

TKBTC Clerk

From: Steve Parkinson <steve@parkinsonpartnership.uk>
Sent: 30 October 2023 08:00
To: TKBTC Clerk
Subject: RE: VAT on electricity from solar panels

Dear Dylan,

My colleague has put some guidance for you. As we have done this for free, we have tried to avoid giving a specific recommendation and just point you in the right direction. Apologies for the delay.

Income from solar panels

The council will be making taxable business supplies under an export tariff, but with a VAT rate of 5% and around £1,000 annual income, the VAT chargeable (if the council were registered) would be only about £50.

Whenever a council starts to earn taxable business income it should consider whether it is obliged to register for VAT – councils must register if annual income from all taxable business activities would generate VAT of £1,000 (include income such as car parking, event admissions, advertising and catering). [VAT Notice 749 section 3](#) explains this in more detail.

Rules for supplies of electricity are explained in [VAT Notice 701/19 section 5](#).

Reclaiming VAT on costs for the solar panels

The council does need to consider whether it can reclaim the £2,000 VAT that it incurred on the purchase and installation of the panels. It looks like the electricity will be used to generate electricity for 3 purposes:

- for export to the grid – taxable supply, no right to reclaim VAT (unless the council registers for VAT)
- for the council's own predominantly non-business use – offices and storage facilities
- for the room that is hired out, and for use by tenants of the 2 leased premises – VAT-exempt

This means that the council should apportion the £2,000 VAT to reflect the 3 uses. Most of the VAT is recoverable, because it relates to the council's own non-business use. A small amount of the VAT will relate to taxable business use – this will not be recoverable. Another sum will relate to the exempt uses. Exempt use could be estimated on a floor-area basis (or other fair and reasonable basis).

Councils can reclaim VAT relating to exempt business activities so long as the total of such VAT is 'insignificant' – i.e. under £7,500 per year (this is not a cap, if the threshold is exceeded none of the exempt-related VAT can be reclaimed).

The VAT on the solar panels is clearly under this threshold, but it will not be the only exempt-related VAT that the council incurs. There is exempt-related VAT in the running costs of the Town Hall, and possibly also on other council properties (e.g. a community centre or other leases). Detailed rules for managing VAT on exempt activities are at [VAT Notice 749 section 7 and 8](#).

We don't know what percentage of the electricity generated will be exported to the grid, but as an example if 1% of the electricity was exported, that would mean that £20 of VAT (1% of £2,000) would relate to a taxable business activity and not be reclaimable.

Should you need further VAT advice, we do offer a direct service to individual councils for an annual fee starting from £220.

Regards