
VAT: PLACE OF SUPPLY OF GAS, HEAT AND COOLING

Who is likely to be affected?

1. Suppliers, importers and VAT registered recipients of natural gas, heat and cooling. Also providers and VAT registered recipients of services comprising access to, and use of, natural gas and heat and cooling distribution networks.

General description of the measure

2. This measure will implement changes to the application of VAT to supplies of natural gas and of heat and cooling. Under existing arrangements gas supplied via the natural gas distribution system is treated as supplied where either a wholesale customer is established or the natural gas is consumed. UK customers registered for VAT are required to account for VAT on the supplies of natural gas they receive from suppliers established abroad as a reverse charge. There are currently no rules which specifically govern the application of VAT to supplies of heat and cooling.
3. The existing rules which also include electricity, are to be amended so as to:
 - extend their scope to cover supplies in all categories of natural gas pipeline;
 - limit their scope to supplies involving natural gas pipelines located in the EU or linked to such pipelines; and
 - extend the relief from VAT at importation to all natural gas imported via a network (including liquefied natural gas by tanker).
4. The amended rules (above) will be extended to apply to heat and cooling supplied through networks.
5. The Government will legislate for this measure in a Finance Bill to be introduced as soon as possible after the summer recess.

Operative date

6. The measure has effect on and after 1 January 2011.

Current law and proposed revisions

7. Amendments will be made to the following provisions of the VAT Act 1994:
 - section 9A(5) - to amend the definition of “relevant goods” for the purposes of applying the reverse charge mechanism through which VAT is accounted for under the place of supply arrangements; and
 - paragraph 3 of Schedule 4 - to add “other cooling” as a category of goods.
8. Further amendments to reflect these changes will be made via secondary legislation.

Further advice

9. This measure was previously announced at Budget 2010 and a version of this note was published as BN47. This note supersedes that version.
10. If you have any questions about this change, please contact the VAT Helpline on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk