

STATES OF JERSEY



GOODS AND SERVICES TAX: ZERO- RATING FOR FOODSTUFFS, BOOKS, NEWSPAPERS AND MAGAZINES (P.169/2007) – COMMENTS

**Presented to the States on 19th November 2007
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

Summary

Senator Shenton has put forward a proposal to zero-rate Goods and Services Tax (GST) on food, books, newspapers and magazines in order to protect Islanders on low-to-middle incomes.

Although the objectives behind his Proposition may be laudable, this Proposition is not a good way to achieve those aims.

I acknowledge and support the desire of the public and of States Members to use some of the recent improvements in tax receipts, arising from the success of our fiscal policies, to reduce the impact of GST on low-to-middle income households. Blanket GST exclusions are, however, a costly and ineffective way of doing this.

The States has now approved the Income Support scheme which will fully protect those on low incomes from GST on food, books, newspapers and magazines, so the proposed exclusions would reduce the cost of food for those households on Income Support, so they would benefit by a total of about £400,000 per annum.

Whilst providing little benefit to households receiving Income Support, the proposed zero-ratings would benefit those low-to-middle income households just above Income Support thresholds to the tune of £58 a year. They would, however, be of even greater benefit to high income households, who would gain up to £138 a year.

Indeed, of the £3.1 million in tax revenues lost from the proposed exclusions, approximately £1 million would go to low-to-middle income households, but £2 million would go to high income households. This is because the well-off spend far more on food, books and newspapers than those on low-to-middle incomes.

Accordingly, this amendment does not do what it intends to: it provides relatively little assistance to those on low incomes, who receive Income Support; it provides only a small amount of assistance to those on low-to-middle incomes; but makes the households with the highest incomes considerably better-off.

A far preferable way of sharing our improved tax revenues with Islanders on low-to-middle incomes would be by further increasing income tax thresholds. The cost of Senator Shenton's proposals is estimated at £3.9 million p.a. Instead of zero-rating food, books, newspapers and magazines, the money could be better used by maintaining the Income Support of £400,000 and spending the remaining £3.5 million increasing income tax exemptions. The thresholds could be increased by 6.5% instead of the 3% proposed in this year's budget. If this was done, households on Income Support will be at least as well-off as under Senator Shenton's Proposition, whilst other low-to-middle income households would be up to 3 times better off than they would from zero-rating food, books and newspapers.

The extra saving to a typical low-to-middle income household would be as much as £180, compared to the £58 they would save under Senator Shenton's proposed GST exclusions.

A further disadvantage of the proposed exclusions is that they would increase enormously the complexity of GST with significant costs for both the States and small businesses. The States would need to employ eight extra staff to administer these exclusions and incur approximately £800,000 in additional administrative costs.

Many small businesses with a turnover below the £300,000, which previously did not have to administer GST, would also now inevitably be forced to register for GST. This is because in order to minimise their competitive disadvantage compared to large retailers, particularly those with U.K. links (who will have the systems to process zero-ratings), small retailers will wish to recover the GST they suffer on their costs, and the only way they can do this is by registering and following the entire GST procedures.

In summary, the exclusions proposed by Senator Shenton, would lose £3.1 million in tax revenues, cost £800,000 for the States to administer, hit small businesses, yet only provide £1 million in support to households on low-to-middle incomes the Senator seeks to assist.

There is no doubt that our fiscal policies are working, and this has resulted in improved tax receipts. I also recognise the concerns of both the public and States Members about the impact of GST on low-to-middle income households, and the desire to use some of the improved tax receipts to benefit this group. Blanket GST exclusions are an ineffective, costly and administratively expensive way of helping these households.

If the States agrees with me, and rejects these zero-ratings, I will commit to bringing an amendment to this year's budget to increase income tax thresholds by 6.5%, rather than the 3% currently inscribed in the budget. I will also work with the Minister for Employment and Social Security and will also ensure that those who receive Income Support receive the same improvement as they would under Senator Shenton's Proposition.

Increasing income tax thresholds would give low-to-middle income households on average 3 times more money than they would save from zero-rating food, newspapers, books and magazines. It would also incur no administrative cost, keep GST simple, and avoid small businesses having to deal with complex and expensive administration.

The States is recommended to reject the zero-rating of food, books, newspapers and magazines and instead indicate its support to providing far greater assistance to low-to-middle income households by increasing tax thresholds, by a further 3.5%, to 6.5% and maintaining additional Income Support of £400,000.

The following table compares the effect of Senator Shenton's Proposition with my own proposal:

	Low income	Middle income	High income
	£	£	£
Shenton proposals	49	58-104	138
Minister's proposals	49	Up to 180	0

Table 1

Background

In 2004 the States agreed to introduce the 0/10% corporate tax structure in order to retain the finance industry and hence secure the economic future of the Island.

However, the overall effect of “zero/ten” will be to reduce Jersey’s future annual tax revenues by approximately £100 million. The main impact of this will be felt in 2010 and the full effect by 2012.

