

VAT TREATMENT OF CARBON CREDITS

HMRC has now published 'Revenue and Customs Brief 7 (2024)', which sets out the position on the VAT treatment of transactions involving voluntary carbon credits on or after 1 September 2024. This means that landowners who create and sell carbon credits after this date will have to account for VAT at the standard rate.

HMRC has yet to update its VAT manual to provide more detailed guidance, and clarity is needed on whether carbon credits for this purpose include selling pending issuance units.

"Pending issuance units" (PIUs) are issued to landowners shortly after planting trees or restoration work has been approved and can be sold as soon as they are issued. The sale of a PIU represents a promise by the landowner to deliver to the buyer in due course a WCU (Woodland Carbon Unit) based on predicted growth. It is not "guaranteed" and cannot be used to report against UK based emissions until it is verified and becomes a WCU.

Any farmer entering into an agreement for the sale of carbon credits or pending issuance units should ensure it includes a contract term on VAT. This is because failure to specifically state that VAT is to be paid in addition to the agreed sum for the carbon credits will mean that the price is deemed to be inclusive of VAT. Consequently, where carbon credits are sold by a VAT-registered business, that business will have to account to HMRC for 20% of the sum received as output tax.

While the clarification that carbon credits fall within the scope of VAT is helpful, similar clarity is required for other natural capital units, including those relating to Biodiversity Net Gain and nutrient neutrality.

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