



VAT: reverse charge for gas and electricity

Who is likely to be affected?

Wholesalers of gas and electricity. Generators of electricity.

General description of the measure

The measure will introduce a reverse charge for wholesale supplies of gas and electricity which means the customer is liable to account for the VAT rather than the supplier. It does not apply to domestic supplies or to businesses not registered or liable to be registered for VAT.

Policy objective

This is an anti-fraud measure which removes the opportunity for fraudsters to charge VAT and then go missing before paying it over to the Exchequer.

Background to the measure

This measure was announced in Budget 2014. Informal consultation between HM Revenue & Customs, HM Treasury and the main trade bodies has been ongoing for over two years.

Detailed proposal

Operative date

There will be further informal consultation with the industry to determine an operative date taking account of the time businesses will need to make the necessary IT changes and other preparations for the orderly introduction of the reverse charge.

Current law

Section 1(2) of the VAT Act 1994 (VATA) makes the supplier liable for any VAT on supplies of goods or services.

Section 55A of VATA provides that the recipient of a supply must account for the VAT due on supplies of a kind specified in an order made by the Treasury.

EU legislation in Article 199a of Directive 2006/112/EC allows member states to provide for a reverse charge for supplies of gas and electricity to a taxable dealer as defined in Article 38(2) of the Directive.

Proposed revisions

A statutory instrument subject to the negative resolution will be made under section 55A of VATA to make taxable persons receiving supplies of gas and electricity liable to account for the VAT due on those supplies (subject to certain exceptions specified in the order).

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
	This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The measure is not expected to have an impact on individuals and households.				
Equalities impacts	There are no impacts on any group which shares a protected characteristic.				
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations.</p> <p>The number of businesses affected by the introduction of a reverse charge for gas and power is unknown. However, the Government believes that it is comparable to the number affected by the reverse charge on carbon emissions. It is estimated that up to 1,000 businesses could potentially be affected by this change.</p> <p>These businesses will need to familiarise themselves with the change, and may need to modify their IT systems and invoices. It is assumed that most of the affected businesses will be in the financial services sector and will already be using the reverse charge mechanism for other supplies. The one-off implementation costs and ongoing administrative burdens are estimated to be negligible.</p>				
Operational impact (£m) (HMRC or other)	This measure will not increase operational costs.				
Other impacts	<p><u>Small and micro business assessment</u>: there is not expected to be an impact on small and micro businesses.</p> <p>Other impacts have been considered and none have been identified.</p>				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Nick Chambers on 03000 585662 (email: nick.chambers@hmrc.gsi.gov.uk).