



TB06: Applicable VAT Rate on Domestic Heat Pump Installations

1 OVERVIEW

In July 2014 UK Government introduced a reduced VAT rate of 5% on the installation of energy saving materials and heating equipment. This was intended to encourage the uptake of energy efficient heating systems such as heat pumps replacing gas or oil boilers in domestic retrofit applications, or in new heating system installations as an alternative to traditional gas or oil boilers.

In 2022 the reduced rate was further cut to a zero rating for the installation of energy saving products listed in VAT Notice 708/6 on installations in, or within the curtilage of, residential accommodation from 1st April 2022 until 31st March 2027 for Great Britain, and from 1st May 2023 until 31st March 2027 for Northern Ireland.

The zero-rating VAT is for supply and installation to residential accommodation and charitable buildings and only applicable where the contractor installing the energy saving materials is directly engaged for the work by the customer in the residential or charitable building. It does not apply in business-to-business transactions where, for example, a main contractor has engaged the specialist contractor on behalf of the resident or charity present in the building. The VAT rate in that case between the specialist contractor and the main contractor would be standard-rated.

2 VAT NOTICE 708/6 – CLARIFICATION ON PREVIOUSLY CONFUSING DEFINITIONS

In February 2021 an amendment was issued on VAT Notice 708/6 where air source heat pumps of the reverse cycle air conditioning style had previously been excluded from the scope of the reduced rating.

After consultation with HMRC I was asked to write the following text which was used in the updated VAT Notice as sub-paragraph 2.15¹, currently applicable at the time of publication of this bulletin:

2.15 Air source heat pumps

Air source heat pumps use the air as a source of heat. They absorb heat from the outside or surrounding air and transfer that into useable heat in the home for space or water heating, or both.

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

Only air source heat pumps that are permanently fixed and are not portable or moveable qualifies as energy-saving materials.

HMRC's understanding is that most air conditioning units are air source heat pumps. However, in cases of doubt, deciding if any particular product is to be treated as an air source heat pump will depend on the facts of each case.

¹ Extracted from HMRC VAT Notice 708 on 19th November 2024 <https://www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086>

3 WHAT ELEMENTS OF THE INSTALLATION ARE ZERO RATED?

If a household decides to replace a conventional oil or gas boiler central heating system with an air source heat pump then this retrofit would consist of an entirely new installation. All the elements of the installation would be classed as a single zero-rated supply of the heat pump (or heat pumps if multiple systems are used for the property) system.

If a household is installing a new system rather than a retrofit then this still applies and all elements of the installation are classed as zero-rated.

You would include in the invoice to the customer all of the elements of the installation necessary to make it an energy efficient heating system as one single price:

- The heat pump system itself or multiple systems if using multiple units to heat the property;
- Wall brackets or floor mounts/paving slabs etc used to secure the outdoor units;
- Copper tubing and insulation, along with any pipe supports/bracketry or trunking;
- Condensate pumps and tubing;
- Electrical isolators and cabling (if associated only with the heating systems);
- Controllers for the heat pump(s);
- Any other fixing materials necessary;
- All labour costs associated with the installation.

NOTE: *The above must be solely for their use as part of the installation of the heat pump and invoiced as a single zero-rated VAT invoice to the customer.*

4 SUMMARY

The VAT relief is only applicable in installer to customer transactions and does not apply in business-to-business transactions between different levels of a construction contract chain.

For example:

- **A retailer supplying heat pumps to a contractor would always apply standard rate VAT on their invoices.** The contractor will therefore pay the VAT at standard rate to the supplier as normal and will include the VAT amount in their “inputs” section on their VAT return even though there is no “output” to enter for the invoice on that return. This will effectively result in a VAT rebate of the input from HMRC.
- **An installer invoicing a main contractor on a site would always apply standard rate VAT on their invoices** in the normal manner and account for their inputs and outputs as normal.
- **An installer invoicing the customer directly - where that customer is a domestic or residential client, or is a qualifying charitable building custodian – would invoice the entire installation on a “single supply basis” and the entire invoice will be zero rated for VAT purposes showing zero in the VAT outputs related to the invoice.**

In all cases of doubt, you should seek the input of your accountant and refer to the HMRC VAT Notice 708/6² itself.

² <https://www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086>