

**EXPLANATORY MEMORANDUM TO**  
**THE VALUE ADDED TAX (INSTALLATION OF ENERGY-SAVING MATERIALS)**  
**ORDER 2024**

**2024 No. 24**

**1. Introduction**

1.1 This explanatory memorandum has been prepared by His Majesty’s Revenue and Customs (HMRC) on behalf of His Majesty’s Treasury and is laid before the House of Commons by Command of His Majesty.

**2. Purpose of the instrument**

2.1 The intention of the statutory instrument (SI) is to expand the Value Added Tax (VAT) relief for energy-saving materials (ESMs).

2.2 The relief is currently set to a temporary zero rate of VAT which applies until 31 March 2027, and will revert to the reduced rate of VAT at 5 per cent from 1 April 2027.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Select Committee on Statutory Instruments*

3.1 None.

**4. Extent and Territorial Application**

4.1 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom (UK).

4.2 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the UK.

**5. European Convention on Human Rights**

5.1 The Financial Secretary to the Treasury, Nigel Huddleston MP has made the following statement regarding Human Rights:

“In my view, the provisions of the Value Added Tax (Installation of Energy-Saving Materials) Order 2024 are compatible with the convention rights”.

**6. Legislative Context**

6.1 This instrument will expand the VAT relief for ESMs provided for by Group 23 of Schedule 8 to the Value Added Tax Act 1994 (VATA) and Group 2 of Schedule 7A to the VATA by including installations in buildings used solely for relevant charitable purposes, adding to the list of qualifying ESMs and including certain groundworks necessary for the installation of ground and water source heat pumps. These changes, which are permissible under the Windsor Framework, take effect from 1 February 2024. The items introduced by these changes are brought into the scope of the temporary zero rate of VAT for the installation of qualifying ESMs from that date until 31 March 2027. From 1 April 2027, the installation of qualifying ESMs,

including those introduced by this instrument, will be charged at the reduced rate of VAT of 5 per cent.

## **7. Policy background**

### *What is being done and why?*

- 7.1 The government has made a commitment to support improvements in energy efficiency across the economy to bring down bills for households, businesses, and the public sector. In addition, improving the energy efficiency of the UK's housing stock and increasing the proportion of energy provided from low-carbon, renewable energy sources will be a key part of meeting our legally binding commitment to reach net zero greenhouse gas emissions by 2050.
- 7.2 At Spring Statement 2022, the government announced an expansion of the VAT relief for the installation of ESMs in residential accommodation in Great Britain. The changes reinstated the relief for wind and water turbines and removed complex eligibility criteria. They also introduced a temporary VAT zero rate until 31 March 2027 (after which installations will revert to the reduced rate of VAT at 5 per cent). The Windsor Framework enabled these changes to be extended to Northern Ireland with effect from 1 May 2023.
- 7.3 While the expansion of the VAT relief was welcomed, there were requests for further changes to make the relief more effective and easier to access. At Spring Budget 2023, the government therefore published a Call for Evidence (CfE) seeking views on potential areas for reform and published a summary of responses to this CfE on 11 December 2023.

### *Explanations*

#### What did any law do before the changes to be made by this instrument?

- 7.4 The installation of qualifying ESMs in residential accommodation benefitted from a VAT relief (a temporary zero rate until 31 March 2027, after which it will revert to the reduced rate of 5 per cent). The list of technologies that benefitted from the relief included: insulation, central heating system controls, hot water system controls, solar panels, wind turbines, water turbines, ground source heat pumps, air source heat pumps, micro combined heat and power units and wood-fuelled boilers.

#### Why is it being changed?

- 7.5 These changes will incentivise the installation of ESMs across the UK to improve energy efficiency and reduce carbon emissions.

