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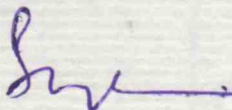
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cc Miss Janet Lewis-Jones
Mr David Peretz

MR TURNBULL

Please see the attached letter from the Editor of the Yorkshire Post, plus supporting material on the campaign against the imposition of VAT on newspapers.

You are, of course, aware of my views on this matter. I understand the Chancellor's desire to broaden the VAT base. But I am bound to repeat: to impose it on newspapers will set against the Government a powerful and generally supportive medium.



BERNARD INGHAM
19 November 1984

SECRET

YORKSHIRE POST NEWSPAPERS LTD.

P.O. BOX 168 WELLINGTON St, LEEDS LS1 1RF TEL. LEEDS 432701

YORKSHIRE POST
YORKSHIRE EVENING POST
DRIFFIELD TIMES SERIES
GOOLE TIMES SERIES
DEWSBURY REPORTER SERIES
BATLEY NEWS SERIES

You will be aware, I am sure, of the widespread concern in the regional press at Treasury leaks over the possibility of newspapers being subjected to value added tax.

The fact of the matter is that if such a course was taken it would severely damage the ability of the Yorkshire Post to maintain its services of news and comment to its readers, and there is every likelihood that some newspapers outside London will be put out of business altogether.

As you will realise newspapers like the Yorkshire Post are remote from the antics of Fleet Street, and remain firmly in the information rather than the entertainment business.

I believe, and I hope you share this view, that newspapers like the Yorkshire Post, have a vital role to play in the maintenance of democracy in this country. If the regional papers are forced out of existence, I frankly do not know where people would turn for the kind of information which is part of their everyday lives, and enables them to form opinions on a whole range of topics, local, regional, national and international.

Continued/....

I do not see how any Government could let this state of affairs come about, but the subject has been raised and therefore I felt it my duty to draw your attention to the problem we might be facing.

Apart from any other consideration, VAT would immensely strengthen the hand of free newspapers. I do not like them. I do not think any journalist really likes them. They can get away with simming odd items of news from their circulation area with no attempt whatsoever of in-depth coverage of courts, councils, tribunals, and elections. They provide work for few journalists, and could never absorb the men and women who would be looking for jobs if the Chancellor was somehow persuaded that it was right and proper to abandon the principle of no tax on the printed word.

The Newspaper Society, of which the Yorkshire Post is a member, has sent all Members of Parliament a copy of its report "VAT on Newspapers: the case in favour of a continuation of the zero-rate" but if this has not reached you I would be delighted to arrange to have one forwarded, and provide any supplementary information you require.

I hope I can canvass your support in this matter. I feel it really is important, and a significant issue of our time.

Your sincerely,

JOHN EDWARDS
EDITOR

The Newspaper Society

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24 October 1984

My Lord

The Newspaper Society is becoming increasingly concerned at growing indications that the Chancellor of the Exchequer is considering imposing a positive rate of Value Added Tax on newspapers and books in his Spring Budget next year.

Since the very earliest discussions on VAT, it has been accepted by successive governments that any move to alter the current zero-rate for books, magazines and newspapers would amount to a tax on free speech, ideas and knowledge.

During the intervening years there has been no suggestion that this rate should be changed nor has the matter been debated in Parliament. Indeed, in 1977 the Royal Commission on the Press recommended that any proposal to end zero-rating should be strongly resisted.

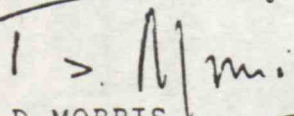
The Society, therefore, is deeply disturbed at suggestions that serious thought is now being given to abandoning the zero-rate in favour of a positive rate of VAT without Members of Parliament at least being afforded a prior opportunity to debate this matter in the House of Commons.

Any attempt to change the current position will be vigorously opposed by the Society. Our initial arguments against any change are contained in the attached document which is being sent today to all 650 Members of Parliament and to the chief spokesmen of all parties in the House of Lords.

As you will see from the conclusions, we believe that to abandon the principle of no tax on the printed word would be to weaken democracy. If a positive rate were to be introduced, newspapers would find it increasingly difficult to perform their vital role of acting as a check on any abuse of power by a government, the courts, local authorities, industry or trade unions. Furthermore, the imposition of a positive rate would threaten the existence of some regional and local newspapers and would almost certainly lead to a smaller, weaker and less diverse Press.

I hope that in the coming months you will listen to the views of local newspaper publishers in your area, when they inform you of the damaging effects of the imposition of VAT on their cover prices and advertisement revenues.

