

cc PS/MST  
 PS/EST  
 Sir P Middleton  
 Mr Cassell  
 Mr Griffiths  
 Mr Monger  
 Mr Romanski  
 Mr Knox - C&E  
 PS/C&E

Prime Minister ②

Treasury are now giving  
 a much more categorical  
 reply



Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

Sir Henry Plumb  
 Chairman  
 European Democratic Group  
 European Parliament  
 2 Queen Anne's Gate  
 London SW1H 9AA

30 October 1984

*Alan Hunt*

*ms*

Mr Turnbull

Impeccable.

*ms*  
 31/10

Thank you for your letter of 10 October about VAT and foodstuffs.

I have, of course, seen the press speculation to which you refer. I also recall the question of VAT and food arose during the European Election campaign. As you say, the Prime Minister said then that the Government has "no intention of putting VAT on food". This remains the Government's position.

I would just add that there is no question of the European Community forcing the United Kingdom to impose VAT on food. The zero-rating for food is covered by a derogation from the EC Sixth Directive on VAT harmonisation, which could only be withdrawn by a unanimous vote of all Member States, including the United Kingdom.

NIGEL LAWSON

*Nigel Lawson*



HOUSE OF COMMONS  
LONDON SW1A 0AA

The Office of the Leader of  
the Opposition

11 June 1984

*Dear Prime Minister,*

I am writing to you in the hope of obtaining a clear and precise answer to the question of your Government's intentions concerning VAT on food, and other forms of indirect taxation.

Since I and my colleagues raised this issue, we have been met by protestations of innocence which have become increasingly incredible in the light of all the evidence. With the European Parliament elections only three days away, it is now a matter of urgency that the British public should know what your real intentions are.

The issue is quite simple. Britain, almost alone in the Common Market, does not levy VAT on food, children's clothing, books or newspapers. We in the Labour Party intend to keep it that way.

As I am sure you will know, the extension of VAT to food would mean an increase in the weekly food bill of a low-paid family by £4. Abolition of zero-rating on children's clothes, books and newspapers, as well as on food, would increase that family's weekly bills by £6.

Your Government is, however, committed to an increase in indirect taxation. Barney Heyhoe, Minister of State at the Treasury, said recently that 'the indirect tax base will have to be further extended.' In the last Budget, the Chancellor made a start by breaching the convention of successive British Governments and charging VAT on take-away food and on building alterations. In April of this year, William Hopper - Conservative MEP - introduced a

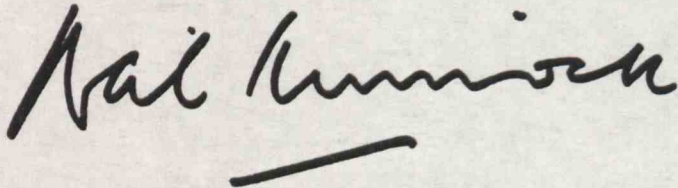
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... 2

report in the European Parliament calling for harmonisation of VAT which would, of course, mean VAT on food.

Will you now make clear to the British people exactly what you mean by your intention to 'extend' the base of indirect taxation? Does this mean the introduction of VAT on food? If not, then does it mean the introduction of VAT on children's clothing, or on books and newspapers, or on new building? If your Government does not intend to introduce VAT on any of these items, then what other extension of the tax base do you have in mind?

Yours sincerely

A handwritten signature in black ink, reading "Neil Kinnock". The signature is written in a cursive style with a long horizontal stroke underneath the name.

Rt Hon Neil Kinnock MP



10-DOWNING STREET  
CHEQUER

From the Private Secretary

17 JUN 1984 11 June 1984

ACTUAL	Mr A. Ridley
CU	MST
TO	Mr MORGAN
	PS/CWE

Dear Judith

I enclose a copy of a letter the Prime Minister has received from the Leader of the Opposition today.

X // I should be grateful if you could let me have, by tomorrow please, a suitable draft reply for the Prime Minister to send to Mr. Kinnock.

*Timothy Flesher*

(Timothy Flesher)

Miss Judith Simpson,  
HM Treasury



10 DOWNING STREET

Mr Turnbull

The Prime Minister,  
having seen the attached  
letter, has agreed that  
at the next meeting with  
the Chancellor, you  
put 'VAT on food' on  
the agenda.

Stephen

26/9.



10 DOWNING STREET

*From the Private Secretary*

4 December, 1984

Dear Mr Bradbury,

The Prime Minister has asked me to thank you for your letter of 8 November about value added tax and food.

