# UK considers cutting VAT on energy bills amid cost-of-living and green transition debates



The UK government is reportedly considering a cut to the 5% VAT rate on domestic energy bills as part of efforts to tackle the ongoing cost-of-living crisis. Ed Miliband, the energy secretary, indicated the possibility of scrapping the VAT in the lead-up to the Chancellor’s November Budget, acknowledging the critical affordability challenges facing households. Speaking on BBC’s "Sunday with Laura Kuenssberg," Miliband emphasised the need to address energy bills through transitioning to clean, domestically controlled power rather than relying on fossil fuels, which contribute to high costs and geopolitical vulnerabilities. While withholding firm commitments until the Budget is unveiled, Miliband affirmed the government’s awareness of the difficult fiscal circumstances it faces and said all options were under consideration.

According to estimates from the charity Nesta, eliminating VAT on energy bills could save the average household around £86 annually, but the policy would cost the government approximately £2.5 billion each year. This potential fiscal impact has to be balanced against rising household bills, which remain elevated despite recent reductions in wholesale energy prices. Ofgem, the energy regulator, last month confirmed a modest 2% rise in the energy price cap, pushing average annual household costs to £1,755. However, Ofgem has also announced a 7% reduction in the price cap effective July, lowering average bills to £1,568—though experts warn this relief might be temporary due to increasing wholesale gas prices.

The conversation around energy costs also touches on the role of regulatory levies, known as policy costs, which finance environmental and social schemes such as subsidies for renewables. These levies currently make up about 16% of an electricity bill and 6% of a gas bill. There is debate over whether such costs should remain on energy bills or be shifted to general taxation to ease the burden on consumers. Miliband acknowledged these considerations, stressing the government’s need for a balance between investment in ageing infrastructure and public expenditure versus levies, given the challenging fiscal environment.

Labour has pledged to cut average household energy bills by £300 by 2030 through expanding the use of renewables such as wind, solar, nuclear power, and decarbonised gas with carbon capture technology. This approach reflects a strategic commitment to hitting net-zero emissions targets while addressing the affordability crisis. Nonetheless, the energy cost debate remains politically charged. Conservative voices and Reform UK argue that net-zero policies and green levies exacerbate bills, advocating for the repeal of the Climate Change Act and a roll-back of carbon taxes and renewable subsidies. Shadow energy secretary Claire Coutinho has promised a 20% cut in electricity bills under Labour’s plans but cautioned against the economic risks of job losses abroad and higher bills due to climate policies.

Meanwhile, the Green Party promotes nationalising energy companies to reduce costs and proposes a new carbon emissions tax to support green investments, arguing such measures are vital for tackling climate change despite concerns about costs being passed to consumers. This diversity of perspectives underscores the complexities governments face in balancing affordability, environmental goals, and energy security.

On a related front, the UK government is expanding VAT relief on energy-saving materials from February 2024 to stimulate the uptake of energy efficiency measures, aligning with its broader net-zero commitments. Additionally, Ofgem has mandated that by January 2026, energy suppliers offer tariffs with lower standing charges—fixed daily fees independent of usage. While this adjustment may give consumers more tariff choices, Ofgem warns it will unlikely reduce total bills because of potential compensatory increases in per-unit prices.

Consumer preferences also reveal interesting dynamics; a prominent poll by MoneySavingExpert.com found that many consumers would rather see reductions in standing charges than cuts to the VAT on energy bills, suggesting a desire for more targeted financial relief in energy pricing structures.