Yours faithfully


T D MORRIS
President, the Newspaper Society

VAT ON NEWSPAPERS

The case in favour of a
continuation of the zero-rate

by
The Newspaper Society

October 1984

Published by The Newspaper Society, the association
of publishers of the regional and local press.
Whitefriars House, Carmelite Street, London EC4Y 0BL

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A INTRODUCTION

- 1 The Newspaper Society was founded in 1836, and is the association of publishers of the regional and local press. Its members publish more than 90 per cent of paid-for regional daily and weekly newspaper titles.
- 2 One of the principal objectives of the Newspaper Society is to maintain a free press. It believes that an independent press is central to any democratic society. Since its inception the Society has consistently opposed government measures which would threaten the independence and diversity of the press.
- 3 The strength of the British press - in contrast to its EEC counterparts - is linked to the diverse styles and contents of its newspapers, its wide readership and its large number of locally published titles. The Society believes that a press which is made weak by taxation is a press which is susceptible to unhealthy outside intervention. For this reason, it opposes any proposal to introduce a positive rate of VAT on newspapers.
- 4 The Society is of the opinion that any government action which would have the effect of reducing the number of newspaper titles or the number of

newspaper publishers raises serious issues. It is not appropriate for any Chancellor of the Exchequer to alter the taxation system for newspapers without there being a study of the implications of such changes for the freedom, independence and viability of the press. Full consultation should take place as to the effect of such changes on the ability of newspapers to serve the needs of the communities in which they are based.

- 5 The Society is fearful that the Chancellor, in his desire to reduce income tax by shifting the burden of taxation from direct to indirect taxes, may attempt to introduce a positive rate of VAT on newspapers, journals, periodicals and books. Such a radical change should not be introduced without an independent study of its effects on the dissemination of the printed word and its consequences for the cultural and social life of the United Kingdom.

B THE ZERO-RATE OF VAT FOR NEWSPAPERS

- 1 Mr Iain MacLeod announced at the Conservative Party Conference in 1969 that: "On the general principle of avoiding a tax on knowledge we intend that books, journals, newspapers and broadcasting shall be at a zero-rate." It was accepted that a positive rate of VAT would amount to a tax on free speech, ideas and knowledge. It would materially harm the Fourth Estate. No equivalent tax had existed since the repeal of the Stamp Duty Act in 1855.

- 2 In early 1972 the then Government announced that newspapers would be zero-rated for both sales and advertising revenue purposes. Legislation introducing VAT provided that the supply of newspapers, journals and periodicals would be zero-rated together with advertisements within them and the services connected with their preparation and publication.

- 3 The Royal Commission on the Press (Cmnd 6810) in its final report in 1977 recommended that any proposal to end the zero-rating of newspapers and periodicals should be strongly resisted. This was in the context of its examination of ways in which the diversity of the press could be maintained and

encouraged, and of its consideration of the question of government subsidies for the press.

- 4 The Royal Commission explained that the zero-rate followed "previous fiscal policies based on the principle that there should be 'no tax on knowledge'." The Commission's recommendations, particularly on press subsidies and governmental assistance to the press, were based on the assumption that there would be a continuation of the zero-rate of VAT on newspaper sales and advertising revenue. Since the introduction of VAT with its zero-rate for newspapers there has been no suggestion that the rate should be changed and the issue has not been debated in Parliament.

- 5 EEC proposals for a move towards the harmonisation of value added tax systems throughout the Community allow the UK to retain all the zero-rates which were in force on July 1, 1973, including those on newspapers, until the Council of Ministers by a unanimous vote decides otherwise. There is no pressure from the European Commission on the UK Government to alter the zero-rate of VAT on newspapers. There is a wide variation in the VAT rates applied to newspapers in the EEC member states. No EEC member state imposes its own full standard rate of VAT on newspaper cover prices.

6 The Society has received legal advice that if the Government was to vary the zero-rate on any item which was in force on July 1, 1973 and maintain a new VAT rate, it would be contrary to European Community Law for a zero-rate on that item to be reintroduced. Any such change might lead to the European Commission taking legal action against the United Kingdom in the European Court of Justice.

C THE EFFECTS OF INTRODUCING A POSITIVE RATE OF
VAT ON NEWSPAPERS

- 1 The economic outlook facing the publishers of the regional and local press is more challenging now than when VAT was first introduced and newspapers were zero-rated, or when the Royal Commission on the Press concluded that a change in the zero-rate would disrupt the economy of existing publications and that any such change should be resisted.

- 2 The imposition of a positive rate of VAT on newspaper cover prices or advertising revenue would be likely to lead to a decline in the number of newspaper titles. There has already been some decline in the number of provincial newspaper titles since 1972. In that year there were 1,278 paid-for regional daily and weekly titles, but by 1983 that figure had dropped to 1,086. This means that over the period there was a net closure of seven regional daily or Sunday newspapers and no less than 185 weeklies.

- 3 In recent years there has been a growth in the number of free newspapers, of which there are now estimated to be more than 650. Many of them are published by members of the Newspaper Society. Free newspapers are entirely dependent for their existence on advertising revenue and not on

obtaining positive readership approval. Their level of editorial content is generally lower than that of paid-for newspapers and their social role is less developed. If a positive rate of VAT were imposed on newspaper cover prices, it would discriminate in favour of free newspapers and against paid-for newspapers.

