

2002 No. 1100

VALUE ADDED TAX

The Value Added Tax (Reduced Rate) Order 2002

Made - - - - - *17th April 2002*
Laid before the House of Commons *17th April 2002*
Coming into force - - - - - *1st June 2002*

The Treasury, in exercise of the powers conferred on them by section 29A of the Value Added Tax Act 1994(a) and of all other powers enabling them in that behalf, hereby make the following Order:

1. This Order may be cited as the Value Added Tax (Reduced Rate) Order 2002 and comes into force on 1st June 2002.

2. Schedule 7A to the Value Added Tax Act 1994(b) is amended in accordance with the following provisions of this Order.

3. In Group 3—

(a) after item 8 insert—

“8A. Supplies to a qualifying person of services of installing, maintaining or repairing a renewable source heating system in the qualifying person’s sole or main residence.

8B. Supplies of goods made to a qualifying person by a person installing, maintaining or repairing a renewable source heating system in the qualifying person’s sole or main residence, being goods whose installation is necessary for the installation, maintenance or repair of the system.”;

(b) in paragraph 1 (1) of the Notes for “items 1 to 7, 9 and 10” substitute “items 1 to 7 and 8A to 10”;

(c) in paragraph 4(d) of the Notes for “foam-insulated” substitute “factory-insulated”;
and

(d) after paragraph 4 of the Notes insert—

“Meaning of “central heating system”

4A For the purposes of items 5 to 8 “central heating system” includes a system which generates electricity.

Meaning of “renewable source heating system”

4B For the purposes of items 8A and 8B “renewable source heating system” means a space or water heating system which uses energy from—

(a) renewable sources, including solar, wind and hydroelectric power, or

(b) near renewable resources, including ground and air heat.”.

(a) 1994 c. 23; section 29A was inserted by section 99(4) of the Finance Act 2001 (c. 9).

(b) Schedule 7A was inserted by section 99(5) of, and Schedule 31 to, the Finance Act 2001. Schedule 7A applies in place of Schedule A1 in relation to supplies made, and acquisitions and importations taking place, on or after 1 November 2001.

4. In Group 6—
 - (a) in paragraph 4(2) of the Notes—
 - (i) at the end of paragraph (a) omit “and”, and
 - (ii) after paragraph (a) insert—

“(aa) that is not to any extent used for a relevant residential purpose, and”;
 - (b) for paragraph 5(2)(a) of the Notes substitute—

“(a) before the conversion the premises being converted do not contain any multiple occupancy dwellings,”;
 - (c) in paragraph 7 of the Notes—
 - (i) for sub-paragraph (2) substitute—

“(2) The first condition is that—

 - (a) the use to which the premises being converted were last put before the conversion was not to any extent use for a relevant residential purpose, and
 - (b) those premises are intended to be used solely for a relevant residential purpose after the conversion.”;
 - (ii) omit sub-paragraphs (3), (4) and (5), and
 - (iii) in sub-paragraph (6)—
 - (a) for “fourth” substitute “second”, and
 - (b) after “relevant residential purpose” insert “for which the premises are intended to be used”.
5. In Group 7—
 - (a) change the title of the Group to “RESIDENTIAL RENOVATIONS AND ALTERATIONS”;
 - (b) in each of items 1 and 2 for “a single household dwelling” substitute “qualifying residential premises”;
 - (c) in paragraph (b) of item 2 for “the dwelling concerned or its immediate site” substitute “the premises concerned or their immediate site”;
 - (d) for paragraph 2 of the Notes, substitute—

“Meaning of “alteration” and “qualifying residential premises”

 - 2 (1) For the purposes of this Group—

“alteration” includes extension;

“qualifying residential premises” means—

 - (a) a single household dwelling,
 - (b) a multiple occupancy dwelling, or
 - (c) a building, or part of a building, which, when it was last lived in, was used for a relevant residential purpose.
 - (2) Where a building, when it was last lived in, formed part of a relevant residential unit then, to the extent that it would not be so regarded otherwise, the building shall be treated as having been used for a relevant residential purpose.
 - (3) A building forms part of a relevant residential unit at any time when—
 - (a) it is one of a number of buildings on the same site, and
 - (b) the buildings are used together as a unit for a relevant residential purpose.
 - (4) The following expressions have the same meaning in this Group as they have in Group 6—

“multiple occupancy dwelling” (paragraph 4(2) of the Notes to that Group);

“single household dwelling” (paragraph 4(1) of the Notes);

“use for a relevant residential purpose” (paragraph 6 of the Notes).”;
 - (e) in paragraph 3 of the Notes—
 - (i) in the heading, for “dwelling has” substitute “premises have”,
 - (ii) for sub-paragraph (1) substitute—

“(1) Item 1 or 2 does not apply to a supply unless—

 - (a) the first empty home condition is satisfied, or

- (b) if the premises are a single household dwelling, either of the empty home conditions is satisfied.”,
- (iii) for sub-paragraph (2) substitute
 - “(2) The first “empty home condition” is that neither—
 - (a) the premises concerned, nor
 - (b) where those premises are a building, or part of a building, which, when it was last lived in, formed part of a relevant residential unit, any of the other buildings that formed part of the unit, have been lived in during the period of 3 years ending with the commencement of the relevant works.”, and
 - (iv) in sub-paragraph (4)(b) for “the dwelling concerned or its immediate site” substitute “the premises concerned or their immediate site”;
- (f) after paragraph 3 of the Notes insert—

“Items 1 and 2 apply to related garage works

3A (1) For the purposes of this Group a renovation or alteration of any premises includes any garage works related to the renovation or alteration.

