

Foreword

This notice cancels and replaces Notice 708/6 (August 2006). Details of changes to the previous version can be found in paragraph 1.3.

1. Introduction

1.1 What is this notice about?

This notice explains when the installation of:

- energy-saving materials; and
- heating equipment is reduced-rated .

Information on the liability of other building work is explained in [Notice 708 Buildings and construction](#) and [Notice 701/7 VAT reliefs for disabled people](#).

You can access details of any changes to this notice since August 2006 either on our website at **hmrc.gov.uk** or by phoning our helpline on **0845 010 9000**.

This notice and others mentioned are available on our website.

1.2 Who should read this notice?

You should read this notice if you are a contractor or sub-contractor installing:

- energy-saving materials; or
- grant-funded heating equipment.

1.3 What's new?

[Paragraph 2.3](#) has been amended to clarify our policy on energy-saving materials supplied or installed with other goods.

[Paragraph 2.16](#) gives new definitions of residential accommodation in caravans and student accommodation.

[Paragraph 3.5](#) has been updated in the light of the withdrawal of grants for the installation of security goods.

[Paragraph 3.8](#) clarifies the categories of persons qualifying for the reduced -rate under Schedule 7A Group 3.

1.4 What law is covered in this notice?

The VAT Act 1994, section 29A (as inserted by the Finance Act 2001) holds that goods and services specified in Schedule 7A to the Act are reduced-rated.

Schedule 7A, Group 2 specifies when installations of energy-saving materials are reduced-rated.

Schedule 7A, Group 3 specifies when grant-funded installations of heating equipment and security goods are reduced-rated.

You can find more information about current rates of VAT in [Notice 700 The VAT guide](#).

2. Installations of energy-saving materials

2.1 What installations are reduced-rated?

The reduced rate applies to the installation of certain specified energy-saving materials (see paragraph 2.5) in, or in the curtilage of:

- residential accommodation (see paragraph 2.16); or
- a building used solely for a relevant charitable purpose (see paragraph 2.17).

The reduced rate applies whether or not the installation is grant-funded and includes the price of the goods themselves.

If you supply energy-saving materials without installing them, your supply is standard-rated.

2.2 Installation

Installation, in this context, means putting in place energy-saving materials.

This involves some process by which materials are permanently fixed in place, although loft insulation may simply need to be unrolled and positioned in place to be installed.

2.3 Energy-saving materials installed with other works

Although the installation of energy savings materials is reduced rated, it is normal for other goods and services to be provided at the same time. The following gives general guidance with examples of the VAT liability of these works which should help identify the correct VAT treatment. Please note that these examples may not apply if the contractual position between you and your customer is different or if there are other supplies or activities taking place at the same time.

2.3.1 Installation of energy-saving materials only

The installation of just energy-saving materials is reduced rated, for example, visiting a home owner solely to install cavity wall insulation or to draught strip all the windows and doors.

2.3.2 Installation of energy-saving materials with ancillary supplies

The installation of just energy-saving materials with ancillary supplies is reduced rated. An ancillary supply is a supply of goods or services that is a better means of enjoying the principal supply, for example, installing loft insulation but having to cut a new loft hatch in the ceiling and making good to access the loft. Clearly, the cutting of the loft hatch and making good is, in itself, a simple construction supply, but as the services have been carried out solely in support of the loft insulation, they become ancillary.

However, if you replace your existing roof with a new insulated one, the insulation clearly is a better way of enjoying the new roof and so the insulation is ancillary to the new roof. As the roof is standard rated, this applies to the whole job including the insulation.

2.3.3 Installation of energy-saving materials with other goods and services

Sometimes when individual goods and services are provided together, there is not a single dominant supply and so the individual goods and services supplied together have equal importance, often taking the form of something else. For example, a central heating system may consist of a conventional boiler, radiators, copper pipe, radiator valves, heating controls etc. Supplied together, they form a single supply of a central heating system.

