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

Urgent policy intervention is needed to decarbonise the built environment sector at the scale and pace required to achieve Ireland's net zero targets. The built environment accounts for 37% of Ireland's carbon emissions. Heating, cooling, and lighting buildings – operational carbon – accounts for 23% of national emissions, with the remaining 14% attributable to embodied carbon.[1] 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 Ireland is to meet its net zero 2050 target.

Under Ireland's current tax structure, a reduced rate of 13.5% VAT is applied to demolition projects, creating a perverse environment where the embodied-carbon-hungry activities of demolition and replacement enjoy financial parity with the sustainable repair and restoration, of Ireland's built environment. This contradicts the principles outlined in the Circular Economy and Miscellaneous Provisions Act 2022, the Climate Action and Low Carbon Development (Amendment) Act 2021, and the EU Taxonomy Regulation 2020 - an EU-wide classification system for sustainable activities.

To remedy this, the CIOB is proposing that the Government use the tax system to incentivise the repair and restoration over the demolition of buildings, thereby reducing the embodied carbon footprint of Ireland's built environment. Specifically, we are calling for demolition to be charged at the standard rate of 23% VAT, while repair and renovation activities remain at the reduced rate of 13.5%.

Key messages:

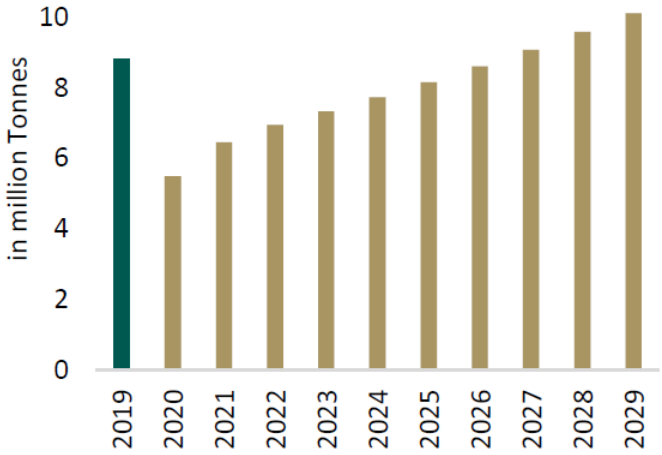
- 37% of carbon dioxide emissions come from buildings. This means that the built environment sector has a significant role to play in achieving Ireland's net zero ambitions and tackling the climate crisis.
- Rather than incentivising sustainable construction practices, Ireland's VAT structure places demolition and rebuild on a parity with renovation and retrofit by charging both at the reduced rate of VAT – 13.5%. This is facilitating a culture of demolish and replace, rather than add, transform, and reuse in the construction sector.
- New build projects are an essential component of the built environment, but the replacement of buildings should not be given taxation parity with 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.
- Regulatory measures have proven effective in undergirding similar types of sectoral culture shifts from demolish and rebuild to repair and reuse. For instance, 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.[2]
- International studies concluded that levies were more effective at CDW mitigation than financial incentives, achieving the targeted 30% reduction in CDW two years sooner and have the co-benefit of generating a new revenue stream.[3]

Charging standard VAT on demolition:

- The construction sector in Ireland generated an estimated 8.2 million tonnes of waste in 2020 (based on data reported by authorised waste collectors and local authorities).[4]
- Figure 1 summarises national CDW projections for 2020 to 2029, illustrating that the annual quantity of CDW generated in Ireland is projected to consistently increase over time, corresponding with a steady increase in the level of construction activity.

With the sector having experienced a remarkable resurgence since COVID-19, there is once again high demand for construction, driven largely by infrastructure and non-residential building. The continual demand for development means action needs to be taken to reduce the accompanying embodied carbon emissions from the built environment. Put simply, there is an upward trend forecasted for CDW from 2021 to 2029, and overall GHG emissions are predicted to follow a downward trend, but embodied emissions are forecasted to increase.[5] This is the space for policy intervention.

[1] R. O'Hegarty, S. Wall and O. Kinnane, Whole Life Carbon in Construction and the Built Environment in Ireland, 3 October 2022
[2] Lesniewska, F., Adding value to construction and demolition waste to achieve sustainable development, 3 February 2022.
[3] 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.
[4] Environmental Protection Agency, Construction & Demolition Waste Statistics. Retrieved 27 June 2023, from https://www.epa.ie/our-services/monitoring--assessment/waste/national-waste-statistics/construction--demolition/
[5] Build 2022: Construction Sector Performance and Capacity. (2022, July 14). https://www.gov.ie/en/publication/37606-build-2022-report/



Construction and Demolition Waste Projections 2019-2029[6]

- CDW is the largest single waste stream in Ireland making up around one third of all waste produced annually.[7]
- Though actual costs will vary based on the size, scope and location of each project, industry figures indicate that the cost to demolish is €45 to €65+/sq.m.[8]
- Charging demolition at the full rate of VAT would not cost anything to implement and would create a positive incentive to behaviour change to reuse rather than rebuild in the construction sector.
- It would also stop the VAT structure from acting antagonistically to the principles of waste prevention outlined in the Circular Economy and Miscellaneous Provisions Act 2022, in which construction is a named sector.
- The change would generate revenue, which could be used to fund initiatives that support energy-efficient upgrades to housing, help vulnerable households cope with the cost-of-living crisis, or preserve historic buildings. For instance, 'Housing for All's initiatives such as 'Town Centre First', the 'Croí Cónaithe' (Cities) Fund, the 'Urban Regeneration and Development Fund', and the local authority-led Compulsory Purchase Order scheme could each benefit from the additional funding a recalibration of VAT would create.
- We urge the Government to consider the value of recalibrating Ireland's VAT structure to bring it into alignment with the principles of the Circular Economy and Miscellaneous Provisions Act 2022, and the Climate Action and Low Carbon Development (Amendment) Act 2021.
- Charging full VAT for demolition while maintaining the reduced rate for repair and refurbishment would create a tax environment that reflects the principles of 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' , 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

[6] ibid
[7] Environmental Protection Agency, National Waste Statistics. Retrieved 27 June 2023, from https://www.epa.ie/our-services/monitoring--assessment/waste/national-waste-statistics/
[8] PBSA in Ireland—An updated cost analysis. Retrieved 27 June 2023, from https://www.linesight.com/insights/pbsa-in-ireland-an-updated-cost-analysis/