The Prime Minister has asked me to say that she made the position clear when she said during the European Election campaign that the Government has no intention of putting VAT on food.

Yours sincerely,

David Barclay

(David Barclay)

J.H.H. Bradbury, Esq.

**“We have no  
intention of  
extending  
V.A.T. to food.”**

The Government, June 12th 1984.

We know they will not break their word.  
Plain biscuits are an important basic  
food, eaten by 95% of all British households.  
1450 million packets are eaten every year.  
460 million of these are bought by pensioners  
and the poorer members of our society.

Extending VAT to such a basic food will hit  
the poor, favour the rich and make thousands  
more unemployed.

Issued by United Biscuits plc.

United Biscuits

Prime Minister  
 you may like to see. The  
 achievements of the Edinburgh Enterprise  
 Trust might be a useful illustration for the  
 1922 Committee.

2  
 SYON LANE  
 ISLEWORTH  
 MIDDLESEX

FERB

11.12.

10 Dec

Dear Robin.

M.T

From this letter Margaret wrote  
 to our industry I know now this  
 advertisement is unnecessary - Thank  
 heaven! As I said I would send it  
 however I do so!

I thought you would be interested in  
 this letter from Jack Macmillan whose  
 seconded to Event. I launched it as  
 chairman of Scottish Business in the  
Community. The response from Scottish  
 companies has been magnificent for  
 our Enterprise Trust movement + we



Should have 25 Trusts next year.

If we are not in touch before ↓

hope you have a very Happy & relaxed  
Christmas + New Year (at least the day!)

Yr  
Hecto.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3AG

*Prime Minister* (2)  
*To note Mr Topling's*  
*formulation*  
*AT 18/9*

18 September 1984

VAT ON FOOD

This Thursday, 20 September, I will be making a major speech to the Food Manufacturers' Federation at their Annual Luncheon. I do not think I could reasonably avoid a reference to the serious concern in the industry in recent months over the uncertainties surrounding the possible extension of VAT to food. I therefore propose to speak on the lines of the attached paragraph, reaffirming that the pledge given by the Prime Minister during the Election to the European Parliament still represents the Government's position.

I feel I must do this because the industry has interpreted letters received from your office in recent months as qualifying, or even rendering nugatory, the Prime Minister's assurance by references to the need in the long run to extend the indirect tax base and the warning/to assume that any part of the tax system is immutable.

[not

While no part of the tax system might be immutable, it is not unreasonable for the food industry, or indeed for the general public, both of whom attach a great deal of importance to retaining food free of VAT, to consider that a pledge given in the context of an election, whether to the UK or the European Parliament, would remain valid during the lifetime of the Government which gave it. I do not see how three months after that Election we can reasonably refuse to confirm that the Government still "have no intention of putting VAT on food". I hope therefore that you will see no objection to my speaking in the terms proposed, notwithstanding the concern expressed by your officials to mine.

I am copying this letter to the Prime Minister.

  
MICHAEL JOPLING

DRAFT PARAGRAPH

VAT ON FOOD

On taxation, I notice that there has been renewed speculation in the industry recently about the prospects of extending VAT to certain foods, particularly in the context of warnings from the Chancellor about the need in the long run to extend the indirect tax base. In a constantly changing world no Chancellor of the Exchequer could be expected to give an undertaking that any part of the tax system will be sacrosanct for all time. For this reason it could be counter-productive to seek to probe too far into the future. You have a public and categorical assurance from the Prime Minister, given in the context of the recent elections to the European Parliament, that the Government "have no intention of putting VAT on food". This remains the Government's position.

Econ Pol: Budget Pt 13.

CONFIDENTIAL

FROM: ADAM RIDLEY  
DATE: 11 June 1984

1. MINISTER OF STATE
2. CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary  
Chief Secretary  
Economic Secretary  
Mr Lord  
Mr Portillo  
Mr Unwin  
Mr R I G Allen  
Mr Culpin  
Mr Folger  
Miss Simpson      Mr Monger  
  
PS/C&E  
Mr Houston, FCO  
Mr Flesher      )  
Mr Sherbourne) No 10

VAT ON FOOD: ROBIN COOK MP'S LETTER TO MR GUMMER OF JUNE  
6TH; AND MR KINNOCK'S LETTER TO THE PM

Since prayers this morning, the position has shifted a little. Mr Kinnock has just written to the PM covering much of the same ground as Robin Cook did in his letter of June 6. This news only reached me when I had already completed a draft for the pen of Mr Gummer. I have not yet had time to amend the letter against the possibility that it should be the PM who is to reply; <sup>as No 10 request</sup> and, to judge from the conversation I have just had with Tim Flesher at No. 10, there is as yet ~~no~~ <sup>considered</sup> decision as to whether it would be better for the PM or Mr Gummer to reply, and if so when.

