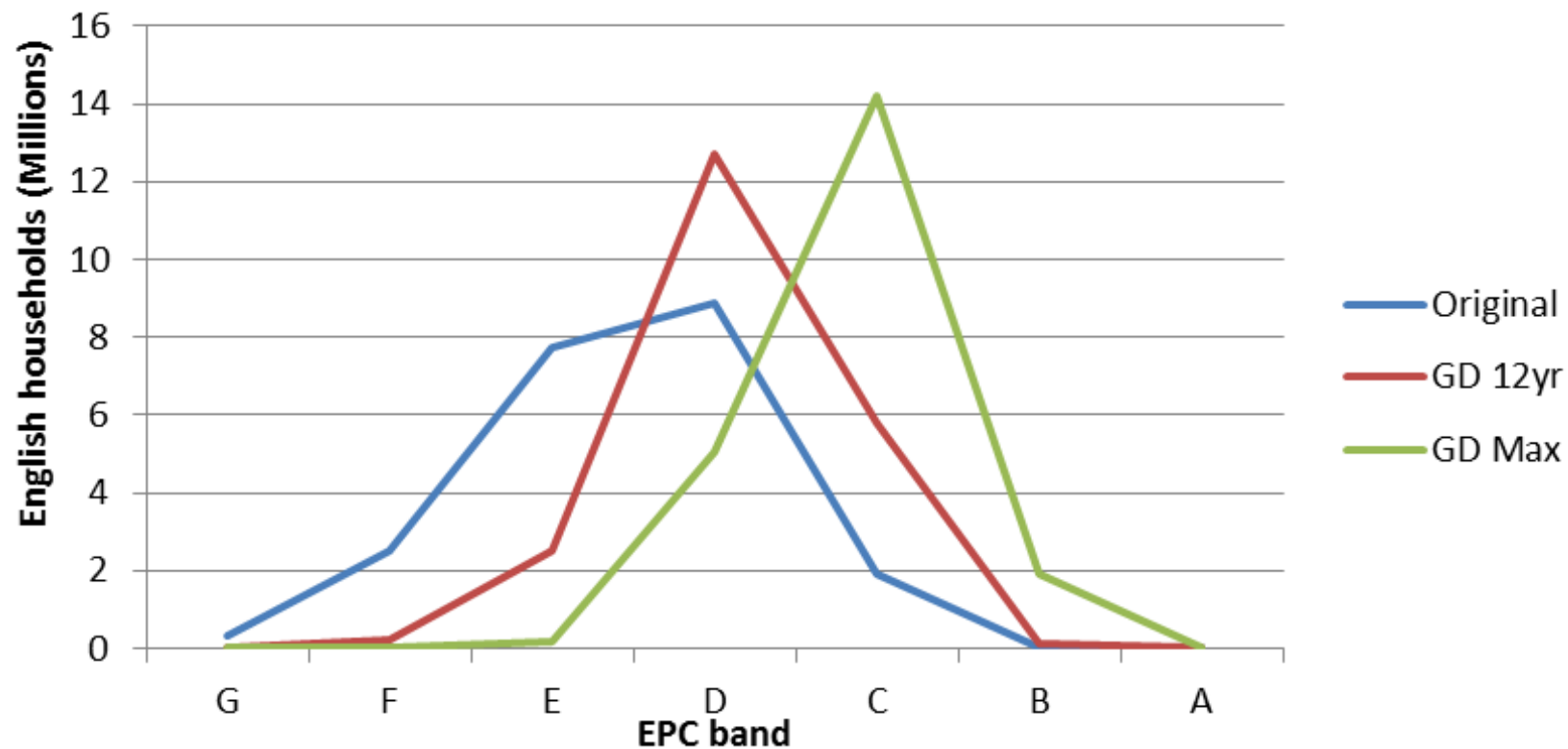


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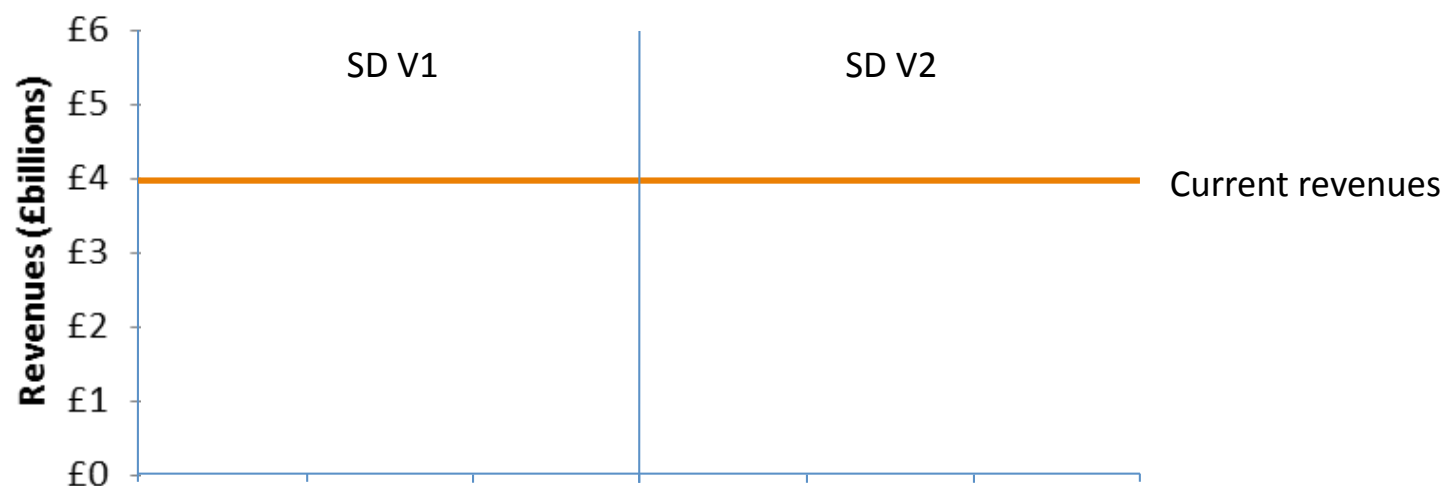
Potential Green Deal savings