#### What will it now do?

- 7.6 The SI will reinstate the relief for the installation of qualifying ESMs in buildings used solely for relevant charitable purposes, such as village halls or similar recreational facilities for the community (this was removed in 2013 since it was not compatible with EU law).
- 7.7 It will add electrical batteries that store electricity generated by certain ESMs and from the National Grid (the grid), water source heat pumps and diverters that enable excess electricity from certain ESMs to be used within a qualifying building for which it is generated rather than exported to the grid.

7.8 It also adds certain preparatory groundworks that are necessary for the installation of ground and water source heat pumps. These are typically co-contracted to a supplier that is different from the one that installs the heat pump for insurance reasons and, since the intention is to relieve the whole of the heat pump installation process, such works have been added to the relief.

## **8. European Union Withdrawal and Future Relationship**

8.1 This instrument does not relate to withdrawal from the European Union or trigger the statement requirements under the European Union (Withdrawal) Act 2018.

## **9. Consolidation**

9.1 This instrument makes amendments to Schedule 7A and Schedule 8 to the VATA.

## **10. Consultation outcome**

10.1 The government received 125 responses to its CfE. The government carefully considered these responses and this legislation is a direct result. An announcement of the reforms to this policy was made at Autumn Statement 2023 and a summary of responses document was published on 11 December 2023 detailing the reforms. The document can be found on GOV.UK at: [www.gov.uk/government/consultations/vat-energy-saving-materials-relief-improving-energy-efficiency-and-reducing-carbon-emissions/outcome/summary-of-responses](http://www.gov.uk/government/consultations/vat-energy-saving-materials-relief-improving-energy-efficiency-and-reducing-carbon-emissions/outcome/summary-of-responses).

## **11. Guidance**

11.1 HMRC will update its guidance when this measure is implemented on 1 February 2024. The current guidance can be found on GOV.UK at: [www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086](http://www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086).

## **12. Impact**

12.1 The impact on business, charities or voluntary bodies is beneficial.

12.2 The changes will benefit businesses that retrofit electrical batteries to certain ESMs and the mains electricity, retrofit diverters to certain ESMs, install water source heat pumps in residential accommodation and in buildings that are used solely for relevant charitable purposes. They will also benefit businesses that carry out preparatory groundworks necessary for the installation of ground and water source heat pumps in such circumstances. These businesses will no longer be required to charge and account for VAT from 1 February 2024 until 31 March 2027 and, subsequently, will only have to account for the reduced rate of 5 per cent on their supplies. They will still be able to recover the input tax incurred on the costs of making these supplies.

12.3 In so far as these VAT savings are passed onto consumers, it should boost demand for affected installations and benefit individuals and organisations that have ESMs installed in qualifying buildings.

12.4 There is no, or no significant, impact on the public sector as this instrument will only impact installations of ESMs in residential and certain charitable buildings.

12.5 A Tax Information and Impact Note covering this instrument will be published on GOV.UK at: [www.gov.uk/government/collections/tax-information-and-impact-notes-tiins](http://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins).

### **13. Regulating small business**

- 13.1 The legislation applies to activities that are undertaken by small businesses.
- 13.2 No specific action is proposed to minimise the impact of the requirements on small businesses (employing up to 50 people).
- 13.3 The basis for the final decision on what action to take to assist small businesses was that the changes reduce the administration associated with the relief for installed ESMs.

### **14. Monitoring & review**

- 14.1 The approach to monitoring of this legislation is to be completed through regular communication with affected taxpayers and normal auditing activities.
- 14.2 The instrument does not include a statutory review clause because it does not relate to a qualifying activity, in line with the requirements of the Small Business, Enterprise and Employment Act 2015.

### **15. Contact**

- 15.1 Patrick Wilson at HMRC email: [patrick.wilson@hmrc.gov.uk](mailto:patrick.wilson@hmrc.gov.uk) can be contacted with any queries regarding the instrument.
- 15.2 Ian Broadhurst, Deputy Director for VAT Reliefs, Financial Services and International VAT, Indirect Tax Directorate at HMRC, can confirm that this Explanatory Memorandum meets the required standard.
- 15.3 Nigel Huddleston MP, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.