- 4 The environment in which the regional and local press operates has not only changed with the advent of free newspapers but also with the development of commercial radio and cable television. British newspaper publishers, unlike their EEC counterparts, have had to respond to this competition in a climate in which their ability to participate in commercial radio and cable television has been limited by specific legislative measures. The introduction of VAT on cover prices of newspapers would further distort competition. It would mean that paid-for newspapers would become the only media taxed at the point of receipt.
- 5 Alone of all news media, paid-for newspapers depend on the positive approval of their readers which is expressed in every copy sale. To satisfy their readers they have to carry news in great variety and detail and employ an extensive editorial staff. They set the standards for news

coverage in the regions and have an important effect on the quality and content of other media.

- 6 It has been the experience of the provincial press that there is a clear relationship between increase in cover price and declining household penetration. Many UK households, particularly in urban areas, take both a national morning newspaper and a provincial daily newspaper published in the afternoon. To impose VAT on either the provincial press solely or the press generally would be to increase the weekly or monthly newsagents' bill, cause the purchaser to question his newspaper purchasing habits and consequently invite, in some cases at least, a reduction in the number of titles purchased. Britain shows a higher purchase of newspaper titles per household than many other countries: it seems undesirable to reduce this diversity of printed information available to readers. If, through the imposition of VAT on copy sales, paid-for newspapers were to lose sales and household penetration, their advertising base would be reduced. Publishers of paid-for newspapers would be forced either to reduce their editorial staff and content, with a resulting loss of sales, or go free, or merge with larger more remote publications, or abandon their newspaper publishing activities. Communities may cease to be served by local newspapers with a high

editorial content. In areas where there was no paid-for newspaper, free newspapers would feel no need to maintain any particular level of editorial content.

7 The Society believes that regional and local newspapers make a significant contribution to the social and political life of their own particular areas. Their social role is qualitatively different to that of national newspapers. The local press gives communities an identity and contributes to the working of local democracy. It is the essential cornerstone of the newsgathering and dissemination for national newspapers, radio and television. It plays an important role in training journalists and developing standards of journalism.

8 The imposition of a positive rate of VAT on newspaper cover prices would distort competition between free and paid-for newspapers. There is likely to be an irreversible decline in the number of paid-for newspapers. This would have the consequence of reducing the overall quality of newspapers and would be to the detriment of local social and political life. It is unlikely to produce a long-term revenue gain to the Treasury that could be justified in the context of the damage it would do to local democracy.

- 9 The imposition of a positive rate of VAT on advertising revenue would not raise a significant amount of revenue from commercial enterprises, save in the case of the financial services sector which would be unduly discriminated against. Its imposition would be likely to lead to a reduction in newspapers' net advertising revenue and some switch to other media by newspaper advertisers. Its imposition on classified advertisements by private persons would raise some additional revenue. It would also be tantamount to raising the cost of classified advertising. It would lead to a decline in such advertising. This would have a stifling effect on the development of small businesses and the ability of individuals to buy and sell their own possessions and services. Private persons wishing to continue to advertise in newspapers may look towards the cheaper local free newspaper, thus further contributing to the increase in the ratio of free newspapers to paid-for newspaper titles.
- 10 It is the Society's view that the introduction of a positive rate of VAT on advertising revenue would lead to a considerable reduction in the number of newspapers, their staff and their range of contents.

D CONCLUSIONS

- 1 The Society is in favour of the continuation of a zero-rate of VAT for newspaper cover prices and newspaper advertising. It believes that the existing VAT provisions for books and magazines should remain unchanged. It sees no reason why this Government should abandon the long-held commitment of previous Governments to the principle of there being no tax on knowledge.

- 2 The abandonment of the principle of no tax on the printed word would weaken democracy. It could lead to the development of a press which was vulnerable to Government interference and susceptible to punishment and reward from successive Governments through the use of the tax system and direct state subsidies. Newspapers would find it more difficult to perform their vital role of acting as a check on any abuse of power by a Government, the courts, local authorities, industry or trade unions.

- 3 The introduction of a positive rate of VAT on newspaper cover prices or advertising revenue would be likely to lead to a smaller, weaker and less diverse press. It would make it harder for individuals or companies to set up and publish new newspaper titles.

- 4 The imposition of VAT on the cover prices of newspapers would distort the relationship between paid-for and free newspapers. It would lead to a downgrading in the overall quality of newspapers. Local newspapers would be less able to reflect the views and concerns of the communities of which they are part. Some communities would lose their local newspaper altogether and would be left with no equivalent news service available to them.

- 5 The issues raised by the possible alteration of the VAT rate for newspapers are not purely economic ones. They include matters of far wider import than those which affected the take-away food industry or the home repair business in the 1984 Budget.

- 6 The Society believes that a change in the VAT rate for newspapers should not be introduced in a Budget without prior consultation within and outside the industry and an independent study which examines the effect of any VAT change on the freedom, independence and viability of the press.