2. In the meantime I am therefore submitting this rough first draft to expedite consideration of the issue, fully aware that it may well not be what is wanted. The draft itself represents the best I could do in the time available to cover the points raised by the Chancellor and others at this morning's meeting, and to incorporate further advice from Tim Bainbridge (Sir Henry Plumb's assistant) at Central Office, and some useful material about Labour and Conservative voting on tax issues which was included in Central Office's "campaign notes" No. 7 of June 8 (copy attached). If the

draft is to go from Mr Gummer, the present somewhat combative style might be appropriate, though I imagine that some compression and omission of points might seem in order. If the draft is to go from the PM, then a more magisterial tone is needed. In both cases, it will be necessary to reshape somewhat in the light of Mr Kinnock's letter, copy attached, which arrived too late for me to reflect any of his points in my draft.

3. We need to think a bit about the timing of a reply. On the one hand, there is its possible relationship to what the PM may wish to say at question time tomorrow. Clearly there could be advantage in making a reply available to arrive just after PM's questions are over - in which case the PM might simply forward to Mr Kinnock a copy of the letter from Mr Gummer to Robin Cook. On the other hand, there is also the likelihood, if not certainty, that Labour will run the issue yet again at their election press conference on Wednesday morning. If it should be felt that we want to continue to dampen down debate and concern on this issue, there could be a case for holding back a reply for distribution eg. at the Conservative election press conference, which starts just after Labour's finishes.

*Mr Fisher's covering letter to Miss Simpson only calls for a reply "tomorrow". On the other hand a clear decision on handling is obviously needed by lunchtime if the PM is to have a firm*

*AR*

A N RIDLEY

*position for  
question time*

DRAFT LETTER FOR MR GUMMER TO SEND TO ROBIN COOK MP

Thank you for your open letter of June 6th, which I received last Friday. I was glad to hear from it that you, at least, have noted that this Government is not planning to put VAT on food. As the PM and I have made clear in public statements on several occasions, this rumour is poppycock and nonsense.

2. Your letter contained a number of allegations about the attitudes of Labour and Conservative MEPs to this issue which both are misleading and betray a woeful ignorance of the way the European Parliament works. As far as Labour MEPs are concerned, you claim that they have opposed VAT harmonisation in plenary sessions of the Parliament. This is not, however, much to boast about. The real questions are what the Labour group has done in Committee; and in debate with its socialist allies. We are not aware of any occasions when Labour MEPs have mounted any significant resistance to such ideas in Committee. Perhaps more important still, the Labour Party's partners in the Socialist Group in the European Parliament are in favour of of [harmonising the VAT base]. Indeed it was a Socialist Group Report introduced into the European Parliament last November which advocated greater harmonisation of VAT, and initially tried to force through the end of zero-rating. [Charity begins at home, as the old saying goes.] So voters will want to now from you, Mr Kinnock and Mrs Castle what the Labour Group have been up to these last four years, and why you have been so ineffective in educating your allies. And they will also want to know the answer to another question.

To the extent it is pressure from the European Community and Parliament which is the issue, it is not the attitudes and effectiveness of Socialists in the Parliament which are the threat you should be worried about?

3. Your remarks about the position of the Conservative Group are confused and irrelevant for several reasons. The report to the European Parliament of April 1984 for which Will Hopper MEP was the rapporteur and to which you refer was on the problem of non-VAT taxes (excluding) on alcohol and on how to stop the current discrimination in continental tax systems against Scotch whisky. Instead of supporting this report and British interests, Labour opposed it. Second, Conservative MEPs as a group have consistently made clear their view that harmonisation of VAT should not involve the abandonment of zero-rating, and have cited food as an area where it should be preserved. [Third, it is in any case to misunderstand the role of the rapporteur to attribute to him or his group remarks which he may make on behalf of a Committee.]