In order to fill this anticipated revenue gap the States agreed a package of measures that included:

- restrictions on States spending;
- an economic growth plan;
- an Income Tax Instalment System;
- a phasing-out of certain Income Tax allowances for higher income groups (“20 means 20”);
- the introduction of a Goods and Services Tax (GST); and
- a revised Income Support system.

The **overall** effect of this **package**, because of Income Support, plus the phasing-out of income tax allowances for those on higher incomes, is **progressive**, i.e. those on low incomes will pay no extra tax, and everyone else in society will pay more tax with those on high incomes paying most.

Previous Votes to Propose Exclusions

Projet 169/2007 is not the first attempt to exclude items from GST coverage. States Members will recall 3 previous attempts during the past 2½ years – one in May 2005 (P.44/2005 Amendment), one in September 2005 (P.165/2005) and the other in October 2006 (P.86/2006). All 3 proposals were overwhelmingly defeated, for good reasons.

Table 2 below gives the voting record of these previous debates:

Voting Record of Previous Attempts to Exclude Basic Items from GST

Projet	Item Proposed for Exclusion	Contre	Pour
P.44/2005	Foodstuffs, Children’s Clothing and Newspapers, books etc.	32	14
P.165/2005	Foodstuffs	30	15
	Children’s Clothing	33	12
	Newspapers, Books etc.	37	9
P.86/2006	Foodstuffs	32	17
	Children’s Clothing	35	13
	Newspapers, Books etc.	35	13

Table 2

Although none of the principles have changed since those debates, it is worth rehearsing the reasons why States Members decided so convincingly they wanted a low-rate, broad-based and simple GST.

Why Choose a Simple Goods and Services Tax (GST)?

A **simple** GST is one that has a broad-base and a single positive rate. It requires few zero-rates (other than for exports and international transport of goods and persons, the supply of residential accommodation); few exemptions (beyond the usual ones for small traders, the financial sector, postal services, etc.); and an invoice-based collection and administration system, with as few special schemes as possible.

Being a tax with a single positive rate, the simple GST minimises the costs of compliance for the traders and suppliers. The costs of administration for the States are also low.

The simple GST also ensures that the effective burden of the tax on the consumer is exactly the same as the nominal rate of the tax and the customer knows exactly what he is being charged by way of GST. The tax therefore treats all consumers fairly.

A simple GST treats all businesses uniformly, with minimum deviations, and thus minimises the distortions in the allocation of resources in the economy. It also maximises the revenue yield for the States at the lowest possible tax rate.

A **complicated** GST, on the other hand, is one that consists of many more exclusions (mainly zero-ratings, exemptions and special schemes) all of which tend to narrow the tax base, complicate tax administration and make tax compliance cumbersome and costly.

Traders with a mixture of sales of zero-rated, exempt, and taxable supplies have to keep separate accounts for each of these categories of sales, imposing on them a significant additional burden of compliance. Such traders can also easily be tempted to evade taxes on their taxable supplies, but even if not attempting to evade, can innocently make errors on their (now complicated) returns which need investigating and correcting, thereby adding to administration costs.

Extensive zero-ratings and exemptions generate continuing pressures from taxable sectors for equity and therefore zero-ratings, exemptions, or special treatments for them as well.

By virtue of its narrower tax base, the complicated GST also requires a higher rate to yield a given amount of revenue than does a simple broad-based GST – i.e. fewer items attract a higher rate of tax to achieve the same revenue yield.

The traditional, complicated model of GST has, for the reasons above, generally been superseded throughout the world by the simple broad based model of GST, with few exclusions.

The GSTs of Singapore and New Zealand are examples of simple, modern GSTs while Value Added Tax (VAT) in the United Kingdom is an example of the traditional complicated GST model that has been largely discredited. The items for exclusion listed in this Proposition are essentially lifted from the U.K. model.

The Beneficiaries of the Proposed Zero-Ratings

If the U.K. system is so bad, why have the U.K. and, to a lesser degree, other European countries, implemented such a raft of exemptions and zero-rating?

The answer is that the exemptions and zero-rating are an attempt to make the tax more progressive. It is for this same, laudable reason, that P.169/2007 is proposing additional exclusions to GST. But do these exemptions actually make the tax more progressive?

Table 3 below compares the impact of the broad-based tax as currently agreed by the States, with the impact of the GST with the proposed exclusions on food and newspapers, for different levels of household expenditure:

GST Paid as a Percentage of Household Expenditure by Quintile

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Current broad-based (3% rate)	1.8%	1.7%	1.7%	1.7%	1.6%
Proposed exclusions (3% rate)	1.5%	1.4%	1.4%	1.5%	1.5%

Table 3

To explain the table, each quintile represents each 20% of households in Jersey, with quintile 1 being the bottom 20% of household expenditure; the poorest, and quintile 5 the top 20%; the richest.

What the table shows is that the simple, broad-based GST as currently proposed will equate to 1.8% of the expenditure of low income households and 1.6% of the expenditure of high income households. All households will pay almost exactly the same proportion of their expenditure in tax.

The proposed exclusions have only a tiny impact on making the tax more progressive.

