

**EXPLANATORY MEMORANDUM TO**  
**THE VALUE ADDED TAX (INSTALLATION OF ENERGY-SAVING MATERIALS)**  
**ORDER 2023**

**2023 No. 376**

**1. Introduction**

- 1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

**2. Purpose of the instrument**

- 2.1 The intention of the statutory instrument is to extend the temporary Value Added Tax (VAT) zero rate for energy-saving materials (ESMs) that was introduced in Great Britain on 1 April 2022 (and which applies until 31 March 2027) to Northern Ireland. It also extends the reversal of legislation that was introduced in 2019, which narrowed the scope of the previous VAT relief for ESMs, to Northern Ireland. This is allowed under the Windsor Framework and aligns the treatment of the supply of installation of ESMs in Northern Ireland with Great Britain.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Select Committee on Statutory Instruments*

- 3.1 None.

**4. Extent and Territorial Application**

- 4.1 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is United Kingdom.
- 4.2 The territorial application of this instrument (that is, where the instrument produces a practical effect) is United Kingdom.

**5. European Convention on Human Rights**

- 5.1 The Financial Secretary to the Treasury, Victoria Atkins MP has made the following statement regarding Human Rights:

“In my view the provisions of the Value Added Tax (Installation of Energy Saving Materials) Order 2023 are compatible with the Convention rights.”

**6. Legislative Context**

- 6.1 The legislation will permanently reverse, in Northern Ireland, the legislative changes that the United Kingdom made to narrow the scope of the relief in 2019. It also introduces a temporary zero rate of VAT for the installation of qualifying ESMs in residential accommodation in Northern Ireland from 1 May 2023 to 31 March 2027. A sunset clause in the legislation will result in the automatic reversion to the reduced rate after 31 March 2027 unless the government introduces further legislation to extend the end-date. The same measures already apply in the rest of the United Kingdom.

## **7. Policy background**

### *What is being done and why?*

#### What did any law do before the changes to be made by this instrument?

- 7.1 The United Kingdom implemented legislative changes in 2019 to limit the reduced rating of installations of ESMs to supplies that met certain social policy conditions or where the cost of the materials did not exceed 60% of the total value of the supply (“60% test”). If these conditions did not apply, businesses were required to apportion their supplies and account for VAT at the reduced rate on the service element and the standard rate on the goods element. Wind and water turbines were also excluded from the list of qualifying ESMs.

#### Why is it being changed?

- 7.2 Consistent with the changes introduced in Great Britain on 1 April 2022, the Windsor Framework allows the government to reverse the 2019 changes in Northern Ireland and to introduce a temporary zero rate to the installation of ESMs in residential properties from 1 May 2023 to 31 March 2027. This ensures equal treatment across the whole of the United Kingdom.
- 7.3 These changes will incentivise the take-up of ESMs across the whole of the United Kingdom in line with the government’s net zero objectives.

#### What will it now do?

- 7.4 These changes will result in all installations of qualifying ESMs in Northern Ireland being covered by the zero rate from 1 May 2023 to 31 March 2027. Wind and water turbines will also be permanently added to the list of qualifying ESMs and the social policy conditions and 60% test permanently removed. The zero rate will be replaced with the reduced rate after 31 March 2027 across the whole of the United Kingdom unless the government lays further legislation to extend the end date.

## **8. European Union Withdrawal and Future Relationship**

- 8.1 This instrument does not relate to withdrawal from the European Union or trigger the statement requirements under the European Union (Withdrawal) Act.

## **9. Consolidation**

- 9.1 This instrument makes amendments to Schedule 7A and Schedule 8 to the VAT Act 1994. There are no plans to consolidate the legislation at this time.

## **10. Consultation outcome**

- 10.1 To prevent the possible loss of investment on installations of qualifying ESMs, the government has chosen to introduce this measure on 1 May 2023. It has not been possible to consult in the time available.

## **11. Guidance**

- 11.1 HMRC will update its guidance shortly after this measure is introduced.

## **12. Impact**

- 12.1 The impact on business, charities or voluntary bodies is beneficial for those businesses that install ESMs in Northern Ireland, as they will no longer need to consider the social policy conditions or perform calculations to determine whether or not the installation qualifies for the relief. They will also, from 1 May 2023 to 31 March 2027, no longer be required to charge and account for VAT on their supplies but will still be able to recover input tax in relation to these supplies. In so far as this VAT relief is passed on to consumers, it should boost demand for the installation of ESMs and benefit individuals and organisations that purchase the installation of ESMs in a residential property.
- 12.2 There is no, or no significant, impact on the public sector as this instrument will only impact residential installations of qualifying ESMs.
- 12.3 A Tax Information and Impact Note covering this instrument will be published on the website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

## **13. Regulating small business**

- 13.1 The legislation applies to activities that are undertaken by small businesses.
- 13.2 No specific action is proposed to minimise the impact of the requirements on small businesses (employing up to 50 people).
- 13.3 The basis for the final decision on what action to take to assist small businesses was that the changes reduce the administration associated with the relief for installed ESMs.

## **14. Monitoring & review**

- 14.1 HMRC will monitor the effectiveness and application of this relief through normal audit activity and regular communication with affected taxpayer groups.
- 14.2 The instrument does not include a statutory review clause because it does not relate to a qualifying activity, in line with the requirements of the Small Business, Enterprise and Employment Act 2015.

## **15. Contact**

- 15.1 Phil Hurst at HMRC: phil.hurst@hmrc.gov.uk or Patrick Wilson: patrick.wilson@hmrc.gov.uk can be contacted with any queries regarding the instrument.
- 15.2 Ian Broadhurst, Deputy Director for VAT Reliefs, Deductions and Financial Services, Indirect Tax Directorate, at the HMRC can confirm that this Explanatory Memorandum meets the required standard.
- 15.3 Victoria Atkins MP, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.