



# Direct Mail faces new VAT threat

The BPIF joins forces with other trade bodies to seek VAT clarification

**T**rade bodies representing the printing, marketing and advertising sectors have come together to make a joint submission to HM Revenue & Customs to clarify the VAT position for companies supplying printed matter for marketing purposes, such as direct mail and mail inserts.

A letter to HMRC signed by our CEO Michael Johnson, the IPA (Institute of Practitioners in Advertising) Director General Hamish Pringle, and the DMA (Direct Marketing Association) Chairman Scott Logie, calls for any service to supply printed mail inserts and direct mail by a given supplier to be treated as a 'single supply', with all elements associated with production and fulfillment eligible for VAT zero-rating. In addition to printing, this would include design, data processing, finishing and distribution.

## Amending the Act

The joint letter was sent in response to draft legislation published on 9 December to counter what HM Revenue and Customs describes as "VAT avoidance" relating to the supply of services "where arrangements have been made for the supply of printed matter that is ancillary to those services to be made by a different supplier". The VAT Act is

to be amended to withdraw zero rating from printed matter where it is "ancillary to a differently rated service, and where, if the service and printed matter had been supplied by a single company, the printed matter would not have been zero-rated". The legislation will come into force through the Finance Bill, due for publication on 31 March.

## Clarification needed

The publication of draft legislation on VAT supply-splitting follows recent visits by VAT inspectors to partly exempt taxpayers who purchase zero-rated printed matter. HMRC have issued rulings to the ad agencies, direct marketing organisations and printers who supply these companies stating that the products supplied are actually wholly or partly-rated (as a supply of advertising, rather than a supply of zero-rated printed matter). They have also issued assessments for under-declared VAT (going back up to four years) plus default interest and penalties. The usual practice, accepted in routine VAT inspections to date, has been to deem the supply of advertising leaflets and associated delivery a single supply of zero-rated printed matter; however, this has recently been challenged by the HMRC's VAT Anti-Avoidance

Group on a case-by-case basis and reinterpreted in a way that standard rate VAT has been assessed for all or part of the supply.

The joint submission seeks to address this through clarification in the Finance Bill. It also offers the support of the three trade bodies in drafting the legislation and in formulating guidance notes to help suppliers and inspectors interpret it fairly and consistently.

This proposed change in legislation provides us with an opportunity to tackle confusion that has followed in the wake of a shift in interpretations by HMRC. The basis for this has not been made clear to us and is not explicit in law. It has resulted in a disparity in tax treatment for supplying companies, and it is vital that this confusion is cleared up. We need to ensure that all companies supplying printed marketing materials are treated consistently and fairly and benefit from the full VAT exemptions to which they are legally entitled. In particular, we need to stem the threat of any unfair and financially crippling back assessments.

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