While some components of the central heating system may be reduced rated if supplied on their own, here they are part of a wider supply of a central heating system and since a whole central heating system is not included in the list of energy saving materials eligible for the reduced rate (see paragraph 2.5) the whole supply is standard-rated.

A further example would be the construction of an extension of a house. While the walls and roof space would be insulated, this is just one part of the construction of the whole extension and since there is no reduced rate for the construction of an extension, the supply is standard-rated.

However, the installation of central heating systems may still be subject to the reduced rate if grant-funded - see [paragraph 3.3](#) below.

2.3.4 Mixed Supplies

Where you are undertaking more than one job at the same premises, the VAT liability will depend upon the circumstances. For example, if you are contracted to build an extension and, as part of the same contract, required to fit thermostatic valves to all the radiators in the house, then this is a single standard rated supply of construction services.

However, if you have a contract to building an extension and some time after the work has commenced, the homeowner separately asks you to install thermostatic valves, this is then a separate supply and reduced rated.

2.4 New dwellings

If you install energy-saving materials during the course of construction of a new dwelling, your supply is zero-rated. If you are involved in the construction of new dwellings you should consult [Notice 708 Buildings and construction](#).

2.5 What energy-saving materials are covered by the reduced rate?

The reduced rate applies to installations of:

- controls for central heating and hot water systems (see paragraph 2.6);
- draught stripping (see paragraph 2.7);
- insulation (see paragraph 2.8);
- solar panels (see paragraph 2.9);
- wind turbines (see paragraph 2.10);
- water turbines (see paragraph 2.11);
- ground source heat pumps (see paragraph 2.12);
- air source heat pumps (see paragraph 2.13);
- micro combined heat and power units (see paragraph 2.14); and

- wood-fuelled boilers (see paragraph 2.15).

2.6 Controls for central heating and hot water systems

Central heating and hot water system controls include manual or electronic timers, thermostats, mechanical or electronic valves, including thermostatic radiator valves.

2.7 Draught stripping

Draught stripping products are strips that are fixed around windows, interior and exterior doors, and loft hatches to reduce draughts.

2.8 Insulation

Insulation means materials that are designed and installed because of their insulating qualities.

The reduced rate applies to installations of insulation for:

- walls;
- floors;
- ceilings;
- roofs or lofts; and
- water tanks, pipes or other plumbing fittings.

The reduced rate does not apply to products such as curtains and carpets which are not usually installed simply as insulation.

2.9 Solar panels

Solar panels include all systems that are installed in, or on the site of, a building and that are:

- solar collectors such as evacuated tube or flat plate systems, together with associated pipework and equipment, such as circulation systems, pump, storage cylinder, control panel and heat exchanger; or
- photovoltaic (PV) panels with cabling, control panel and AC/DC inverter.

2.10 Wind turbines

The reduced rate covers the installation of all equipment essential to the operation of wind turbines, including mounting poles, electrical cables, battery banks and voltage controllers.

2.11 Water turbines

The reduced rate covers the installation of all equipment essential to the operation of water turbines, including electrical cables, battery banks and voltage controllers.

2.12 Ground source heat pumps

These transfer energy from the natural heat stored in the earth to heat the home and domestic hot water. They can also be used to augment existing heating systems in the same way as solar panels.

2.13 Air source heat pumps

These use the air as a source of heat. Some air source heat pumps can be reversed so that they draw heat from inside a building, thus providing cooling during the summer as well as indoor heating for colder periods of the year.

2.14 Micro combined heat and power units

These produce heat and hot water but, in addition, they also generate electricity.

2.15 Wood-fuelled boilers

The reduced rate covers the installation of boilers designed to be fuelled solely by wood (including wood chips and pellets), straw or similar vegetal matter. Some boilers need hoppers to feed the fuel into the boiler. Where a hopper is integral to the installation of the boiler it is included within the scope of the reduced rate.

