



HM Revenue
& Customs

VAT: changes to the reduced rate for energy-saving materials

Who is likely to be affected?

Businesses that provide and install energy-saving materials (ESMs) and customers who have the ESMs installed.

General description of the measure

A reduced rate of 5% VAT applies to the installation of certain ESMs in residential accommodation. This measure amends the scope of the reduced rate as set out below.

- The withdrawal of the reduced rate for the installation of wind turbines and water turbines.
- Limiting the reduced rate to the labour cost element of a supply of installation where the value of the materials exceeds 60% of the total cost charged to the customer. However, where the customer satisfies certain conditions (is aged 60 or over or is in receipt of certain benefits) or where the supply is to a housing association or the building in which the ESMs are installed is used solely for a relevant residential purpose, the reduced rate will continue to apply.

In all other respects, the relief is retained in full.

Policy objective

This measure provides certainty and ensures that the reduced rate relief for supplies of ESMs is drawn as widely as possible, consistent with the requirements of existing legislation governing the application of VAT in the EU.

Background to the measure

The UK is required to follow the judgement of the CJEU (Case C-161/14), which narrows the scope of the reduced rate.

A consultation document was published on 9 December 2015, together with the proposed draft legislation. There was a further consultation on the revised draft legislation, which was published on 8 April 2019.

Detailed proposal

Operative date

The measure will affect installations of affected ESMs from 1 October 2019.

Current law

Group 2 of Schedule 7A to the VAT Act 1994 ('Group 2') permits the reduced rate of VAT to apply to the installation of ESMs in residential accommodation and the supply of the ESMs installed by the person installing them. Sections 29A (4) and 96(9) of the VAT Act 1994 provide power for the Treasury to make an order to amend Schedule 7A.

Proposed revisions

Legislation will be introduced by statutory instrument to amend Group 2 as set out below.

- The relief will no longer apply to the installation of wind and water turbines.
- The relief will continue to apply to supplies of the installation of ESMs made to all customers except where the value of the installed ESMs exceeds 60% of the cost of the total supply to the customer. In these cases, only the labour element of the supply will qualify for the reduced rate of VAT, with the goods element standard rated.
- However, the whole supply will still qualify for the reduced rate (irrespective of whether the cost of the materials element exceeds 60% of the total cost) where: (i) the customer is 60 or over, or in receipt of certain benefits and the accommodation in which the ESMs are installed is his or her sole or main residence; (ii) the building in which the ESMs are installed is used solely for a relevant residential purpose; or (iii) the supply is made to a relevant housing association.

The legislation also confirms that supplies that have been paid for before the operative date, or supplies made under contracts entered into prior to that date, are unaffected by these changes.

Summary of impacts

Exchequer impact (£m)

2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025

This measure is expected to have a negligible impact on the Exchequer, the final costing will be subject to OBR scrutiny

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

There will be an increased cost for a small number of individuals who will have to pay the standard rate of VAT for the installation of a wind or water turbine or the goods element of an installation of ESMs rather than the reduced rate of 5% although the impact is anticipated to be negligible.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

With the exception of the relief for wind and water turbines which is withdrawn, the relief will continue to apply to supplies of the installation of ESMs to individuals aged 60 years or over where the accommodation in which the ESMs is installed is their sole or main residence. Supplies of installations of ESMs to individuals under 60 years of age may be impacted if the value of the ESMs exceeds 60% of the total cost of the installation.

It is not anticipated that the measure will impact on any other group with protected characteristics.

Impact on business including civil society organisations

This measure is expected to impact on businesses which supply and install ESMs. These businesses will now have to apply the standard rate of VAT to the supply and installation of wind and water turbines in residential homes and may have to apply it to the goods element of a supply of ESMs. This measure is expected to have a negligible impact on businesses' administrative burdens because we estimate that will only affect a very small number of installations. One-off costs are expected to include familiarisation with the new rules and changing systems to account for VAT at 20% on supplies that do not qualify for the reduced rate. Ongoing costs include performing calculations to determine whether the reduced rate applies and / or ascertaining whether customers are eligible for the reduced rate on supplies made to them. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will incur negligible costs implementing this change. Guidance on the changes will be published in August 2019.

Other impacts

It is anticipated these changes will have a negligible environmental impact.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact [TBC] on Telephone: [TBC] or email: [TBC].