EXPLANATORY MEMORANDUM TO

THE VALUE ADDED TAX (SUPPLIES OF DOMESTIC ELECTRICITY) ORDER 2026

2026 No. 987

1. Introduction

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

2. Declaration

2.1 Rt Hon James Murray MP, Financial Secretary to the Treasury and Paymaster General confirms that this Explanatory Memorandum meets the required standard.

2.2 Daniel Taylor, Deputy Director for Indirect Tax Directorate, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Joseph Lennox at HMRC can be contacted by email at the following address with any queries regarding the instrument: Joseph.Lennox@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument introduces a temporary zero rate of Value Added Tax (VAT) for qualifying supplies of domestic electricity made in England, Wales and Scotland (Great Britain) in the period starting with 1 October 2026 and ending with 31 March 2027. These supplies are currently charged at the reduced rate of VAT of 5%.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the UK.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the UK.

5. Policy Context

What is being done and why?

5.1 The instrument introduces a temporary zero rate of VAT on qualifying supplies of domestic electricity in Great Britain for a period of six months. Qualifying supplies of domestic electricity are those made for domestic use, which includes use in private homes and certain residential settings such as care homes where residents live on a permanent basis, and the non-business activities of charities. Non-domestic supplies of electricity will also benefit from the zero rate where the quantity supplied falls below the statutory threshold.

5.2 The effect of the change is that domestic electricity bills in Great Britain will have no VAT charged, reducing costs to households over the winter months when energy

consumption is highest. The objective of the measure is to provide targeted relief for households. As electricity is used more widely than any other fuel type, reducing electricity bills provides financial support for the greatest number of households.

5.3 Supplies of all other domestic fuel or power made in the UK remain in Group 1 of Schedule 7A and are liable to VAT at 5%.

What was the previous policy, how is this different?

5.4 Under the existing VAT legislation, these supplies are charged at the reduced rate of VAT of 5%.

6. Legislative and Legal Context

How has the law changed?

6.1 This Order makes a temporary change to the rate of VAT which applies to supplies of domestic electricity in Great Britain. Under the existing VAT legislation, supplies of electricity in the United Kingdom qualify for the reduced rate of VAT of 5% if they meet the description in Group 1 to Schedule 7A of the Value Added Tax Act 1994 (VATA94).

6.2 Section 30(2) of VATA94 provides that supplies of goods described in Schedule 8 are charged at the zero rate. The Order modifies VATA94 to create a new Group 24 in Schedule 8. The description of qualifying supplies of domestic electricity in Group 24 of Schedule 8 is the same as the description in Group 1 of Schedule 7A.

6.3 The effect of these changes is that supplies of domestic electricity in Great Britain are liable to 0% VAT. The Order makes a consequential modification to Group 1 of Schedule 7A so that the reduced rate of 5% continues to apply to supplies of domestic electricity made in Northern Ireland.

6.4 The modifications to Schedule 8 and to Schedule 7A have effect in relation to supplies made in the period beginning with 1 October 2026 and ending with 31 March 2027.

Why was this approach taken to change the law?

6.5 This is the only possible approach to make the necessary changes to come into force on 1 October 2026.

7. Consultation

Summary of consultation outcome and methodology

7.1 A consultation was not undertaken. Given that the policy intention is to provide immediate relief to households, a consultation was not considered appropriate.

8. Applicable Guidance

8.1 Published guidance is available on the GOV.UK website[1].

[1] Guidance: https://www.gov.uk/guidance/vat-on-fuel-and-power-notice-70119

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument is available on the GOV.UK website[2].

Impact on businesses, charities and voluntary bodies

9.2 The impact on businesses, charities and voluntary bodies who currently receive qualifying supplies of electricity is expected to be positive because they will pay less VAT on their electricity bills. Most charities and a small number of businesses whose use of electricity falls under the small quantity threshold will benefit from lower VAT costs on electricity they use. They will not need to incur additional costs to benefit from the zero rate. The measure is expected to have a negligible administrative impact on electricity suppliers as they will be required to apply the new rate of VAT to qualifying supplies of electricity. These businesses already apply a reduced rate to qualifying supplies. One-off costs will include familiarisation with the change, updating systems to change the rate of VAT for qualifying supplies from 5% to 0% from 1 October 2026, and updating systems again to change the rate from 0% to 5% when the temporary zero rate comes to an end on 31 March 2027. There are expected to be no ongoing costs.

9.3 The legislation does impact small and micro businesses. Where electricity use falls below a de minimis quantity, the supply qualifies for relief. Therefore, the measure will benefit certain small businesses, which will be charged 0% VAT on supplies, which are currently liable to 5% VAT.

9.4 Small or micro businesses are not exempted from this measure because where they are the recipient of the electricity, they will either benefit from a reduction in VAT on their electricity bills or there will be no effect at all.

9.5 There is no, or no significant, impact on the public sector because in general, fuel and power used by these organisations does not qualify for relief as it is not domestic consumption.

9.6 The impact of the change will be in Great Britain only.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 HMRC will monitor the effectiveness and application of this relief through normal audit activity and regular communication with affected taxpayer groups.

10.2 The instrument does not include a statutory review clause because it does not relate to a qualifying activity as specified by section 29 of the Small Business, Enterprise and Employment Act 2015.

[2] Tax Information and Impact Note: https://www.gov.uk/government/publications/temporary-zero-rate-of-vat-for-domestic-electricity-in-great-britain

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Financial Secretary to the Treasury and Paymaster General has made the following statement regarding Human Rights:
"In my view the provisions of the Value Added Tax (Supplies of Domestic Electricity) Order 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023.