

Value Added Tax and Climate Change Levy explained

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VAT and CCL explained

This e-guide explains the rates at which Value Added Tax (VAT) and Climate Change Levy (CCL) are chargeable on electricity and gas supplies.

Value Added Tax (VAT)

In line with current legislation (VAT Act 1994 as amended), there are two rates of VAT applicable to supplies of electricity and gas used for business or non-domestic purposes:

- the standard rate
- the reduced rate

Where an electricity or gas supply is used wholly or partly for domestic or charitable non-business use, that part of the supply qualifies for the reduced rate of VAT. This is known as 'qualifying use'.

Customers with qualifying use are required to submit a separate Customer Declaration Certificate for each supply, to advise us what percentage is used for domestic or charitable non-business purposes.

Climate Change Levy (CCL)

CCL is a government-imposed tax to encourage reduction in gas emissions and greater efficiency of energy used for business or non-domestic purposes.

CCL is chargeable only on units/kWh used and not on any other component of the bill such as fixed daily charges.

Separate rates have been set for electricity and gas. These are now indexed-linked and therefore likely to increase on 1 April each year. Under current legislation:

- where VAT is charged at the **standard rate**, CCL (plus VAT on CCL) will usually be added to the bill
- where VAT is charged at the **reduced rate**, the supply is automatically excluded from CCL
- these rules are applied automatically at the time of billing

All other business customers entitled to CCL relief must submit a PP11 Supplier Certificate for each supply covered, to advise us what percentage of CCL relief is applicable. PP11s can be downloaded from the HM Revenue & Customs (HMRC) website: www.hmrc.gov.uk.

Types of use explained

Business or non-domestic use

If your electricity or gas supply is used solely for business or non-domestic purposes, VAT will usually be charged at the standard rate and CCL (plus VAT on CCL) will also be added to the bill

Low usage business or non-domestic use

Under a government concession, 'low usage' of electricity and gas for business or non-domestic purposes is chargeable at the reduced rate of VAT. These supplies are automatically excluded from CCL.

The low usage thresholds are:

- electricity - at or below 33 units per day during the bill period
- gas - at or below 145 kWh per day during the bill period

Where more than one meter is billed on an account, consumption across all meters is combined in order to take into account the total quantity supplied through all relevant meters.

There is no requirement for the customer to claim the reduced rate of VAT or exclusion from CCL on low usage as these concessions are applied automatically at the time of each billing.

Domestic or charitable nonbusiness use (qualifying use)

If your electricity or gas supply is used wholly or partly for domestic or charitable non-business purposes, that part of the supply qualifies for the reduced rate of VAT and for exclusion from CCL. This is known as qualifying use.

The percentage of qualifying use can vary between energy supplies to the same site. Customers are therefore required to submit a separate Customer Declaration Certificate per fuel, per account, to advise us what percentage of each supply meets the qualifying criteria (set by the government).

See pages 4 and 5 for further details regarding which activities do and do not meet the government's qualifying criteria to be considered as domestic or charitable non-business use.

We cannot assume a percentage of qualifying use on behalf of the customer. In the absence of a valid Customer Declaration Certificate, supplies will be charged VAT and CCL at the rates appropriate to business or non-domestic use. Where there is both qualifying and non-qualifying use of the supply, this is known as 'mixed use'. Please refer to the mixed use section on page 6 for further details.

Domestic use

What types of supply are considered to be domestic use?

More detailed information can be obtained from
 HMRC: www.hmrc.gov.uk
 HMRC National Advice Centre: 0845 0100 9000.

See the following HMRC VAT notices available
 from their website:
 701/19 - Fuel and Power
 701/20 - Caravans and Houseboats

Types of premises	Domestic use The activities below are considered to be domestic use	Non-domestic use The activities below do not meet HMRC criteria for domestic use
Charities in general	<ul style="list-style-type: none"> Any self-contained dwelling such as a house or flat Caravan Houseboat Job-related accommodation including vicarage, manse, etc Monastery, nunnery or similar establishment Residential accommodation for the Armed Forces 	<ul style="list-style-type: none"> Running a business from home By law, electricity and gas supplied to establishments such as: <ul style="list-style-type: none"> hospitals, prisons and similar hotels, B&Bs and similar are not considered to be supplied for domestic use
Churches and other places of worship	<ul style="list-style-type: none"> Home or institution providing residential accommodation for children Home or institution providing residential accommodation for people in need of personal care because of: <ul style="list-style-type: none"> old age or disability past/present dependency on drugs or alcohol past/present mental disorder Hospice or palliative care 	<ul style="list-style-type: none"> Supplies within a residential home used for office/managerial activities
Village halls/community centres /leisure centres	<ul style="list-style-type: none"> Caravans solely for residential use either on a full-time, weekend or holiday basis Caravans hired out on a self-catering basis Shower/toilet blocks for the use of those staying in the caravan park Self-catering holiday accommodation Staff residential accommodation in a hotel or B&B establishment 	<ul style="list-style-type: none"> Business activities carried out from a caravan Supplies within a caravan park used for office/managerial activities Non-residential services within a caravan park such as retail or catering outlets Leisure or sport activities for which a charge is made Hotel or B&B accommodation
Education	<ul style="list-style-type: none"> Residential accommodation for boarding students and staff Ancillary rooms used by boarding students and staff including: <ul style="list-style-type: none"> kitchens dining rooms bathrooms study rooms, etc 	<ul style="list-style-type: none"> Ancillary rooms used by non-boarding students and staff including: <ul style="list-style-type: none"> kitchens dining rooms bathrooms study rooms, etc

Charitable non-business use

What types of supply are considered to be charitable non-business use?

