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CCPC (2)

Prime Minister

CDP

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Mr Powell (10 Downing Street)

European Community: VAT on small and medium sized businesses

The Prime Minister will recall that the United Kingdom sets the VAT threshold for small businesses at turnover of £20500; that the Commission attacked us and set in train the first steps of a challenge in the European Court of Justice on the grounds that this threshold was not consistent with a Community Directive (the 6th) and should be reduced; and that we immediately counter-attacked by hammering the inconsistency with policy on small businesses and deregulation and by demanding an amending directive. We were advised on a number of occasions that this would not be possible (eg because of loss or revenue by other member states) and a relatively simple issue required an inordinate amount of hammering. The Commission has now, however, tabled a formal proposal to set the threshold at a higher level which is consistent with our national rules. The proposal is for a threshold of 35000 ecu turnover (which would be indexed) below which traders may be exempted and for a simplified scheme for traders with turnover below 150000 ecu. We consider that we have a good chance of getting the corrected exemption threshold adopted in our Presidency. This would be useful in itself and would also be helpful in relation to the emphasis on small and medium businesses at the London European Council.

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury), John Turner (Department of Employment) and Sir Robert Armstrong.

D F WILLIAMSON

21 October 1986