4. The Government's own position on this is clear, and remains as set out in Barney Hayhoe's letter of May 17th to which you refer. We believe that the indirect tax base will have to be further extended. This is a view which we have stated in public repeatedly, in opposition before 1979, in the 1979 Manifesto and at the time of this Budget. We have no set views about how this should be done. We are well aware of the importance of many of the zero-rated items such as food for families and the less well off. It follows from this



honest and open attitude that we do not commit ourselves to retain the present VAT structure indefinitely. It also follows that <sup>why not</sup> we would be wise to ask you, as a Treasury spokesman, what Labour's plans and policies will mean for higher taxes. They are entitled to an early and straight answer to questions such as these:

- do you still stand by the commitments of your 1983 Manifesto to end the de-rating of agricultural land; to extend VAT to higher education; and to end charitable tax reliefs to private Wealth and Education;

- do you still stand by the spending proposals of that Manifesto, which would have added anywhere between £36bn and £43bn a year to public spending by the end of a Parliament? A sum roughly equivalent to [ the full yield of income tax today].

5. The Labour Party has always been the party of a high and rising taxation, and nothing that has happened since the last election justifies any other view.

VAT ON FOOD

Short on policies, Labour are reduced to smears. Mrs Thatcher has already dismissed the Labour scare that Conservatives would impose VAT on food as 'poppycock' and 'nonsense', both at a Conservative European elections press conference and on the floor of the House of Commons.

When VAT questions have been discussed in the European Parliament, Labour's record is one of extraordinary hypocrisy. It was a Socialist Group report advocating greater harmonisation of VAT which was introduced into the European Parliament last November. This initially tried to force through the abandonment of zero-rating.

Labour also allege that the Conservatives backed a report on VAT harmonisation in Strasbourg in April 1984. This is another smear: there was no such report. What there was, however, was a Conservative report on the whole problem of non-VAT taxes (excise duties) on alcohol and on how to stop the current discrimination in continental tax systems against Scotch whisky. Instead of giving support to this report, which was designed to safeguard and advance British interests, Labour opposed it.

OWN RESOURCES

Labour smear tactics are continuing. In their latest news release they claim that Conservatives 'voted for an unconditional increase in own resources'. This of course is nonsense. British Conservatives have never voted for an unconditional increase in own resources. The Spinelli Report on the Community's own resources (9 April 1981) to which the Socialists are presumably referring, calls for any increase to be made in the context of 'the restructuring of the Community Budget' and the need to control agricultural spending. The Government and Conservative MEPs will only consider an increase in own resources provided that 'there is a final and satisfactory agreement on the new arrangements for effective control of agricultural and other expenditure, and for a fair sharing of the budgetary burden' (Conservative European Manifesto 1984).

Labour cannot have it both ways. Throughout the last five years Labour MEPs have called for huge increases in spending by the Community. Labour's Manifesto also calls for massive increases in public spending. All this would ultimately be paid for by the European taxpayer, and because of the present budgetary imbalance, it would be the UK taxpayer who would end up footing much of the bill.



Chairman  
Sir Henry Plumb, DL, MEP  
LONDON

2 Queen Anne's Gate  
London, SW1H 9AA  
Tel. (01)222 1720  
(01)222 1729  
Telex 917650 EDGLDN

PRIVATE AND CONFIDENTIAL

10th October, 1984

The Rt. Hon. Nigel Lawson, MP  
Chancellor of the Exchequer,  
HM Treasury,  
Parliament Street,  
London SW1P 3AG

CH/EXCHEQUER	
REC.	18 OCT 1984
ACTION	<del>MR MIDDLETON</del>
COPIES TO	MR BRUCE KNOX Cae
	MST, EST
	Sir P. Middleton
	Mr. Cussell, PS/CRG.

Dear Nigel,

I am writing to draw your attention to occasional reports that have started to appear in the press that the Government is considering imposing VAT on some foodstuffs in next March's budget. It may well be that these reports are wholly misleading and, if so, so much the better.

I think it just worth recalling, however, that the question of the imposition of VAT on foodstuffs played a certain role in the European Election this year. For some time, the Labour Group in the European Parliament, and especially Mrs. Castle, have claimed that the British Government intended to impose VAT on food in the United Kingdom: this supposed tax was sometimes represented as a desperate attempt to lower the public sector borrowing requirement and sometimes as the British Government's desire to harmonise its fiscal practices with those of its Community partners.