- (2) In this paragraph “garage works” means—
 - (a) the construction of a garage,
 - (b) the conversion of a building, or of a part of a building, that results in a garage, or
 - (c) the renovation or alteration of a garage.
- (3) For the purposes of sub-paragraph (1), garage works are “related” to a renovation or alteration if—
 - (a) they are carried out at the same time as the renovation or alteration of the premises concerned, and
 - (b) the garage is intended to be occupied with the premises.”;
- (g) after paragraph 4 of the Notes insert—

“Items 1 and 2 only apply if building used for relevant residential purpose is subsequently used solely for that purpose

4A (1) Item 1 or 2 does not apply to a supply if the premises in question are a building, or part of a building, which, when it was last lived in, was used for a relevant residential purpose unless—

- (a) the building or part is intended to be used solely for such a purpose after the renovation or alteration, and
- (b) before the supply is made the person to whom it is made has given to the person making it a certificate stating that intention.
- (2) Where a number of buildings on the same site are—
 - (a) renovated or altered at the same time, and
 - (b) intended to be used together as a unit solely for a relevant residential purpose, then each of those buildings, to the extent that it would not be so regarded otherwise, shall be treated as intended for use solely for a relevant residential purpose.”;
- (h) in paragraph 5 of the Notes for “dwelling” substitute “premises” in each place where that word occurs.

Tony McNulty
Anne McGuire
 Two of the Lord’s Commissioners of
 Her Majesty’s Treasury

17th April 2002

EXPLANATORY NOTE

(This note is not part of the Order)

This Order, which comes into force on 1 June 2002, amends Groups 3, 6 and 7 of Schedule 7A to the Value Added Tax Act 1994. This Schedule contains the Groups of supplies that are subject to the reduced rate of VAT of 5%.

Article 3 of the Order amends Group 3 of Schedule 7A (grant-funded installation of heating equipment or security goods or connection of gas supply). Item 8A is added to the group to extend the reduced rate to the installation, maintenance or repair of renewable source heating systems. New item 8B extends the reduced rate to any goods supplied by the person installing, maintaining or repairing such a system.

The installation etc. must be in the home of a qualifying person (as defined in paragraph 6 of the Notes to the Group), which includes both persons aged 60 or over and those receiving certain types of benefit. In addition, the amendment to paragraph 1(1) of the Notes to the Group ensures that, as with practically all other types of supply described in the Group, these new goods and services only qualify for the reduced rate to the extent that they are funded by a relevant grant.

Paragraph 4(d) of the Notes is amended to substitute “factory-insulated hot water tanks” for “foam-insulated hot water tanks”, thereby extending the reduced rate to tanks insulated using substances other than foam.

A new paragraph 4A of the Notes extends the definition of “central heating systems” to include those systems that generate electricity as well as heat, such as micro combined heat and power systems.

A new paragraph 4B of the Notes defines the meaning of “renewable source heating systems”, the expression used in new items 8A and 8B, as a space or water heating system that uses energy from either renewable sources or near renewable resources.

Article 4 of the Order amends Group 6 (residential conversions). Paragraph 5 of the Notes to Group 6 is amended to provide reduced-rating for the conversion of any building (or part of a building) into a “multiple occupancy dwelling”, whereas the existing reduced rate is available only if the original building contained one or more “single household dwellings” (both these expressions are defined in paragraph 4 of the Notes). It is a condition that there are no multiple occupancy dwellings in the original building.

Paragraph 4 of the Notes is also amended. This makes clear that a building used for a “relevant residential purpose” is not a multiple occupancy dwelling (paragraph 6 of the Notes lists the homes and other institutions and accommodation that are used for a relevant residential purpose).

Paragraph 7 of the Notes to Group 6 is also amended so as to provide for the reduced rate to apply to conversions of any buildings to buildings to be used solely for a relevant residential purpose, whereas currently the reduced rate requires that the original building contain one or more dwellings.

Article 5 of the Order amends Group 7 (renovations and alterations of dwellings). The amendments to items 1 and 2 and paragraph 2 of the Notes to the Group extend the reduced rate to renovations and alterations of multiple occupancy dwellings and buildings used for a relevant residential purpose, and not just the single household dwellings covered by the current provisions. All three types of building are collectively termed “qualifying residential premises”.

The amended paragraph 3 of the Notes applies what is termed the first empty home condition (the building must not have been lived in for the 3 years prior to the renovation or alteration) to multiple occupancy dwellings and buildings used for a relevant residential purpose too. There is a special rule for buildings that are only a part of a unit used for a relevant residential purpose that requires the whole unit to have been empty for 3 years. The second empty home condition (which allows the person acquiring the building to live in it while the works are carried out) continues to apply only to single household dwellings.

A new paragraph 3A of the Notes extends the reduced rate to renovations and alterations of garages, and to certain works that result in a garage, where the garage is to be used with the renovated or altered qualifying residential premises.

A new paragraph 4A confirms that the reduced rate only applies to the renovation or alteration of a building which was used for a relevant residential purpose when it is intended to be used solely for that purpose and a certificate confirming that intention is issued.

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