

Renewable energy - 'Feed in tariffs'

Feed in tariffs (FITs) were introduced in April 2010 by the government to incentivise small scale generation of renewable energy (e.g. solar and wind power). FITs are required to be paid by electricity suppliers to those installing generating equipment based on kilowatt hours generated. FITs were introduced in the UK for electricity with effect from 1 April 2010 and will be extended to the generation of heat with effect from 1 April 2011. HMRC has updated its 'VAT Supply and Consideration Manual' to clarify its views on the VAT treatment of the 'generation tariff', 'export tariff' and 'levelisation' payments which will form part of the FIT regime.

Businesses and others involved in supplying, installing or financing energy generation equipment such as solar photovoltaic panels, and those considering adopting this new technology, should familiarise themselves with the new guidance and the implications.

HMRC manual 'VATSC05220 - Further guidance for identifying supply: Supplies of goods for consideration: Feed in Tariffs' is available on HMRC's website via this [LINK](#).

The FIT scheme is designed to encourage householders, small businesses and organisations such as registered social landlords to generate energy from renewable sources such as solar and wind power. FITs must be paid by electricity supply companies to those registering with them under the FIT scheme. The 'generation tariff' is a payment designed to compensate renewable energy producers, as the cost of producing power from renewable sources is greater than the cost of generating power from non-renewable sources. Consequently, the 'generation tariff' will be outside the scope of VAT.

Where the producer generates more renewable energy than required and is able to make that energy available to a power company, an 'export tariff' will be payable. This will constitute consideration for the supply of power by the producer but this will only be liable to VAT if the producer is a taxable person, or is a non-taxable person generating the energy in the course or furtherance of a business and becomes liable, or eligible, to register for VAT, in which case VAT will be due on the 'export tariff'.

In order to spread the cost of the FIT scheme across the power generating companies, 'levelisation' payments will be distributed amongst them. The guidance confirms that these will not constitute consideration for any supply and will be outside the scope of VAT.

Finally, HMRC understands that some renewable energy producers are likely to fund development of their generation facilities by assigning the benefit of future 'generation tariff'

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payments to, for example, suppliers of generation equipment. HMRC has not sought to determine the VAT treatment of such assignments or of the consequent payments passing between the parties, as the VAT treatment is likely to depend on the detail of each particular arrangement.

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