- What's the extent of achievable energy savings with the Green Deal?



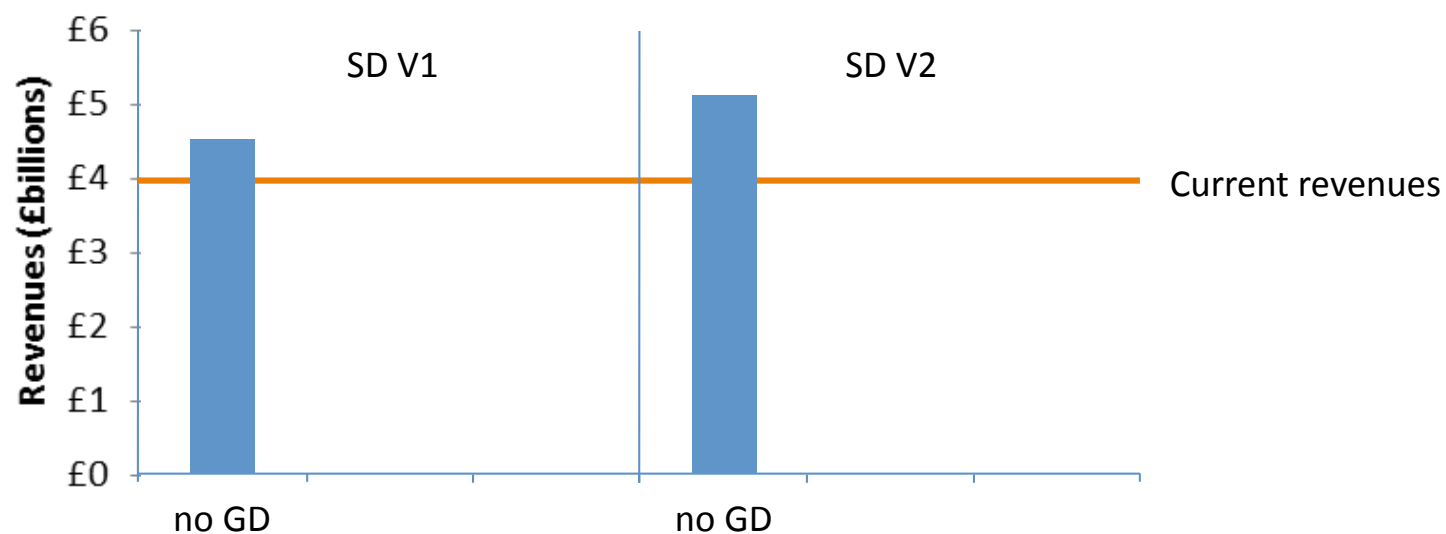
What could it cost?

EPC band:	A	B	C	D	E	F	G
	SDLT Adjusted based on EPC rating						
SD V1:	-1.5	-1.0	-0.5	0%	+0.5	+1.0	+1.5
SD V2:	-3.0	-2.0	-1.0	0%	+1.0	+2.0	+3.0