The reduced rate does not apply to installations of 'multi-fuel' or 'dual-fuel' boilers which are designed to burn other non-renewable fuels such as coal or oil as well as wood; nor does it cover stand-alone wood-burning stoves. The construction or conversion of buildings or extensions for use as log or fuel stores also falls outside the scope of this reduced rate.

2.16 What is residential accommodation?

The installation of energy-saving materials is only reduced-rated if they are for use in the following types of residential accommodation:

- houses, blocks of flats or other dwellings;

- armed forces residential accommodation;
- children's homes;
- homes providing care for the elderly, disabled people, or people who suffer or have suffered from drug or alcohol dependency or mental disorder;
- hospices;
- institutions that are the sole or main residence of at least 90% of their residents;
- monasteries, nunneries and similar religious communities;
- residential accommodation for students or pupils;
- self catering holiday accommodation;
- caravans used as a place of permanent habitation (such as a park home or static caravans sited on a permanent residential caravan park).
- houseboats that are designed or adapted for permanent habitation and have no means of self propulsion, or other boats which are used as a person's sole or main residence, such as canal boats and Dutch barges, on which the boat owner pays Council Tax or domestic rates.

The reduced rate does **not** apply to the installation of energy-saving materials in hospitals, prisons or similar institutions, hotels or inns or similar establishments.

2.17 What is a relevant charitable purpose?

Relevant charitable purpose means use by a charity:

- for a non-business purpose; or
- as a village hall or similarly in providing social or recreational facilities for a local community.

If a charity does not make a charge, its activities are generally non-business.

For further guidance on charities and their business/non-business activities, read [Notice 700 The VAT guide](#) and [Notice 701/1 Charities](#).

2.18 Other energy-efficient products

The reduced rate only applies to the installation of the energy-saving materials listed at paragraph 2.5.

The reduced rate does not apply to the installation of other energy-efficient products, such as energy-efficient boilers (but see Section 3 if the installation is grant-funded), secondary or double glazing, low-emissivity glass, or energy-efficient fridge freezers.

3. Grant-funded installations of heating equipment and security goods

3.1 What installations are reduced-rated?

The reduced rate applies to the grant-funded installation of certain heating appliances, central heating and renewable source systems in the sole or main residence of a qualifying person (see paragraph 3.8).

This includes the price of the equipment itself.

The reduced rate only applies to the extent that the supply is grant-funded (see paragraph 3.9).

If you supply heating equipment without installing them your supply is standard-rated, even if it is grant-funded.

3.2 Heating appliances

The reduced rate applies to the installation of:

- closed solid fuel fire cassettes;
- electric dual immersion water heaters with factory-insulated hot water tanks;
- electric storage heaters;
- gas-fired boilers;
- gas room heaters with thermostatic controls;
- oil-fired boilers; and
- radiators.

3.3 Central heating systems

The reduced rate applies to the installation, repair and maintenance of a boiler, radiators, pipework and controls forming a central heating system.

This includes micro combined heat and power systems, which are heating systems that also generate electricity.

The reduced rate includes repairs and replacements of such equipment, whether or not the original system was installed under a relevant grant-funded scheme.

3.4 Renewable source heating systems

The reduced rate applies to the installation, repair and maintenance of renewable source heating systems.

This means space or water heating systems which use energy from:

- renewable sources, including solar, wind and hydroelectric power; or
- near renewable sources, including ground and air heat.

3.5 Security goods

The grant-funded scheme relating to security goods linked to the installation of energy-saving materials or central heating systems has now been withdrawn.

3.6 Connection or reconnection to the mains gas supply

Where a qualifying person has been disconnected from the mains and re-connection is paid for under a grant scheme, that reconnection is eligible for the reduced rate.

3.7 Leasing arrangements

Under some grant-funded schemes, a leasing arrangement may be used to help fund the installation of a central heating system. Where this happens, the installer will install the central heating system as usual, but they will sell the boiler and radiators to a leasing company. This supply is standard-rated.

