



European Construction Sector Observatory

Policy measure fact sheet

Belgium

VAT Tax Relief Scheme for Residential Building Renovations

Thematic Objectives 1

February 2018



In a nutshell

Implementing body:	Ministry of Finance
Key features & objectives:	The Belgian Government is running a reduced VAT Tax Relief Scheme that enables owners of residential buildings which are at least 10 years old to pay a reduced VAT rate of 6% on a wide range of renovation works. The lower rate is designed to incentivise building owners to carry out modernisation and energy efficiency improvements on their properties.
Implementation date:	1 January 2000 – introduced as a temporary measure; July 2011 – made a permanent measure.
Targeted beneficiaries:	Households, construction service providers (companies, tradespeople)
Targeted sub-sectors:	Residential, renovation, energy efficiency
Budget (EUR):	n/a

There are about 4.5 million residential buildings in Belgium, of which 65% are single family houses and 35% are multi-family buildings. 62% of residential buildings stock (about 2.8 million buildings) were constructed prior to 1970 and are largely energy inefficient.

Residential buildings in Belgium are high energy consumers, accounting for 73% of primary energy demand of buildings. Due to the previous absence of strict construction standards in terms of energy efficiency

Only 41% of Belgian homes have wall insulation, 36% have fully double-glazed windows, and 58% have roof insulation

There is therefore considerable potential for energy savings in the residential sector, and it is for this reason, that the government started to implement various measures to increase energy efficiency in the Belgium residential buildings.

The Belgian Government has introduced a number of subsidies and tax relief schemes as support measures that are intended to help make Belgian residential buildings more energy effi-

cient by stimulating an increase in the uptake of energy saving measures by homeowners. Examples include the photovoltaic solar panel grant scheme and the insulation grant scheme for older buildings.

Another important measure is the VAT Tax Relief Scheme for residential building renovations. The scheme was first introduced by the Ministry of Finance as a temporary measure on 1 January 2000. The scheme was later made a permanent measure in July 2011. Whereas construction services in Belgium are generally subject to a VAT rate of 21%, the VAT Tax Relief Scheme lowers that rate to just 6%. The aim of the measure is to lower the expense that a homeowner may incur when renovating, maintaining or repairing their property, and thereby encourage homeowners to contract those services and make their property more energy efficient. The government has specifically limited this scheme to the owners of residential buildings constructed 10 or more years ago, because they are the most inefficient buildings in the overall housing stock.

Some of the scheme's main benefits are:

- It is a national scheme for which at least two thirds of Belgian homeowners are eligible;
- It is particularly advantageous for the owners of apartment buildings. Due to scale of work that is generally involved in these types of buildings, VAT relief can ensure considerable cost savings, in addition to the potential energy/cost savings that renovation work can provide;
- The scheme supports comprehensive renovation work which can increase a building's life expectancy;
- The Ministry of Finance provides all necessary assistance to the applicant during the application process and after (list of companies, recommendations, etc.).

Although there is currently no specific data available on the uptake the VAT Tax Relief Scheme, it is considered to have been broadly successful and is assessed to have contributed to the decrease in household energy consumption in Belgium. However, government action is needed to ensure that this success impacts all areas across the country, as homeowners in some areas, such as Antwerp and East and West Flanders, have made less use of the scheme than others.

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General description

The Belgian Government is running a VAT Tax Relief Scheme to encourage homeowners to carry out renovation, maintenance and repair work, and even some construction work, on their properties.

A reduced VAT rate of 6% can be claimed for renovation works that are carried out on residential buildings that are at least 10 years old. The 6% rate can only be claimed for labour and overhead costs. The standard VAT rate of 21% is applied to construction materials.

More specifically, the reduced VAT rate applies to the following types of work:

- Insulation of residential buildings;
- Renewal of electrical wiring/systems and/or plumbing;
- Installation of central heating or air-conditioning systems, including heaters, radiators and convectors connected to a pipe and/or chimney (Exception: for electric convectors that are only connected to a mains socket, the standard 21% VAT rate applies);
- Installation of new telephone lines or alarm systems;
- Installation of new kitchen cabinets, including sinks and hoods (the 21% VAT rate applies to all other devices);
- Painting and wallpapering;
- Fitting of fixed floor coverings, such as tiles, linoleum, laminate and parquet;
- Scraping and varnishing of parquet flooring;
- Installation of a chimney or fireplace;
- Repair or replacement of the front façade of a house;
- Fitting of shutters and/or curtains on the outside of the house;
- Constructing or repairing a garage, terrace or veranda, as long as they adjoin the house;
- Maintenance of chimneys, pipes, lifts and central heating installations.

By way of contrast, the standard VAT rate (21%) applies to:

- Renovation of buildings that are mainly used for professional purposes (>50% of use);
- General maintenance of a building, including fixed carpet cleaning, parquet floor polishing, etc.;
- Demolition work that does not precede renovation work, repair or maintenance;
- The performance of works that do not relate to the building itself. For example, the construction of gardens, paths, sports

grounds, terraces at the end of the garden, ponds, fountains, swimming pools and gazebos, among others.

For renovation works, the reduced VAT rate of 6% can apply if the repair works include transformation, renovation, improvement, repair or maintenance, with the exclusion of cleaning, to the whole or just a part of the building.

The building must be used exclusively for residential purposes.

All work transactions must be invoiced to the customer (household). The invoice issued by the service provider must include a clear and accurate certificate and must mention the reduced VAT rate.

Table 1 provides an example of calculation of costs when applying the reduced VAT rate for residential renovations in Belgium. The calculation includes 6% VAT for labour costs and 21% VAT for construction materials.

