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TO ALL MEMBERS OF THE LEADER'S CONSULTATIVE COMMITTEE

The enclosed paper on VAT and the Arts will be discussed
at the Leader's Consultative Committee on Wednesday 9th April
in addition to the items on the Agenda.

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VAT AND THE ARTS

Conservative commitments at the last election: The October election manifesto contained no commitment on the subject of VAT and the arts. However a pamphlet "The Conservatives and the Arts" published by Central Office in September 1974 and written by Ernie Money, adopted the following agreed standpoint :-

"Whilst maintaining the basic principle that Value Added Tax should be, as far as possible, an across-the-board tax, it is clear that the Arts, particularly in view of the extent to which they must rely on and be bound up with State support and that they suffer from severe uncertainty with regard to their financial future in an inflationary situation, stand in a peculiar position. Exemption of the work of living creative artists, writers and musicians, the theatre, concert tickets and public museum acquisitions, from VAT would be in line with recent initiatives taken by the Commission and the Parliament of the EEC.

In the present economic situation a Conservative Government could not give an unqualified undertaking immediately to relieve the Arts of the burden of VAT. However, the European Commission is proposing the relief of the Arts from VAT and similar taxes. We will support the proposal when it is considered by the Community, and a Conservative Government will implement it as soon as it becomes Community policy".

Conservative Statements since the election : In a speech on February 10 Mr. Norman St. John-Stevas, Shadow Spokesman for Education, said :

"I urge the Under-Secretary to secure from his colleagues in the Government the exemption of the living artist, the theatre, the opera and the concert hall, from the effect of VAT. I should be content to see films exempt from VAT as well".

Cost to the Exchequer of zero-rating:

Theatre tickets - zero rating would cost 1 the region of £3.5 million a year.

Concerts and opera - estimates are difficult in view of the fact that the amount of VAT payable varies greatly according to the administrative arrangements involved. However, it appears that the Royal Opera paid £153,330 in VAT in 1973/4, equivalent to 3.5 per cent of total income. In the case of the Royal Festival Hall, the VAT is paid by concert promoters if they have a turnover of £3,000 or over. No overall estimate of VAT payable on concert tickets is available but the following can be noted :

- (1) The London Concert Board, with responsibility for the four London orchestras, estimates that in 1973/4 £51,000 VAT was paid on the 120-130 concerts under its auspices.

(11) The Royal Festival Hall paid only £12,300 in VAT in 1973/4.

Cinemas - the VAT liability in 1973/4 amounted to £5.9 million.

In addition to the theatre, opera, concert hall and cinema mentioned by Mr. Norman St. John-Stevias above, the suggestion has been made that zero-rating should also apply to the following :

- Visits to historic houses - no exact estimate is possible. However if one assumes 50 million visits per annum with VAT at 2 p on the entrance charge, the amount of VAT paid could be of the order of £1 million.
- The acting profession - VAT is paid on agent's fees. No estimate of the cost to the Exchequer of zero-rating is available.
- Museum acquisitions and modern art - no estimate available.
- Improvement to historic buildings - no estimate available.

Sporting Activities

The case is being made that sporting activities should be zero-rated - and this would certainly be pressed more substantially were relief given to the arts. Regarding the existing VAT burden in this sphere, the following information is available :

- ticket sales of professional and amateur sports other than professional football - £1 million a year ;
- sports goods (including toys and games) - £2 million a year;
- the total cost of relieving professional football of VAT would probably be about £2 million a year.

Arguments against special treatment for the Arts:

The pros and cons of VAT zero-rating on theatre, concerts and opera were debated in the House of Commons on 11 May 1972 during the passage of the 1972/3 Finance Bill. On that occasion Mr. Anthony Barber, as he then was, advanced essentially two arguments against special relief;

Fairness - it would be unfair to the great mass of British people, who take their entertainment and relaxation in a variety of ways, to ask them in effect to subsidise one particular section of entertainment by providing relief from VAT.

It was necessary to draw the line somewhere - if zero-rating were accorded to the arts, other similar groups in society would want relief for goods and services in which they had a particular interest and the broad base of VAT, which is one of its main advantages, would be seriously eroded. There is little doubt that there are many schemes for special treatment which an extension of zero-rating would awaken (to give just one example - a claim for zero-rating on bicycles is already being made by the British Cycling Bureau on behalf of cyclists).

Arguments in favour of zero-rating:

The following are the main arguments that are advanced in favour of zero-rating the Arts :

- (i) The arts are facing severe financial difficulties at the moment largely as a result of inflationary cost increases.
- (ii) Some valuable relief could be given at a small cost to the Exchequer.
- (iii) The contribution which London theatres, in particular, make to our invisible earnings through their attractiveness to tourists is considerable. Yet many theatres are on the verge of insolvency.
- (iv) The zero-rating of the living Arts could be seen as a natural corollary to zero-rating books.

Regarding the escalating costs in the art world the following can be noted :

- (1) In the Arts Council annual report for 1973/4 Lord Gibson observed that "without allowing for further inflation it will cost at least £25 million in 1975/6 to keep going the activities sustained in 1974/5 at £19.525 million". These estimates were made for September 1974.
- (2) The Royal Shakespeare Company has established that over the past 12 months actors' salaries have on average increased by nearly 28 per cent and the pay of technical staff has increased by nearly as much. Material costs have also increased alarmingly. The Royal Shakespeare Company has estimated that over the past 12 months the cost of paint has increased by 41 per cent, timber by over 100 per cent, felt by 223 per cent and fibreglass by 500 per cent.

EEC Practice

There is a good deal of diversity in the practice of EEC states regarding both the extent and the scope of special treatment. The following concentrates on the position of theatres in EEC countries :

In Belgium the commercial theatre is subject to 6 per cent VAT plus local taxes. However there is exemption for certain theatres which are recognised by the Ministry of Education and Culture as having a special status.

In France a reduced rate of 7 per cent VAT applies to all types of theatre.

In Germany there is exemption for what are called "State and Community theatres" as well as for other theatres which can prove that they are providing some sort of "cultural" activity. Other commercial theatres are taxed at a reduced VAT rate of 5 per cent.

In the Netherlands theatres are subject to a special reduced tariff of 4 per cent (recently extended for a further three years) compared with the country's main tariff of 16 per cent.

In Italy the VAT rate on the arts is 6 per cent.

In Luxembourg a reduced rate of 5 per cent applies, compared with a standard tariff of 10 per cent.

In the Irish Republic with a standard rate of 19.5 per cent, VAT on the theatre is levied at the rate of 6.75 per cent.

In Denmark there is no special treatment for theatre or other arts and the VAT rate is 15 per cent.

The EEC Commission's draft sixth Directive

The long-term objective of harmonising the coverage of VAT and has been endorsed by the EEC Council. To further this end the EEC Commission last year submitted a draft Directive, which it subsequently amended. Under this proposal exemption is envisaged "for certain activities in the public interest" including the following :

"The supply of services by theatres, cinema clubs, concert halls, museums, libraries, public parks, botanical or zoological gardens, educational exhibitions and operations, other than those of radio and television organisations, within the framework of activities in the public interest of a social, cultural or educational nature and carried on by:

- (i) bodies governed by public law, or
- (ii) non-profit making organisations, or
- (iii) private charitable organisations".

(Amended article 14 of the draft)

From the above it would seem that whereas the EEC Commission is proposing relief across a wide range of cultural and educational activities (though not sport), the type of bodies that would be eligible for this relief is limited and would seem not to include for example, commercial theatres and cinemas. In the legal language of the Community "bodies governed by public law" are in effect public authorities of one sort or another, e.g. local authorities.