

Technical Bulletin

Number	065
Subject	Reduced VAT for Domestic Heat Pumps
Date	25 May 2011

As part of the Climate Change Programme, the Government is committed to reducing the emissions of the gases responsible for global warming.

The Energy White Paper published in February 2003 reinstated the Government's commitment to its climate change goals and emphasised that energy efficiency is one of its priorities.

Households are responsible for a quarter of all emissions and need to be a significant part of the strategy to achieve environmental goals.

The Government recognises the environmental benefits of heat pumps and so to encourage the use of these in residential accommodation and charitable buildings, they lowered the rate of VAT to **5%** as of the **7th April 2005** for **supply and fitting**.

This means that the contractor will purchase the heat pump air conditioning unit at the standard rate of VAT (20.0% at time of writing) but after supplying and installing it to a domestic customer or charitable purpose, final customers sales bill from the installer will be at the reduced rate of 5% VAT.

The value difference in Input (purchase) and Output (sales) VAT will be detailed in the contractors normal VAT return and can be reclaimed accordingly.

This means that there will be no financial implications for the contractor and will result in significant cost savings for the final customer.

Information from HMRC (correct as of 25th May 2011) below

What qualifies for the lower rates of VAT?

Installation of any of the following qualifies for the lower rate of VAT:

- controls for central heating and hot water systems
- draught insulation (eg around windows and doors)
- insulation on walls, floors, ceilings, lofts, etc
- solar panels
- wind turbines
- water turbines
- **ground-source heat pumps**
- **air-source heat pumps**
- micro combined heat and power units
- wood-fuelled boilers

You can only get these lower rates if the energy saving materials are actually installed, and the work is done on your home. You'll be charged the lower rate on **the installation work itself** as well as the materials.

You'll also get the lower rate on any necessary extra work that needs to be done as part of the installation - this doesn't apply if you're having them installed as part of a larger project such as a new roof or building an extension.