

Explanatory Note

Clause 48: VAT: installation of energy saving materials

Summary

1. This clause amends the reduced rate of VAT for energy saving materials ('ESM's) following a decision of the European Court ('CJEU') as a result of an infraction by the European Commission ('EC'). It maintains the relief for those customers over the age of 60 years or on certain benefits, for supplies to relevant housing associations and for buildings used solely for a relevant residential purpose. It excludes the installation of solar panels, wind and water turbines from the reduced rate of VAT. For all other customers who live in residential accommodation, the relief is also retained except where the cost of the goods element of the supply is greater than the labour cost of installing those goods. In that situation, the labour element of the supply will be subject to the reduced rate and the goods element of the supply will be standard rated.

Details of the clause

2. Subsection (1) amends Group 2 of Schedule 7a of the VAT Act 1994
3. Subsection (2) amends Items 1 and 2 of Group 2 and introduces a new Item 3. Item 1 confirms that services of installing ESMs in residential accommodation are reduced rated. Item 2 confirms that the installation together with the supply of ESMs in residential accommodation is reduced rated where the customer is a qualifying person (as determined by Note 6 to Group 3 of Schedule 7A of the VAT Act 1994) or a relevant housing association (as determined by Note 21 to Group 5 of Schedule 8 of the VAT Act 1994) and where the residential accommodation is a building is used solely for a relevant residential purpose. Item 3 confirms that the installation of ESMs in residential accommodation not covered by Item 2 is also reduced rated subject to the restriction in new Note A1.
4. Subsection (3) inserts new Note A1. This confirms that the reduced rate does not apply to the goods element of an installation falling within new Item 3 if the net cost of those goods is greater than the net cost of the labour element of the supply. In such a case, the reduced rate of VAT will only apply to the labour element of the supply and the standard rate of VAT will apply to the goods element of the supply.
5. Subsection (4) withdraws the VAT reduced rate from supplies of solar panels, water turbines and wind turbines.
6. Subsection (5) inserts definitions of 'qualifying person' and 'relevant housing association'.
7. Subsection (6) confirms that the changes apply to supplies made on or after 1 August 2016 and

do not apply to supplies paid for, or subject to a contract signed, before that date.

Background note

8. This clause has been introduced following a judgment of the CJEU which held that the UK had failed to apply the reduced rate relief for supplies of services of installing ESMs correctly. These changes are designed to ensure that UK law is fully EU law compliant whilst seeking to retain as much of the existing relief as is possible.
9. The CJEU ruled that the UK had had failed to restrict the relief to certain social groups or those with certain social needs and to installations that constitute the provision, construction, renovation or alteration of housing as required by the European VAT Directive.
10. If you have any questions about this change, or comments on the legislation, please contact Michael McRae 03000 585639 (michael.mcrae@hmrc.gsi.gov.uk),