

Balancing the tax system with Northern Ireland's climate goals: a case for incentivising retrofit over demolition.

Urgent policy intervention is needed to decarbonise the built environment sector at the scale and pace required to achieve Northern Ireland's net zero target. Buildings account for 49% of the UK's carbon emissions. Heating, cooling, and lighting buildings – operational carbon – account for the majority of this, however almost half of these emissions are attributable to embodied carbon. Embodied carbon emissions result from mining, quarrying, transporting, and manufacturing building materials, in addition to construction activities, the repair, renovation and final disposal of buildings. Embodied carbon emissions in the built environment sector are rising and require a firm policy response if Northern Ireland is to achieve its climate ambitions.

Existing policy and legislation are acting antagonistically to achieving Northern Ireland's Net-Zero by 2050 goal. Specifically, there needs to be a reassessment of VAT so that it is equipped to deliver both improved energy efficiency in buildings and reduce the embodied carbon footprint of the built environment.

Under the UK's current tax structure, a reduced rate of 0% VAT is applied to demolition projects, while 20% VAT is applied on most repair and maintenance projects. This creates a perverse environment where the embodied-carbon-hungry activities of demolition and replacement are given taxation priority over the sustainable repair and restoration, of Northern Ireland's built environment. This contradicts the principles outlined in the Climate Change Act (NI) 2022, the, and the 2022 Circular Economy Strategy for Northern Ireland.

Given that that UK-wide tax reform appears unlikely, to remedy this the CIOB is proposing that the Northern Ireland Government use its devolved powers to implement a demolition levy – one that bypasses the current devolution settlement around tax – to level the unequal playing field that threatens the sustainability of our built environment.

Key Messages

- Since over 50% of carbon dioxide emissions come from buildings,¹ the built environment sector has a significant role to play in achieving Northern Ireland's net zero ambitions and tackling the climate crisis.
- 75% of a building's total emissions from a typical 60-year lifetime can come from embodied carbon.²
- Retrofit projects to decarbonise the existing building stock deliver economic stimulus, create regionally balanced jobs growth, and are socially as well as environmentally valuable projects.
- New build projects remain an essential component of the built environment, but the replacement of buildings should not be financially prioritized over repair as retrofit buildings will often outperform new in terms of overall lifetime carbon emissions. Further, the demolition of existing buildings creates challenges such as appropriate disposal of waste, dust exposure, and greenhouse gas emissions.
- In the absence of tax reform, creative policy options are needed – and in short order.

¹ Pretlove, S. and Kade, S., Post occupancy evaluation of social housing designed and built to Code for Sustainable Homes levels 3, 4 and 5, 2016.

²Architects Climate Action Network Northern Ireland *The carbon footprint of construction: the Case for Regulating Embodied Carbon Emissions*. Presentation to Northern Ireland All Party Group on Climate Change. April 2021.

- Regulatory measures have been proven effective in undergirding similar types of sectoral culture shifts internationally. Landfill taxes and the application of an aggregate levy facilitated a 70% decline in the amount of Construction and Demolition Waste (CDW) disposed to landfills in the UK.³ Studies in Spain concluded that levies were more effective at CDW mitigation than financial incentives, achieving the targeted 30% reduction in CDW two years sooner with the co-benefit of generating a new revenue stream.⁴
- We urge the Northern Ireland Government to consider the value that a demolition levy could bring to the sustainability of our built environment, the economy, and Northern Ireland's construction sector.

Demolition Levy

- Construction, demolition and excavation (CD&E; including dredging) generates around three fifths (62%) of total UK waste.⁵
- Though actual costs will vary based on the size, scope and location of each project, industry figures indicate that the average cost to demolish a small home in the UK is £7,837.⁶
- Revenues from a demolition levy could fund initiatives that support energy-efficient upgrades to housing, help vulnerable households cope with the cost-of-living crisis, or preserve historic buildings.
- We urge the Government to consider the value of a demolition levy to make the tax system align with the principles of the Climate Change Act (NI) 2022, the, and the 2022 Circular Economy Strategy for Northern Ireland.
- Charging a levy for demolition would create a tax environment that reflects the principles of Northern Ireland's existing climate legislation and the urgency of the national 'net zero by 2050' target.
- Following our recent report, 'Flipping the green switch: a case for deferring stamp duty on residential retrofit in Ireland and Northern Ireland' , CIOB wants to continue to stimulate discussion and think creatively about how the tax system can be best leveraged to support the construction industry's vital role in realising our collective sustainability goals.

CIOB Ireland Policy & Research, October 2023

³ Lesniewska, F., Adding value to construction and demolition waste to achieve sustainable development, 3 February 2022

⁴ Calvo, N., Varela-Candamio, L. and Novo-Corti, I., 2014. A dynamic model for construction and demolition (C&D) waste management in Spain: Driving policies based on economic incentives and tax penalties, *Sustainability*, 6(1). 2017.

⁵ See <https://www.gov.uk/government/statistics/uk-waste-data/uk-statistics-on-waste>

⁶ Checkatrade, Demolition Cost, July 2022; Householdquotes.co.uk House Demolition Costs: How much in 2022? January 2022; TradesmanCosts.co.uk, Demolition Cost: 2022 House & Garage Prices Per M2 UK; Homeowner Costs, Demolition Cost per M2 (Garage/House): 2022 Prices UK.