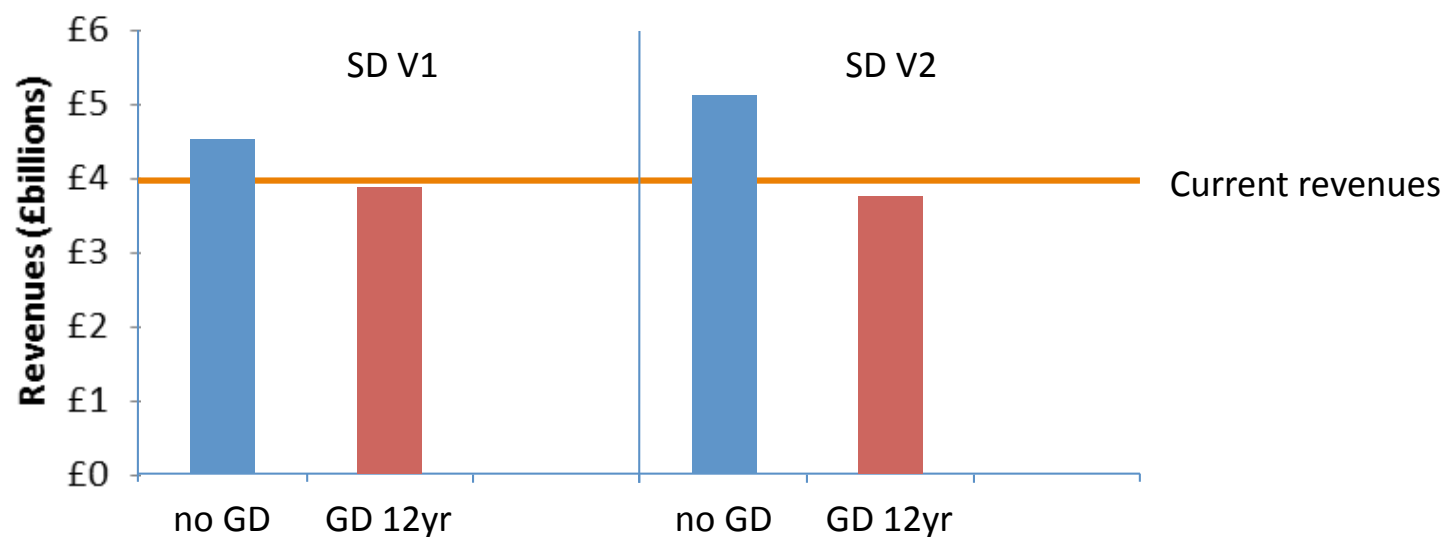
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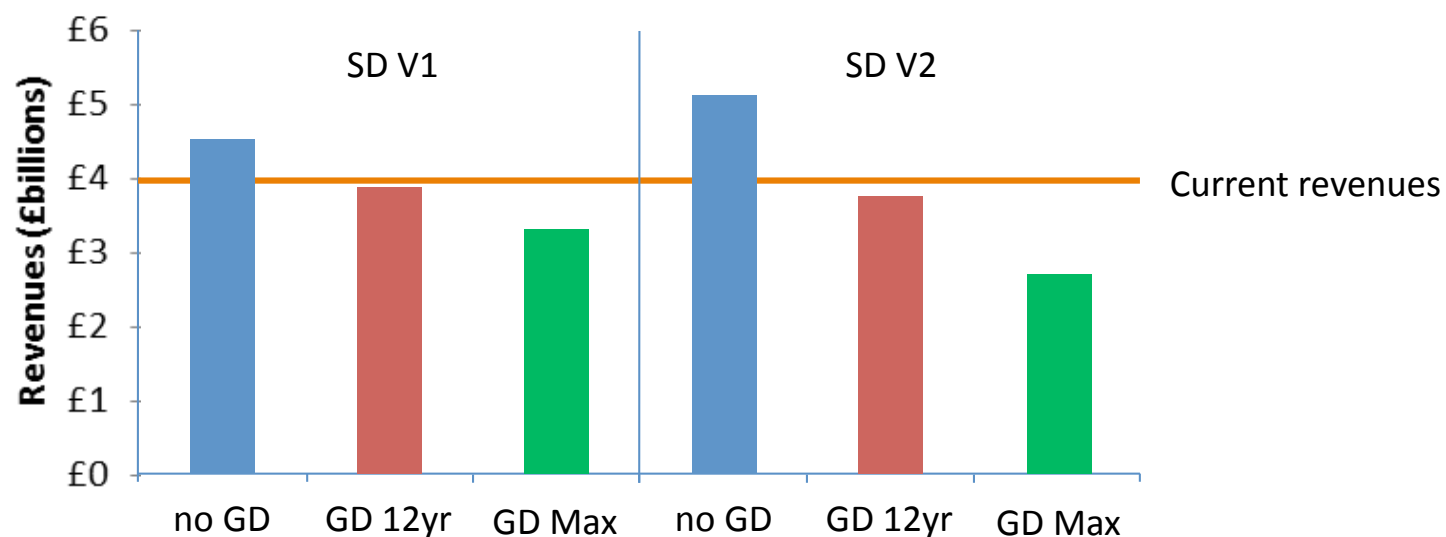
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- An EESD could help address several issues in energy efficiency
 - Reflect energy efficiency in value of property
 - Carrot and a stick to drive uptake of finance mechanisms
 - Would address the perceived concern that a property with finance charge is unattractive on market
 - EESD could be set in such a way as to increase short-term revenues for Government
 - Depends where the 'zero' percent band is set relative to the initial efficiency of housing stock
 - If efficiency improvements are so successful as to erode revenues, zero band can be shifted
 - Important equity and practical considerations: see paper!

- For further details see:
 - Croft and Sunderland (2011)
Addressing Key Barriers in the Delivery of Domestic Energy Efficiency Improvements - The Case for Energy Efficiency Property Purchase Taxes
<http://www.ukace.org/wp-content/uploads/2011/07/ACE-Research-2011-06-5-214-Croft.pdf>

Thank You

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