The Prime Minister on a number of occasions during the European Election campaign repeated an assurance that the Government had no intention of imposing VAT on food. It would, therefore, give a considerable opportunity for mischief to Mrs. Castle and the Labour Party were they able to demonstrate that the Conservative Government went back so rapidly on an undertaking given in an electoral campaign. Mrs. Castle would, no doubt, claim that the Government had in some way been forced by the European Community to impose VAT on food and she would not be slow

.../...

to recall the personal assurances of the Prime Minister in the matter during the European Election campaign. It would make not merely the British Governmental position difficult, but that of British Conservatives in the European Parliament impossible were the allegations of our opponents in last June's election so quickly proved correct by a change in the VAT regime for food in next March's budget; if the foodstuffs affected could be represented by our opponents as "basic" foods, the embarrassment to the Conservative Party would be particularly acute.

I hope very much that you will be able to reassure me personally and the Group in general that reports in the press on this question are without foundation. Should you wish to discuss the matter with me personally, or receive further representations from the European Democratic Group on the question, I am of course entirely at your disposition.

*Yours ever,*  
*Henry*

HENRY PLUMB

c.c. The Rt. Hon. Margaret Thatcher, MP



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HIC

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

9 August 1984

L A G Jackson Esq OBE  
Director  
Federation of Wholesale Distributors  
18 Fleet Street  
LONDON EC4Y 1AS

*Dear Mr Jackson,*

I am now able to give you a reply to the letter you wrote to the Chancellor of the Exchequer on 24 April about value added tax and food. Mr Paterson also wrote on 8 May enclosing a copy of your letter.

As you know, the Opposition raised this issue in the course of the European Election campaign. The Prime Minister answered in very clear terms when she said "we have no intention of putting VAT on food".

The Chancellor has asked me to say that this year's Budget changes, to which you referred, must be seen in the general context of the Government's commitment to shift the burden of taxation from taxes on earnings to taxes on spending. This means that in the long run the indirect tax base may have to be further extended so that income tax can be further reduced. The Government has no set views at present about how this might best be done, but it would be wrong to assume that any part of the tax system is immutable.

*Yours sincerely,  
J. D. H. King*

Miss J C Simpson  
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

19 July 1984

R A Wilson Esq  
President  
The Food Manufacturers' Federation Inc.,  
6 Catherine Street  
LONDON WC2B 5JJ

*Dear Mr Wilson,*

You wrote to the Chancellor of the Exchequer on 12 April about value added tax and food. I am sorry not to have replied sooner.

The Chancellor has asked me to thank you for your letter and to assure you that very careful consideration was given before the Budget to the implications of extending VAT to hot take-away food and drink. This extension of the tax base should be seen as part of a reforming Budget which is broadly neutral in effect. The additional revenue will help to finance the important range of direct tax reliefs which the Chancellor announced in his Budget.

The reasons for selecting hot take-away food and drink for taxation stem from the nature of VAT as a tax. As you may already know, VAT was designed as a broad-based tax on general consumer expenditure. It applies to some essential items as well as to discretionary expenditure generally. Although most food is zero-rated, successive Governments have taken the view that it is essential on revenue grounds to set a limit to the relief. Food served in restaurants and cafes has always been taxed, together with a miscellaneous range of items such as ice-cream, confectionery, crisps and soft drinks which were brought into the tax by the Labour Government in 1974. The taxation of hot take-away food and drink is a logical extension of the coverage of the tax in these areas. As regards your point about smoked salmon, there is no doubt that a case can be made for taxing all cold take-away food but the problem here is that it would be difficult, if not impossible, to define the scope of such a provision in such a way as to avoid including a wide range of food which would more normally be regarded as ordinary grocery items.

As regards the Government's future intentions, the Prime Minister made the position clear when she said during the European election campaign that the Government has "no intention of putting VAT on food". More generally the Chancellor has asked me to say that this year's Budget changes must be seen in the general context of the Government's commitment to shift the burden of taxation from taxes on earnings to taxes on spending. This means that in the long run the indirect tax base may have to be further extended so that income tax can be further reduced. The Government has no set views at present about how this might best be done, but it would be wrong to assume that any part of the tax system is immutable.

*Yours sincerely,*

*Judith Simpson*

Miss J C Simpson  
Private Secretary



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000  
Direct Dialling 01-233 5618

A 1

15 March 1984

A N Ridley  
Special Adviser

David Hunt Esq MP  
House of Commons  
London S W 1

*Dear David,*

BACKGROUND BRIEFING ON BUDGET FOR BACKBENCHERS

Following our discussions earlier today, I am sending over to you now 15 copies of a brief for yourself and your colleagues in the Whips' Office. It deals with the background to four issues:

- the kinds of policies affected by the withdrawal of Life Assurance Pension Relief;
- the withdrawal of Life Assurance Relief and other changes in the tax status proposed for the Friendly Societies;
- the extension of VAT to take-away food;
- the extension of VAT to all but new construction activity.

