

# Tax briefing note

## Electricity generator levy

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June 2025

### What is it?

The electricity generator levy is a temporary 45 per cent levy on the exceptional profits of electricity generated from nuclear, renewable, biomass and energy from waste sources and sold at a price above a benchmark price of £77.94/MWh in 2024-25, which is updated by the consumer prices index measure of inflation.<sup>1</sup> The levy does not apply where under a contract for difference (CFD) with the Low Carbon Contracts Company Ltd.

It came into force on 1 January 2023, is scheduled to expire on 31 March 2028 and does not apply to generation from sources which received commercial approval on or after 22 November 2022.<sup>2</sup> There is an annual exceptional revenue allowance of £10 million and the charge does not apply to companies or groups which produce less than 50GWh a year.

### What's the problem with it?

Similarly to the energy profits levy on oil and gas, the electricity generator levy (on electricity generated from non-oil and gas sources) was also supposed to be a windfall tax justified by the unexpectedly beneficial impact of high energy prices resulting from the war in Ukraine. Apart from the merits of the tax itself, extensions to the expiry date diminish the credibility of temporary taxes. Why invest now to take advantage of high prices in a few years if a temporary tax that will supposedly expire by then might in fact be extended to capture the potential profits motivating your investment?

When evaluating an investment proposal companies model a range of scenarios. In the case of electricity generation wholesale prices form an important component of this. The possibility of financial upside from high prices is factored in to assessments as well as the risk of losses from low prices. If governments gain a reputation for imposing windfall taxes on profits when prices are unexpectedly high then investment modelling assessments will adjust the upside potential accordingly, with the ultimate consequence being fewer investments being viable.

The previous government recognised this problem and exempted new projects since 22 November 2023 but the principle still applies more broadly, across the whole economy, not just in energy. Firms will have to assume that they will not be allowed to fully benefit from unexpected price spikes and will have to discount these potential upsides accordingly in their viability calculations.

### What should be done?

Scrap the levy on 31 December 2025, along with the energy profits levy, and commit to not imposing any windfall taxes again. At the minimum, commit to no increases in the rate or extensions of the 31 March 2028 expiry date.

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<sup>1</sup> HM Revenue & Customs, Annex A: rates and allowances, 11 November 2024, [www.gov.uk/government/publications/autumn-budget-2024-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances#business-and-financial-services](http://www.gov.uk/government/publications/autumn-budget-2024-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances#business-and-financial-services) (accessed 12 May 2025).

<sup>2</sup> HM Revenue & Customs, Electricity Generator Levy: new investment exemption, 18 December 2023, [www.gov.uk/government/publications/introduction-of-a-new-investment-exemption-for-the-electricity-generator-levy/electricity-generator-levy-new-investment-exemption](http://www.gov.uk/government/publications/introduction-of-a-new-investment-exemption-for-the-electricity-generator-levy/electricity-generator-levy-new-investment-exemption) (accessed 12 May 2025).