



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dame Meg Hillier MP
Chair of the Treasury Committee
House of Commons
Palace of Westminster
London
SW1A 0AA

21 July 2026

Dear Dame Meg,

Cutting VAT on electricity bills to give breathing space on cost of living

It was a privilege to be asked to serve as Chancellor of the Exchequer yesterday, and I look forward to working with you and the Committee as the Government enacts its new economic agenda.

I will always want you to be informed regarding important economic decisions, so I am writing to inform the Committee that the Government is taking immediate action to cut VAT on electricity bills, giving millions of households breathing space on the cost of living.

Domestic electricity is currently subject to the reduced rate of VAT (5%). From October 1, in time to impact the next Ofgem price cap, a zero VAT rate (0%) will apply instead, supporting households with cost-of-living pressures and helping to keep inflation down. This will be implemented via a Statutory Instrument laid when Parliament returns.

The Northern Ireland Executive will receive comparable funding to enable it to support households in Northern Ireland with the cost of living.

This measure is estimated to cost around £850m in 2026/27, and this cost is funded from the cancellation of the Digital ID programme, which was expected to cost £1.8bn over three years. Any further action, including on funding for longer-term measures, will be taken at the Budget alongside an OBR forecast. All decisions will be funded and consistent with the government's fiscal rules.

Sincerely,

RT HON JOHN HEALEY MP
Chancellor of the Exchequer

Look forward to seeing you tomorrow