2. These briefs have drawn on advice from officials in the Inland Revenue, the Registrar of Friendly Societies, and the Treasury. And they have been approved by the Chancellor and the Economic Secretary. The Chancellor agrees with your suggestion that at this stage it would not be sensible to make them generally available to colleagues on the back benches. But to guard against the need for this, I am also sending a copy of the material to Peter Cropper at the Conservative Research Department, so that he can run it off and get it to the office in a hurry should you find this to be necessary.

3. When we discussed this possibility this morning, we both agreed that there was a difficult choice to be made as regards the degree of detail in which one describes the impact of the changes following the extension of VAT. At the moment I have gone in the direction of giving full information, in order to answer all questions, and in particular have included most of the key features of the two important Customs & Excise pamphlets which have been made available in their VAT Offices to anybody who wishes to explore the implications of the changes now proposed. But it is clear that it could well be better in the event, should a brief need to be put in your office for backbenchers, not to include the photo copies of those two pamphlets. If that should be needed, very small amendments would be needed to the preceding text in the initial two sections on VAT.

/4....

4. You will find that the legal complexities of the changes required to give effect to the changes proposed for the Friendly Societies are really rather complex. There is some recognition of this at the end of the brief, but I have - I am sure prudently - rather underplayed this. If, however, legalists should become upset or fascinated by the complicated procedures so required, we could no doubt ensure for fuller briefing for them in due course.

*Yours ever*

*Alan*

A N RIDLEY

P.S. I am also sending you alone one copy of the Treasury Press Release on the registered Friendly Societies, to which is attached an important letter from Ian Stewart which he sent them on Budget Day. For those who are less interested in the complexities and more interested in the politics, this could be helpful!



## I EXTENSION OF VAT BASE TO TAKE-AWAY FOOD

1 Borderline problems are likely when the tax system does not treat all goods and services in an identical way. Until and unless uniform VAT is imposed, there will be unavoidable difficulty in areas such as food.

2 Up to now a big problem has been the very arbitrary distinction between food purchased for immediate consumption in an establishment, or for "taking away", which has been unfair to "eat-in" businesses.

3 The extension of the VAT base to include hot take-away food and drink should be the basis for a less arbitrary borderline when the administrative details have been ironed out.

4 The details of what the Government now proposes are set out in

- a) Budget Ways and Means Resolution 13 "Restriction of Zero-Rating (Food)".

This makes it clear that the key extension is to any supply of hot food and drink for consumption off the business's premises. Hot food is in turn defined to mean

"Food which, or any part of which, -

(i) has been heated for the purpose of enabling it to be consumed at a temperature above the ambient air temperature; and

(ii) is at the time of supply above that temperature.

"Food" is already defined as including drink.

- b) Reference was also made to this extension of the VAT base in the Customs & Excise Press Notice 894 issued on Budget Day. This in turn makes it clear that a more detailed Customs & Excise Notice BN 2/84 VAT is already available in VAT offices throughout the country giving "full details of the changes", a photocopied extract of the key points of which is below.

- c) Customs & Excise will also be advertising in the national press by the end of Budget week setting out the relevant facts. This is clearly not something they can undertake in advance of the Budget, because of the usual complications of confidentiality.

5 The "meals on wheels" service provided by local authorities will not be affected by this change.

(AS SUPPLIED TO ALL VAT OFFICES)

### Hot food

2. From 1 May 1984 you must apply the standard rate of VAT to all supplies of hot food and drink. For this purpose 'hot food' is food which has been deliberately heated, so that it can be consumed while still hot.

'Hot' means above room temperature. But certain freshly cooked food which is customarily consumed cold, such as a loaf of bread, may be zero-rated even if you sell it before it has had a chance to cool down.

Where a supply of hot food includes an essential ingredient which is cold, such as the bread roll enclosing a hot dog or hamburger, you should treat the whole supply as liable at the standard rate. The incidental provision of cold items which are not separately charged for, such as a dollop of mustard, tomato sauce or chutney, should be ignored.

