

Extending zero-rated VAT on domestic renewables

About The MCS Foundation

Our vision is to make every UK home carbon-free. The MCS Foundation helps drive positive change to decarbonise homes heat and energy through our work programmes, grants and advocacy. We support engagement programmes, fund research and facilitate innovative solutions to drive widespread adoption of renewables to help achieve a Net Zero future. In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale.

The issue:

- Decreasing upfront costs to homeowners looking to decarbonise their property should be a central aim of the net zero transition.
- VAT on domestic renewables and energy efficiency measures, such as solar panels, heat pumps and insulation measures, was slashed from 5% to 0% in the Spring Budget of 2022.
- However, this temporary zero VAT rate reverts to 5% on 1st April 2027 - upfront costs of domestic renewables to homeowners need to be permanently reduced.

The ask:

- **Extend the zero rating of VAT** on domestic renewables and energy efficiency measures until 2030 at the very least.
- This doesn't require any additional revenue.

The detail:

It is a position supported by research prepared for the Climate Change Committee in 2019 and the 2021 Environmental Audit Committee report 'Growing back better: putting nature and net zero at the heart of the economic recovery', that advised Government to:

“adopt a VAT reduction on home upgrades to incentivise installation of low-carbon domestic technologies and improve energy efficiency of homes.”

Given that the 29 million homes in the UK are not fit for the future, the UK Government should be doing everything in its power to encourage the uptake of small-scale renewables and related energy efficiency retrofit measures. This will create an environment that boosts the uptake of zero carbon technologies, stimulates the green economy, helps the UK transition to net zero, and will encourage the retrofit revolution that will continue to be required to make our homes fit for the future.

The current zero rating runs from 1st April 2022 – 31st March 2027, and has boosted demand for domestic renewables. The MCS Foundation supported the campaign for the zero VAT to be expanded to include electricity-storage batteries, and ground works and boreholes for ground-source heat pumps, which were previously excluded from the zero VAT policy. This was successful, and the new VAT rates started on 1st February 2024.

However, we believe the 0 rating of VAT on domestic renewables and energy efficiency measures should be extended until 2030 at the very least. This will send a clear signal to businesses and consumers that the UK is serious about renewables and retrofitting. It will create an environment that encourages the uptake of zero carbon technologies, stimulate the green economy, and help the UK transition to net zero.

FURTHER INFORMATION

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