The leasing company - which will then own the goods - will make an annual lease charge to the qualifying person, which will be paid by grant-funding. This supply is taxed at the reduced rate.

Where a leasing arrangement is used to help fund the installation of a central heating system there are two types of payment that may become due besides the lease charge:

- (a) **termination fee** - this is payable by the qualifying person or their landlord if the qualifying person moves house during the seven-year lease period; or
- (b) **end of lease payment** - the qualifying person must make a final payment to the lease company at the end of the lease period.

Both of these are further payments for the lease of the equipment and are eligible for the reduced rate.

3.8 Who is a qualifying person?

A qualifying person is a person who receives a grant for the installation of heating appliances (paragraph 3.2) or for the installation, maintenance or repair of a central heating system (paragraph 3.3) or for a renewable source heating system (paragraph 3.4) and is:

(a) aged 60 or over, or:

(b) receives one or more of the following benefits:

- child tax credit (other than the family element);
- council tax benefit;
- disability living allowance;
- disablement pension;
- housing benefit;
- income-based job seeker's allowance;
- income support;
- war disablement pension; or
- working tax credit.

If there are two or more people living in a dwelling, and one person is a qualifying person and the other residents are not, the reduced rate will apply if the supply is to the qualifying person, and they are eligible for the grant. In practice, for a supply to be to a qualifying person, that person will have to be responsible for ordering the work to be done.

3.9 Grant-funded schemes

The reduced rate is only available for supplies made under a grant scheme that has an objective of **funding the installation of energy-efficiency measures in the homes of less well-off people**.

There will usually be no need to look at the formal basis of the grant scheme concerned.

In practice, the explanatory material issued by those who organise schemes will usually make it clear what they will pay for.

If the material published by or about a scheme makes it clear that it funds the installation of energy-savings materials, etc, and it actually operates in line with those commitments, then the scheme can be treated as having the above objective.

3.10 Grants covering more than the installation of heating equipment

Grant-funding bodies may make awards to fund the combined cost of the installation of central heating systems, or heating appliances, and other building work, requiring the householder to pay the balance.

If you carry out other work - such as building repairs or maintenance - at the same time, that element of the work is not covered by the reduced rate.

You must make a fair and reasonable apportionment of the charge made.

3.11 Contributions from householders' own resources

The reduced rate only applies to work that is grant-funded.

Where installation of central heating systems or heating appliances takes place in a house and the grant does not cover the full cost of the work, householders will make their own contributions.

The installations paid for by these contributions are not covered by the reduced rate. Where you do work that is paid for like this, you need to apportion your charge accordingly.

3.12 Contributions from other sources

In addition to grants from the Warm Front Scheme and other main grant-awarding bodies, and contributions from householders' own resources, additional grants or contributions may be made by others.

This extra help may come, for example, from local authority hardship funds.

Installations paid for by other supplementary grants or contributions may also come within the scope of the reduced rate, if they meet **all** the conditions.

Installations paid for by contributions from landlords do not qualify for the reduced rate.

Your rights and obligations

Your Charter explains what you can expect from us and what we can expect from you. For more information go to **hmrc.gov.uk**

Do you have any comments or suggestions?

If you have any comments or suggestions to make about this notice, please write to:

HM Revenue & Customs
VAT Liability Team
3rd Floor
100 Parliament Street
LONDON SW1A 2BQ

Please note this address is not for general enquiries.

For your general enquiries please phone our Helpline on **0845 010 9000**.

Putting things right

If you are unhappy with our service, please let the person dealing with your affairs know what is wrong. We will work as quickly as possible to put things right and settle your complaint. If you are still unhappy, ask for your complaint to be referred to the Complaints Manager.

For more information about our complaints procedures, go to **hmrc.gov.uk** and under 'quick links' select 'Complaints'.

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We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits to:

- check the accuracy of information
- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you, as well as by others, such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HM Revenue & Customs unless the law permits us to do so. For more information go to **hmrc.gov.uk** and look for Data Protection Act within the Search facility.