HMRC - VATSC64040 - The Carbon Reduction Commitment

The Carbon Reduction Commitment (CRC) is a UK initiative which focuses on businesses and other bodies that are major users of electricity. At the end of a 12 month period a business or other organisation must surrender to the Department of Energy and Climate Change (DECC) sufficient CRC allowances to cover the quantity of electricity that it has consumed. It is also permitted to surrender EU Emissions Trading System (EUETS) allowances instead (see VATSC64220).

HMRC has accepted that in Phase 1 of the scheme the issue of CRC allowances by the DECC to businesses and other organisations is outside the scope of VAT, notwithstanding the fact that DECC charges for these allowances. This is because the activity is governed by public law and, at the point of examination, there was no market trading these allowances. The position will be reviewed at the end of Phase 1 (31 March 2013).

Any sale of allowances by other bodies, such as by one business to another, is standard rated. If allowances are sold to businesses in other member states, the place of supply is where that business customer belongs and the supply is not liable to UK VAT. The business customer must reverse charge VAT.

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