

Foreword

This notice cancels and replaces Notice 708/6 (June 2002). Details of changes to the previous version can be found in paragraph 1.3.

Further help and advice

If you need general advice or more copies of Revenue & Customs notices, please ring the **National Advice Service** on **0845 010 9000**. You can call between **8.00 am and 8.00 pm, Monday to Friday**.

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, between **8.00 am and 6.00 pm, Monday to Friday**.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

[700 The VAT guide](#)

[701/1 Charities](#)

[701/7 VAT reliefs for disabled people](#)

[708 Buildings and construction](#)

1. Introduction

1.1 What is this notice about?

This notice explains when the installation of:

- energy-saving materials; and
- heating equipment or security goods

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 www.hmrc.gov.uk or by telephoning our National Advice Service on 0845 010 9000.

This notice and others mentioned are available both on paper and 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 or security goods.

1.3 What's new?

Section 2 has been amended to reflect extensions to the reduced rate since 2004. The energy saving materials affected, and the dates from which their installations became reduced rated are:

Materials	Dates
ground source heat pumps	1 June 2004
air source heat pumps	7 April 2005
micro combined heat and power units	7 April 2005
wood-fuelled boilers	1 January 2006

Section 3.3 has been updated to reflect the tax credits currently available.

1.4 What law covers 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.

1.5 Further information

This notice and others mentioned are available both on paper from our National Advice Service and on our Internet website at www.hmrc.gov.uk.

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:

- 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 Incidental work

Any work that you undertake as part of the installation process is eligible for the reduced rate.

This includes minor building works, such as planing doors or windows, enlarging loft hatches, and painting or plastering to make good.

But if the installation of energy-saving materials is incidental to another supply you are making - such as the building of an extension or the replacement of a roof - you are making a single supply of construction services (see Notice 708 Buildings and construction).

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:

- central heating and hot water system controls (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 2.2.7);
- air source heat pumps (see paragraph 2.2.8);
- micro combined heat and power units (see paragraph 2.2.9); and
- wood-fuelled boilers (see paragraph 2.2.10)

2.6 Central heating and hot water system controls

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 essentially decorative products such as curtains and carpets.

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, 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;
- school and university residential accommodation for students and pupils;
- self catering holiday accommodation;
- caravans that are sited on permanent residential caravan parks. They must be either longer than 7 metres or wider than 2.3 metres, excluding towing bars and similar apparatus used solely for the purpose of attaching the caravan to a vehicle; and

- 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 equipment and certain security goods (see paragraph 3.2) in the sole or main residence of a qualifying person (see paragraph 3.9).

This includes the price of the equipment itself.

The reduced rate only applies to the extent that the supply is grant-funded (see paragraph 3.10).

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

3.2 What goods and services are covered by the reduced rate?

3.3 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.

3.4 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.

3.5 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.

3.6 Security goods

The reduced rate applies to the installation of the following security goods provided that they are linked to the installation of energy-saving materials or central heating systems under a relevant grant-funded scheme:

- locks and bolts for windows;
- locks, bolts and security chains for doors;
- smoke alarms; and
- spy holes.

The reduced rate applies whether or not the security goods and energy-saving materials or central heating systems are installed by the same contractor.

3.7 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.

3.8 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.

3.9 Who is a qualifying person?

A qualifying person is a person who:

(a) receives a grant for the installation, maintenance or repair of a central heating system (paragraph 3.4) or a renewable source heating system (paragraph 3.5) and home security goods (paragraph 3.6) and is aged 60 or over; or

(b) receives a grant for the installation of heating appliances (paragraph 3.3) and 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.

3.10 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.

3.11 Grants covering more than the installation of heating equipment and security goods

Grant-funding bodies may make awards to fund the combined cost of the installation of central heating systems, qualifying security goods 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.

3.12 Contributions from householders' own resources

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

Where installation of central heating systems, qualifying security goods 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.

3.13 Contributions from other sources

In addition to grants from Home Energy Efficiency Scheme (HEES) 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.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Revenue & Customs
Social Reliefs Team
Room 3E/13
100 Parliament Street
LONDON SW1A 2BQ**

Please note this address is **not for general enquiries**. You should ring our National Advice Service about these.

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Revenue & Customs' or 'Customs and Excise' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmrc.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Revenue & Customs.

You can contact the Adjudicator at:

**The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP**

Phone: (020) 7930 2292

Fax: (020) 7930 2298

E-mail: adjudicators@gtnet.gov.uk

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