



Church Energy Purchasing Group

Guide to VAT & CCL for Churches

The Church Energy Purchasing Group

www.cepg.co.uk

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Introduction

This information is provided by the CEPG (Church Energy Purchasing Group) and explains the rates at which Value Added Tax (VAT) and Climate Change levy (CCL) are chargeable on electricity and gas supplies to churches and other registered charitable organisations. The information has been collected from a number of sources including the HMRC Government website and various energy suppliers.

The CEPG is an independent church energy broker, free of supplier influence. We offer competitive business electricity & gas procurement services as well as other energy related management solutions. CEPG has over 2,000 church clients, representing all denominations. Contact us immediately to see how we can save your church money on ever increasing electricity & gas bills. Customer Service & Sales: [0800 011 2834](tel:08000112834). Visit our website: www.cepg.co.uk

Value Added Tax (VAT)

Two rates of VAT applicable to supplies of electricity and gas used for business or non-domestic purposes (VAT Act 1994 as amended):

- The standard rate
- The reduced rate

Where an electricity or gas supply is used wholly or partly for domestic or charitable non-business use, that part of the supply qualifies for the reduced rate of VAT. This is known as 'qualifying use'.

Customers with qualifying use are required to submit a separate VAT Declaration Form for each supply and advise what percentage is used for domestic or charitable non-business purposes.

Climate Change Levy (CCL)

CCL is a government-imposed tax to encourage reduction in gas emissions and greater efficiency of energy used for business or non-domestic purposes. CCL is chargeable only on units/kWh used not on any other component of the bill such as standing charges.

Separate rates have been set for electricity and gas. These are now indexed-linked and therefore likely to increase on 1 April each year.

Under current legislation:

- Where VAT is charged at the standard rate, CCL (plus VAT on CCL) will usually be added to the bill
- Where VAT is charged at the reduce rate, the supply is automatically excluded from CCL
- Energy from renewable sources is automatically exempt from CCL. These rules are applied automatically at the time of billing.

Business customers entitled to CCL relief must submit a PP11 Supplier Certificate for each supply covered, to advise the supplier as to what percentage of CCL relief is applicable. PP11s can be downloaded from the HM Revenue & Customs (HMRC) website www.hmrc.gov.uk.

Types of Use Explained

Business or non-domestic use

If your electricity or gas supply is used solely for business or non-domestic purposes, VAT will usually be charged at the standard rate and CCL (plus VAT on CCL) will also be added to the bill.

Low usage business or non-domestic use

Under a government concession, small de minimis quantities or 'low usage' of electricity and gas for business or non-domestic purposes is chargeable at the reduced rate of VAT. These supplies are automatically excluded from CCL. The low usage thresholds are:

- **Electricity – at or below 1,000 kWh per month during the bill period**
- **Gas – at or below 4,397 kWh per month during the bill period**

Where more than one meter is billed on an account, consumption across all meters is combined in order to take into account the total quantity supplied through all relevant meters.

There is no requirement for the customer to claim the reduced rate of VAT or exclusion from CCL on low usage as these concessions are applied automatically at the time of each billing.

Domestic of charitable non-business use (qualifying use)

If your electricity or gas supply is used wholly or partly domestic or charitable non-business purposes, that part of the supply qualifies for the reduced rate of VAT and for exclusion from CCL. This is known as qualifying use.

The percentage of qualifying use can vary between energy supplies to the same site. Customers are therefore required to submit a separate Customer Declaration Certificate per fuel, per account, to advise the supplier what percentage of each supply meets the qualifying criteria (set by the government).

The CEPTG and the supplier cannot assume a percentage of qualifying use on behalf of the customer. In the absence of a valid Customer Declaration Certificate, supplies will be charged VAT and CCL at the rates appropriate to business or non-business use. Where there is both qualifying and non-qualifying use of the supply, this is known as 'mixed use'.

Charitable non-business use

What types of supply are considered to be charitable non-business use?

Although you must either be a registered charity or have your charity recognised by HMRC, that in itself is not deemed to be an automatic qualifying use.

There is no general VAT relief for charities on electricity and gas supplies. However, legislation does provide specific relief for the non-business activities of a charity, whereby that part of the supply is seen as qualifying use. If you are a church and the supply is used for domestic purposes, your declaration should be on the basis of domestic use.

See the following HMRC VAT notice available from their website: 701/1 – Charities

Churches and other places of worship. Charitable non-business use:

- Where the supply is used for worship and related meetings
- Where income is generated by donations, voluntary contributions or investment income, rather than by fixed charges

Charitable business use:

- Where any part of the premises are used for non-church purposes
- Where income is generated from hiring or renting out the facilities
- Where the premises are hosting fundraising activities, where goods or services are supplied in return for payment

Mixed Use

Where there is a mix of activities, some of which meet the government's criteria for domestic or charitable non-business use and some which do not, you will need to estimate the split between qualifying and non-qualifying use, for each individual meter, in order to submit the appropriate VAT declaration.

Your estimate can be based on any method that is 'fair and reasonable', such as rating of appliances, annual consumption or square footage. Charities can use their annual accounts to estimate the split between 'non-business' funding and 'business' income.

In all cases, you must be able to demonstrate to HMRC (if required), that any VAT declaration you submit, represents a valid qualifying use.

Currently:

- Where there is 60% or more qualifying use (either domestic or charitable non-business), the whole of the supply is chargeable at the reduced rate of VAT and is excluded from CCL. Your VAT Declaration Form should, however reflect your best estimate of the actual percentage of qualifying use for each meter as, under HMRC guidelines, CEPG and suppliers cannot accept wording such as 'over 60%', therefore 100% or similar will not be accepted and will be returned for further clarification.
- Where there is between 1-59% qualifying use (either domestic or charitable non-business), that part of the supply will be charged at the reduced rate of VAT and will automatically be excluded from CCL. The non-qualifying use will be subject to VAT and CCL at the appropriate business/non-domestic rate.

IMPORTANT

VAT Customer Declaration Forms and PP11 Supplier Certificates are not transferrable between suppliers. When changing suppliers, you should ensure that the appropriate certificates are submitted to your new supplier, advising the percentage of relief which is applicable to each supply. Once accepted, your declaration will remain indefinitely. If there is a change in your qualifying use, you should notify your supplier by submitting a revised Customer Declaration Certificate.

Further information regarding VAT or CCL is available from HMRC: www.hmrc.gov.uk

HMRC National Advice Centre: 0845 010 9000

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Providing Expert Energy Management for your Church

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