Here are some examples of food which you must standard rate if you sell it hot:

- \* fish and chips, chicken and chips, pie and chips, etc.;
- \* chips sold on their own;
- \* Chinese, Indian, Greek, Italian and similar take-away meals and dishes;
- \* hot dogs and hamburgers;
- \* pies and pasties;
- \* toasted sandwiches;
- \* cups of tea, coffee, chocolate, etc.;
- \* cups of soup;
- \* roasted chestnuts.

Here are some examples of items which you may zero rate unless they are sold in the course of catering:

- \* fresh bread;
- \* sandwiches and rolls with a cold filling;
- \* cold pies and pasties;
- \* prawns, jellied eels and similar seafoods;
- \* cold milk and milk shakes, iced tea and iced coffee (but remember that most cold drinks are standard-rated—for further information see the leaflet on food);
- \* cold cooked meats.

### Mixed supplies

3. If you make 'mixed supplies' of standard and zero-rated items, for example a take-away hamburger and milk shake, a cup of tea and a plain biscuit, or a meal consisting of hot and cold dishes, sold

at a special inclusive price, you will need to work out the tax value of each supply in order to calculate how much tax is due. You will find more about this in Notice 700 *The VAT guide*, paragraph 14.

VAT EXTENSION TO ALTERATIONS ETC.

- 1 The borderline problem with construction activity is much the same as is encountered with food. Up till now it was drawn between services which were classed as "alterations", on which no VAT was chargeable; and "repairs and maintenance" which have always carried VAT.
- 2 The base is now being extended in such a way that in effect only "new structures" will be free of charge. This should in due course be easier to police.
- 3 The details are provided for as follows.
  - a) - Ways and Means Resolution 14.  
"Restriction of Zero-Rating (Construction of Buildings, etc)"  
This is a fairly complex Resolution which cannot easily be summarised.
  - b) - They are also referred to in Customs & Excise Budget Day Press Notice 894, which in turn refers to a special Customs & Excise Notice "BN 3/84 VAT: Construction Industry" which is also already available at VAT offices. A photocopy of all its relevant pages is attached.
  - c) - **They will also** be the subject of advertisements in the national press by the end of Budget week.
- 4 In effect the change of the coverage amounts to the following "New structures" are defined fairly tightly, and are only extended to include a very small number of essentially immovable fixtures and fittings such as fitted kitchen units and cupboards, and a very narrow range of other miscellaneous installations. Amongst those things which will, therefore, come into VAT charge will be:
  - Central Heating
  - Double glazing
  - Loft and cavity wall insulation, damp proofing
  - Wall extensions and loft conversions
  - First time provisions of inside bathrooms and WCs
  - Erection of private garages
  - Garden sheds, greenhouses, etc

Another important exclusion arises over buildings which are substantially re-constructed by builders. Up till now the rule which was operated was that where the re-constructive work was worth more than 50% of the ultimate sale value of

the building, the builder or developer could reclaim VAT on the inputs he had used. Henceforward he will not be able to do so. Such work clearly falls outside the concept of a "new structure". Henceforward such work will be technically in the (somewhat confusing) "exempt" category.

5 This extension of the VAT base will not have a significant impact on business costs; and over three-quarters of construction industry output will still be either zero-rated or tax-deductible by the purchaser.



**NOTICE BY THE COMMISSIONERS OF  
CUSTOMS AND EXCISE**

**BUDGET 1984**

**VALUE ADDED TAX : CONSTRUCTION INDUSTRY**

**General**

1. As announced by the Chancellor of the Exchequer in his Budget Statement, all building alteration work is to be standard-rated for VAT from 1 June 1984. A number of other VAT liability changes affecting builders will also happen then. This Notice tells you about all these changes and what you must do as a result. It supersedes some of the material in Notices 708 *Construction Industry* and 742 *Land and Property*. VAT Notice 715 *Construction Industry: Alterations and Repairs and Maintenance* is cancelled with effect from 1 June. If you are not already registered for VAT you should read the VAT leaflet *Should I be registered for VAT?* This tells you all you need to know about VAT registration requirements.

All of the publications mentioned in this Notice are available, free of charge, from local VAT offices.

Nothing in this Notice overrides the legal requirements.

**Work to existing buildings**

2. From 1 June all work done to any existing building (including the provision of additional fixtures or equipment) will be standard-rated. It does not matter whether the work is described as alteration, improvement, reconstruction, enlargement, renovation or repair: all such work must be taxed at the standard rate of 15%. The tax must be charged on the total price of the job (labour and materials). For work which is in progress on 1 June, please see paragraph 14 below.