Table 1: Example of the application of the reduced VAT rate

A	Working hours		10,000 EUR
B	Materials		2,500 EUR
C	Labour and material		12,500 EUR
D	Overhead costs		1,500 EUR
E	Contract sum excl. VAT		14,000 EUR
Overhead costs			
F	Overhead labour costs	$(A / C \times D)$	1,200 EUR
G	Overhead costs	$(B / C \times D)$	300 EUR
VAT			
	Labour costs	$(A + F) \times 6\%$	672 EUR
	Material costs	$(B + G) \times 21\%$	588 EUR
	Contract sum incl. VAT	E + 672 EUR + 588 EUR	15,260 EUR

Source: Van Havermaet, 6% VAT on Home Renovations

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Achieved or expected results

There is currently no specific data available on the uptake of the reduced VAT rate for building renovations. However,

it is estimated that in the three-year period from 2014 to 2016, the VAT Tax Relief Scheme and other measures promoting energy efficiency have contributed to a significant overall reduction in total household energy consumption, which has fallen by 0.7% per year in Flanders, by 1.1% in Wallonia and by 0.9% in Brussels

In the case of Brussels, consumption per household is on average 40% lower than in the other regions, because more houses were renovated in Brussels, and because houses in this region feature smaller heated surface areas and smaller average household sizes.

Insulation of roofs, external walls and floors were some of the most popular types of renovation works for which Belgian homeowners claimed the reduced rate of VAT. The main reason for the popularity of these types of measures is because they offer the clearest opportunity to significantly lower household energy consumption and costs. The replacement of single or double glass windows with super-insulating or high efficiency glass was also a popular measure. In some cases, homeowners also claimed VAT relief on the installation of controlled mechan-

ical ventilation systems.

The regional governments in Belgium also offered support to homeowners by providing information about the VAT system and by communicating the importance of energy efficiency in buildings. For instance, in the Walloon and Brussels Region, specialised energy auditors provide home visits to assess and determine the potential energy savings in each household. The auditors also provide homeowners with recommendations on how best to carry out renovation work to make their property more energy efficient.

However, despite the progress that has been made thus far, there is still a lot of improvement needed if Belgium is to meet its energy reduction targets by 2020, and some areas need particular attention

For instance, it is estimated that 15.7% of buildings in the Antwerp area still have single glazing windows (instead of double glazing). In East Flanders, 19.7% of buildings have no roof insulation, and in West Flanders, 21.4% have no central heating or only use electric heating. In terms of regional comparisons, these regions made the least use of the 6% VAT Tax Relief Scheme for Residential Building Renovations.

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Perspectives and lessons learned

From a **government perspective**, the Ministry of Finance (Construction Department) says that the renovation market in Belgium remains fragmented and is dominated by small construction firms, which mainly provide installation and maintenance services, whereas large construction companies supply different components.

A Project Manager at the Federal Urban Policy Unit says that the local governments in Belgium (Flanders, Wallonia and Brussels) play a major role in the construction sector and are especially instrumental in promoting the VAT Tax Relief Scheme and energy performance regulations in their regions. The aim of the local governments is to structure the renovation market in Belgium and to encourage investments by homeowners. In addition, construction contractors are also very active in promoting the VAT Tax Relief Scheme to homeowners.

Despite the promotional work carried out to date, the Project Manager says that

More focused communication and marketing is needed to increase the impact of VAT relief on residential building renovations

For instance, the local governments should take the opportunity to raise public awareness of the numbers of households that have used and benefitted from the VAT Tax Relief Scheme, and they should inform homeowners in their regions about the positive impact of the scheme on household energy consumption and savings.

From a **housing and consumer perspective**, the Flemish Social Housing Society (Vlaamse Maatschappij voor Sociaal Wonen – VMSW) says that the

VAT relief on renovations is an attractive incentive that is helping households to improve their living conditions by repairing and modernising their own houses or apartments

Overall, the VAT relief is seen as positive measure to support greater energy efficiency in the household. However, the VMSW

also says that in addition to the VAT relief measure, the local governments have also introduced other renovation support measures, such as Energy Premiums. Having different support measures to choose from has created a degree of confusion for some consumers, as they are unsure which they should utilise.

The VMSW also points out that the VAT relief scheme, in its current form, imposes a significant administrative burden on homeowners that wish to claim it. Prior to 2011, the procedure for claiming the VAT relief was quite straightforward and only required limited documentation. In the years since 2011 however, stricter documentation requirements have been introduced. As a result, the procedure has become increasingly burdensome. Homeowners are now required to submit many documents, such as a property registration document, proof that the property is used for private reasons, the reason for the renovation work, and the list of what needs to be renovated or repaired. The scheme also now imposes a strict submission deadline. The VMSW points out that the time and additional costs that are needed to gather all required documentation (e.g. to receive property registration documents) are often a problem for homeowners, especially when they have to adhere to the submission deadline.

From a **specialised construction services perspective**, the reduced VAT rate is having a positive impact on specialised services in the construction sector. Homeowners tend to use small construction companies to carry out renovation work because they offer more competitive/affordable labour rates than larger companies. According to the Director of AVATS, it would be a good idea to make a list of construction companies available to consumers, as this would help smaller companies reach more consumers.

In conclusion, the general consensus of stakeholders is that the VAT Tax Relief Scheme has been a success so far. Looking forward however, stakeholders have also identified some key improvements that would enhance the scheme and its impact:

- Clearer information and instructions are needed from local government to explain how homeowners can claim the VAT relief, how the process works, and important deadlines;
- Provide guidance to help homeowners to choose a service provider to carry out their renovation work;
- Reduce the administrative burden that the current scheme entails.

Endnotes

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