Overall, while the government weighs multiple interventions—from VAT cuts to subsidy reforms and price cap adjustments—the energy affordability crisis remains a fiercely contested issue, intersecting economic, environmental, and political considerations at a pivotal moment for UK energy policy.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss)
* Paragraph 2 – [[1]](https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss), [[4]](https://www.reuters.com/business/energy/millions-britons-pay-lower-energy-bills-after-7-price-cap-cut-2024-05-24/)
* Paragraph 3 – [[1]](https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss)
* Paragraph 4 – [[2]](https://www.standard.co.uk/news/politics/lower-energy-prices-bills-electricity-gas-cop29-ed-miliband-b1193470.html), [[1]](https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss)
* Paragraph 5 – [[1]](https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss)
* Paragraph 6 – [[3]](https://www.gov.uk/government/publications/vat-energy-saving-materials-relief/extension-of-vat-energy-saving-materials-relief), [[5]](https://www.reuters.com/sustainability/boards-policy-regulation/uk-energy-regulator-ofgem-enforce-lower-standing-charges-2025-09-23/), [[7]](https://www.moneysavingexpert.com/news/2025/09/standing-charges-martin-lewis-poll/)
* Paragraph 7 – [[6]](https://www.reuters.com/business/energy/uk-regulator-proposes-reforms-household-energy-debts-hit-5-billion-2024-12-12/), [[7]](https://www.moneysavingexpert.com/news/2025/09/standing-charges-martin-lewis-poll/)

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## Bibliography

1. <https://www.bbc.com/news/articles/cdjrg4vylzko?at_medium=RSS&at_campaign=rss> - Please view link - unable to able to access data
2. <https://www.standard.co.uk/news/politics/lower-energy-prices-bills-electricity-gas-cop29-ed-miliband-b1193470.html> - Ed Miliband, the UK's Net Zero Secretary, has pledged to reduce average household energy bills by £300 by 2030. This commitment aims to make energy more affordable as the country transitions to a greener economy. Miliband emphasized that wind and solar farms, along with other renewable sources, will be central to this strategy, alongside nuclear power and decarbonised gas with carbon capture technology. The initiative reflects the government's dedication to achieving net-zero emissions while addressing the cost-of-living crisis.
3. <https://www.gov.uk/government/publications/vat-energy-saving-materials-relief/extension-of-vat-energy-saving-materials-relief> - The UK government has extended VAT relief on energy-saving materials (ESMs) to encourage their installation and improve energy efficiency. Effective from 1 February 2024, this measure aims to support the transition to a low-carbon economy by reducing the cost of ESMs for consumers. The policy is part of the government's broader strategy to meet its legally binding commitment to reach net-zero greenhouse gas emissions by 2050, enhancing energy efficiency across residential and commercial sectors.
4. <https://www.reuters.com/business/energy/millions-britons-pay-lower-energy-bills-after-7-price-cap-cut-2024-05-24/> - Britain's energy regulator, Ofgem, has announced a 7% reduction in the domestic energy price cap, lowering average annual household energy bills to £1,568 from £1,690, starting in July. This decrease is attributed to falling wholesale energy prices and is expected to contribute to reducing inflation. However, analysts caution that this reduction might be short-lived, with expectations that the price cap could rise again in October due to a 30% increase in British gas wholesale prices since April.
5. <https://www.reuters.com/sustainability/boards-policy-regulation/uk-energy-regulator-ofgem-enforce-lower-standing-charges-2025-09-23/> - Britain's energy regulator, Ofgem, has mandated that by the end of January 2026, all major energy suppliers must offer tariffs with lower standing charges. Standing charges are fixed daily fees added to energy bills to cover connection costs, regardless of consumption. While this change aims to provide consumers with more tariff options, Ofgem noted that it is unlikely to reduce overall energy bills, as any reduction in standing charges may be offset by higher unit prices.
6. <https://www.reuters.com/business/energy/uk-regulator-proposes-reforms-household-energy-debts-hit-5-billion-2024-12-12/> - Britain's energy regulator, Ofgem, has proposed reforms to support customers burdened by rising household energy debts, which have reached nearly £4 billion. These reforms include requiring energy suppliers to offer tariffs free of standing charges, a daily fixed fee paid regardless of energy consumption. Despite a price cap that lowered energy bills post the 2022 Ukraine invasion, costs remain 40% higher than pre-crisis levels and unaffordable for many vulnerable households.
7. <https://www.moneysavingexpert.com/news/2025/09/standing-charges-martin-lewis-poll/> - A poll conducted by MoneySavingExpert.com founder Martin Lewis revealed that, instead of cutting the 5% VAT on energy bills, consumers would prefer the funds generated from this tax to be used to reduce energy standing charges. The poll, which gathered over 63,000 responses, showed that five times as many people favoured cutting £320 a year from standing charges over reducing VAT. This reflects a desire for more equitable distribution of energy cost reductions.