**Double glazing**

3. The installation of double glazing also becomes standard-rated.

**Supplies of reconstructed buildings**

4. Notice 742, paragraph 26 and Notice 708, paragraph 20 explain in what circumstances you can be treated as a 'person constructing

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a building' and zero rate the sale or the grant of a long lease of an existing building which you have reconstructed. From 1 June this zero rating will no longer be available. From that date all supplies of reconstructed buildings, by sale or by the grant of a lease, whether long or short, will be exempt (unless they are of standard-rated holiday accommodation). If you make such supplies, this change to exemption may affect how much input tax you can reclaim and you should read Notice 706 *Partial exemption*. If your only supplies are sales or lettings of reconstructed or refurbished property (*i.e.* you do not build new property for sale or supply building services to clients), you will no longer be entitled to be registered and you should notify your local VAT office in good time before 1 June.

#### **New buildings**

5. If you supply building services in the course of the construction of a new self-contained building, your supply will remain zero-rated. If you sell or grant a long lease in, or in any part of, a new building you have built on your own land, you can, as before, zero rate your supply (Notice 742, paragraph 22). There will, however, be changes from 1 June affecting the liability of certain fixtures in new buildings and of garden buildings. These are explained in paragraphs 6 to 9 of this Notice.

#### **Furniture and kitchen appliances in new buildings**

6. Fitted furniture, whether supplied ready assembled or finished off on site, can at present qualify for zero rating if it is supplied by the person who fits it. From 1 June such furniture, other than units or work surfaces installed in kitchens in new buildings, will in all circumstances be standard-rated (although a separate charge made by a sub-contractor for installing it in a new building will still be zero-rated).

7. Some kitchen appliances, such as built-in split level cookers, which can at present qualify for zero rating will also become standard-rated in all circumstances.

8. The rules governing input tax are to be changed so that if you build houses or flats on your own land for sale or long lease and you install fitted furniture (in rooms other than kitchens), or appliances such as cookers, ovens, hobs, fridges, freezers, washing and dish washing machines, you will not be able to reclaim the VAT you incur on them as input tax.

#### **Garden buildings**

9. From 1 June the construction of a building in the grounds or gardens of private residences will be standard-rated. The only exceptions will be the construction of an additional self-contained dwelling and the construction of a detached garage at the same time as the building of the dwelling and to be occupied in conjunction with it. The main effect of this change is to tax detached garages,

greenhouses, garden sheds and similar buildings at the standard rate whether or not they are erected by a builder. (Garages, storage space etc. built onto existing houses will be taxed as alterations/extensions of existing buildings.)

#### **Demolition**

10. The demolition of a complete building remains zero-rated.

#### **Civil engineering works**

11. All work to an existing civil engineering work will become standard-rated from 1 June. The construction of a complete civil engineering work remains zero-rated except when the work is in the grounds or garden of a private residence when it remains standard-rated.

#### **Professional services**

12. Professional services, such as those of architects and surveyors, remain standard-rated in all circumstances except when the services relate to land or buildings situated outside the United Kingdom.

#### **Operative date**

13. All these changes take effect from 1 June 1984. This means that tax will be due at the standard rate on all supplies of building services affected by the changes made on or after that date. The date on which a supply is regarded as being made for VAT purposes is governed by the tax point rules set out in Notice 700 *The VAT guide*, Section V. Special rules affecting the building industry can be found in Notice 708 *Construction industry*, Section III. If you use a retail scheme, you should refer to Notice 727 *VAT: Retail schemes*, Appendix C. **Remember**, these changes in liability may mean that you have to change to another scheme.

14. The transitional rules for registered builders not using a retail scheme are as follows:

- (a) **Work completed before 1 June.** You need not charge tax even if you do not invoice your customer until after that date.
- (b) **Work not started before 1 June.** This is liable to the tax except to the extent that the customer pays **before 1 June**. (The issue of an invoice prior to 1 June for work which, if carried out before that date, would have been zero-rated is not a tax invoice and has no effect.)
- (c) **Work in progress at 1 June.** Provided that you can apportion the supply in a realistic way, you are entitled to zero rate that part of the job done before 1 June and charge at 15% for the balance. Alternatively if your customer agrees to pay for the whole job **before 1 June**, then the whole job attracts the zero rate.

If you need more detailed information about how to account for tax on work done around the date of the change you should read *The VAT guide*, Appendix F.