HMRC - VATSC64250 - Offsetting Services

There are a growing number of businesses providing carbon offsetting services. The range of services offered varies widely, but the VAT treatment of any individual transaction will depend on the particular arrangements.

In many situations, when a member of the public makes a payment to a carbon offset provider, there is no supply for VAT purposes. This is because there is no identifiable, direct benefit being received by the member of the public in return for their money.

Examples would be where a carbon offset provider makes a commitment that funds paid across by members of the public will be used to fund overseas projects, wind farms, development of environmentally friendly energy generation projects and the like without making any supply of direct benefit to the person making the payment. In such scenarios the payment by the member of the public is outside the scope of VAT.

A common arrangement is where an airline offers its passengers the facility to offset the carbon emissions generated by their flights, perhaps via a third party carbon offset provider. Generally the passenger pays across an amount, calculated to be the cost of offsetting the resulting emissions, but receives no identifiable, direct benefit in return. There are a number of possible variants, including where

the passenger has no choice being obliged to pay the offsetting charge - in which case the airline is making a single zero rated supply of transport services

the offsetting facility is optional, but a separate administration charge is made to the customer for providing the service - in that case the administration charge is standard rated, but the amount paid to offset provision is outside the scope of VAT, or

the offsetting service is optional, there is no administrative charge, and the entire payment goes to offset provision - in which case the payment is outside the scope of VAT.

In other situations, a carbon offset provider might make taxable supplies of carbon credits (standard rated compliance market credits), or of the purchase and ‘retirement’ of compliance market credits (standard rated), or of general advice on how an individual or a business can improve its energy efficiency (standard rated).

Previous page