HMRC - VATSC05224 - Feed-In Tariffs: Basic Arrangements

In recognition of the higher cost of producing electricity in this manner, people participating in the Feed-in Tariff scheme will receive payment under a ‘generation tariff’. This payment is not consideration for any supply and it is therefore outside the scope of VAT.

Sometimes people will generate more electricity than they need, and this will become available for electricity suppliers to supply to others. In return, people participating in the Feed-in Tariff scheme will receive payments under an ‘export tariff’. These payments are consideration for supplies of electricity by people participating in the Feed-in Tariff scheme to the electricity company, where they are made by taxable persons in the course of their business. The Taxable Person manual VTAXPER explains the tests to apply in order to determine whether a supply is made in the course of a business. However, we are generally content that the activity of producing electricity to sell back to the grid can be a business activity. Where this is the case and the supplies are made by a taxable person acting as such, VAT is due on the supplies of electricity made to the National Grid, and any associated input tax is deductible (subject to the normal rules).

In order to spread the cost of all monies paid out under the generation and export tariffs evenly across the electricity companies, there will be a movement of funds between them. These are sometimes referred to as ‘levelisation payments’. Such payments are not consideration for any supplies and consequently they are outside the scope of VAT.

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