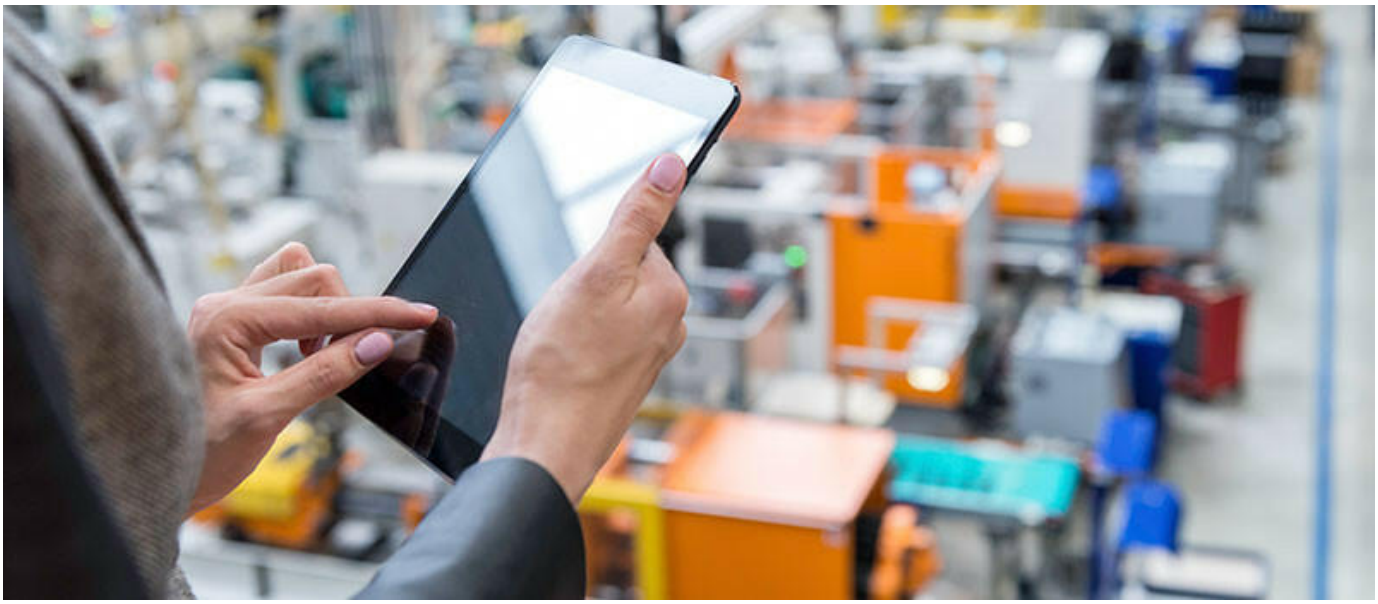
Net zero initiatives: carbon credits and VAT

Indirect Tax | Environmental



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The CIOT and ATT continue to consider the tax issues arising from the developing markets in innovative net zero projects.

Following on from our March 2023 article, ‘Tax and the Woodland and Peatland Codes’ (tinyurl.com/54rdynd5) in which the ATT’s Natural Capital Working Group mentioned that it would set up further sub-groups, CIOT representatives and other stakeholders attended the inaugural meeting of the VAT sub-group to discuss particular complexities experienced when providing VAT advice on Woodland and Peatland Code projects. These projects allow landowners who plant trees or restore peatbogs to earn income when the landowner sells carbon credits to third parties.

The sub-group discussed scenarios where VAT complexities arise or are anticipated within biodiversity net gain projects, particularly voluntary carbon credits. Voluntary carbon credits are outside the scope of VAT, as sales of these credits do not meet the conditions to be ‘consumption’ envisaged by the VAT system. The voluntary

market is so-called because these carbon credits arrangements operate outside of the regulated compliance carbon credits market and cannot currently be used to meet greenhouse gas emissions targets.

HMRC's guidance on carbon credits is in the VAT manuals at VATSC06580 (tinyurl.com/4etjcwwn), with voluntary carbon credits, also referred to as 'VERs' in HMRC's guidance (meaning either Voluntary or Verified Emission Reductions), covered in VATSC06583 and VATSC06584.

Although the position that the credits are outside the scope of VAT appears clear enough, we discussed that advisers are seeing landowners getting involved in more complicated arrangements, where there may be multiple parties involved in a site simultaneously used for both leasing and biodiversity investment, and with multiple parties in the contractual arrangements. The sub-group would like to ensure that taxpayers have clarity on the VAT treatment for all of the supplies in more complex arrangements, particularly if one party may have other obligations as part of the arrangements, for example, a local authority.

We also discussed the possible impact on input VAT of the receipt of non-business income from voluntary carbon credits in the light of Revenue & Customs Brief 10/22 (tinyurl.com/v9evjbwu). To date, stakeholders were not aware this has been an issue for straightforward projects, though we would like clarity for more complex arrangements.

The group will raise these issues within its current engagement with the Natural Capital Working Group and other HMRC engagement.

If members are experiencing VAT or other tax uncertainties involving natural capital projects, and the position is not clear from HMRC's guidance, we can raise these examples with HMRC via the Natural Capital forums. Please contact technical@ciot.org.uk or atttechnical@att.org.uk.

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