Although you must either be a registered charity or have your charitable status recognised by HMRC, that in itself is not deemed to be an automatic qualifying use. There is no general VAT relief for charities on electricity and gas supplies. However, legislation does provide specific relief for the nonbusiness activities of a charity, whereby that part of the supply is seen as a qualifying use. If you are a registered charity and the supply is used for domestic purposes, your declaration should be on the basis of domestic use. See page 4.

More detailed information can be obtained from
HMRC: www.hmrc.gov.uk
HMRC National Advice Centre: 0845 0100 9000.

See the following HMRC VAT notices available
from their website:
701/1 - Charities
701/5 - Clubs and Associations
701/30 - Education
701/35 - Youth Clubs

Types of premises	Charitable non-business use The activities below are considered to be charitable non-business use	Charitable business use The activities below do not meet HMRC criteria for charitable non-business use
Charities in general	<ul style="list-style-type: none"> • Activities or services provided, which are funded by <ul style="list-style-type: none"> - grants - donations - voluntary contributions - investment income • Membership subscriptions which only provide members with copies of reports, annual accounts and the right to vote at meetings 	<ul style="list-style-type: none"> • Where the activity or service is provided in return for a consideration • Where the activity has a degree of frequency or scale • Any membership subscriptions which provide members with additional benefits such as discounted entrance fees
Churches and other places of worship	<ul style="list-style-type: none"> • Where the supply is used for worship and related meetings children • Where income is generated by donations, voluntary contributions or investment income, rather than by fixed charges 	<ul style="list-style-type: none"> • Where any part of the premises are used for nonchurch purposes • Where income is generated from hiring or renting out the facilities • Where the premises are hosting fundraising activities, where goods or services are supplied in return for payment
Village halls/community centres	<ul style="list-style-type: none"> • Activities or services provided, which are funded by <ul style="list-style-type: none"> - grants - donations - voluntary contributions - investment income - Membership subscriptions which only provide members with copies of reports, annual accounts and the right to vote at meetings 	<ul style="list-style-type: none"> • Fundraising activities such as: <ul style="list-style-type: none"> - hiring or renting out the facilities - charging admission to events held on the premises - sale of goods and services including food and refreshments • Any membership subscriptions which provide members with additional benefits such as discounted entrance fees
Education	<ul style="list-style-type: none"> • Where the education provider: <ul style="list-style-type: none"> - has charitable status and - does not charge for their services 	<ul style="list-style-type: none"> • Where the education provider does not have charitable status • Where the education provider has charitable status but makes a charge for their services, e.g. tuition fees, hiring out the premises, etc

Mixed use

Where there is a mix of activities, some of which meet the government's criteria for domestic or charitable non-business use and some which do not, you will need to estimate the split between qualifying and non-qualifying use, for each individual meter, in order to submit the appropriate VAT declaration. Your estimate can be based on any method that is 'fair and reasonable', such as rating of appliances, annual consumption or square footage. Charities can use their annual accounts to estimate the split between 'non-business' funding and 'business' income.

In all cases, you must be able to demonstrate to HMRC (if required), that any VAT declaration you submit, represents a valid qualifying use.

Currently:

- Where there is 60% or more qualifying use (either domestic or charitable non-business), the whole of the supply is chargeable at the reduced rate of VAT and is excluded from CCL. Your Customer Declaration Certificate should, however, reflect your best estimate of the actual percentage of qualifying use for each meter as, under HMRC guidelines, we cannot accept wording such as 'over 60%, therefore 100%' - or similar - and will have to return the certificate to you for further clarification.
- Where there is between 1-59% qualifying use (either domestic or charitable non-business), that part of the supply will be charged at the reduced rate of VAT and will automatically be excluded from CCL. The non-qualifying use will be subject to VAT and CCL at the appropriate business /non-domestic rate.

Declaration forms:

Customers with qualifying use are required to submit a separate Customer Declaration Certificate for each supply, to advise us what percentage is used for domestic or charitable nonbusiness purposes.

Important information

VAT Customer Declaration Certificates and PP11 Supplier Certificates are not transferable between suppliers. When changing suppliers, you should ensure that the appropriate certificates are submitted to your new supplier, advising the percentage of relief which is applicable to each supply. Once accepted, your declaration will remain valid indefinitely. If there is a change in your qualifying use, you should notify us by submitting a revised Customer Declaration Certificate. Any false statement or failure to notify us of a change in qualifying use may make you liable to a financial penalty under the VAT Act 1994 (as amended from time to time).