It is easier to see the variations in cash terms, where the differences are even more marked:

Cash Impact of Zero-Rating on Household Expenditure by Quintiles (£)					
Quintile	1	2	3	4	5
Foodstuffs	-43	-52	-67	-93	-121
Newspapers, books and magazines	-6	-6	-9	-11	-17
TOTAL	-49	-58	-76	-104	-138

Table 4

The lowest income households, although in theory £49 worse off, will not in fact save £49 from the zero-rating of food, newspapers and books as the agreed further enhancement to Income Support in respect of GST will already reimburse the full cost of GST to them. The next group, just above Income Support, would save on average

£58 a year, and middle income households would save £76 a year, whilst households on the highest incomes would save £138 a year.

The gross loss of tax revenues from these exclusions will be £3.5 million. This loss, however, would be offset by a saving in income support, of £400,000, which would no longer be needed to insulate low income households from GST on food, books and newspapers. Accordingly, the net loss of tax revenues from the proposed exclusions would be £3.1 million. **Of this loss of £3.1 million, nothing would go to those on the lowest incomes, just over £1 million would go to those on low-to-middle incomes and £2 million would go to households with high incomes.**

Problems of complexity

The proposals to exclude basic foodstuffs, books and newspapers, although superficially simple, cannot be described as “simple exemptions”. The exclusions are based on the U.K. VAT model which is regarded internationally as one of the most complex systems in the world and is even non-compliant in terms of the European Union (EU) directives on VAT harmonisation. The following analysis has attempted, where possible, to follow the U.K. VAT interpretation on liability, but the difficulties, even after over 30 years of live tax experience, are striking.

The U.K. exclusion for zero-rating “food” includes 4 general items as sub-categories:

1. Food for human consumption
2. Animal feedstuffs
3. Seeds of plants
4. Live animals.

There is no specific legal definition for food (but it includes drink) – “it is what the average person would consider it so” but it excludes catering and a list of 7 excepted items (including ice-cream, confectionery) and a further 7 items overriding the exceptions.

Retail shops selling food, confectionery, beverages and other household items will have to identify, for every individual item they sell, whether or not it is subject to GST, and they will need to maintain sophisticated systems to collect and account for the tax. However, in many ways the compliance impact will be easier on retailers of pre-priced/pre-packed food products imported from the U.K.

From the list above it is easy to see that many other business sectors will be affected. Hotels, cafés, restaurants, takeaways, and sandwich shops would have different rates of GST for food (hot soup, sandwiches, cereal bars and apples) which will vary yet again depending whether they are consumed on, or off, the premises. Bakeries will have to determine the liability of many products – biscuits and cakes are zero-rated as food but confectionery is taxable. Chocolate-chip biscuits are zero-rated if the chocolate chips are included in the dough or pressed into the surface. Chocolate shortbread biscuits are taxable. Even cake decorations take on different liabilities – chocolate chips are zero-rated whereas chocolate buttons and flakes are taxable.

Pet shops and garden centres will be affected. Animal feedstuffs are zero-rated but pet food is taxable. But rabbit food is zero-rated whereas guinea pig food is taxable. Hay and straw if sold as animal feed would be zero-rated but taxable if sold as bedding. Seeds and plants grown for human consumption or animal feedstuffs are zero-rated –

grass seed is zero-rated, but not if pre-germinated and turf is taxable. Flower plants and seeds are taxable, other than specifically listed edible varieties.

Farmers, butchers and fishmongers will also be affected. Meat and dairy animals would be eligible for zero-rating as would rabbits (other than ornamental breeds) even if kept as pets. Honey bees would be eligible for zero-rating but bumble bees are taxable.

Increasing the complexity of the tax, with mixed rates, provides in-built opportunities for error, or, worse, fraud by miscoding whether goods sold are subject to tax or zero-rated. Not only does this reduce revenue yield it also requires the States to employ additional staff to monitor compliance.

Every type of exclusion in terms of supply (goods and/or services) presents a different challenge but international experience shows that any system with mixed liability goods will present difficulties even at the very start of the supply chain. Under the current system designed for Jersey all imported goods are taxable – this has been welcomed as clean and simple. The only problems likely to be encountered are with valuation. However, as soon as any type of goods are excluded there is a great potential for mis-description (both accidentally and deliberately).

Problems would also occur further down the supply chain in identifying taxed and untaxed goods at the point of supply whether by segregation (on tax invoices), or at the point of consumption (using retail schemes).

The added complexity would ensure many more rulings having to be made, requests for extra-statutory concessions, and appeals before independent Commissioners of Appeal – which would all take research, time and care to prepare. There would have to be more control visits by Income Tax auditors to traders' premises to ensure the increasingly complex GST regime is being accounted for correctly. Any discovery of under declaration would lead to an assessment notice, and possibly penalties, which again would have to be subject to appeal. This would all lead to a spiral of control visits/compliance/rulings/appeals which would be time-consuming and contentious. This would in turn also make the tax less acceptable to consumers and businesses, and could lead to further policing costs. Consequently, it could significantly add to the costs of the business, which would be passed on to their customers. This is not theory; this is what happens in the U.K. now.

Excluding the proposed items from GST will almost certainly lead to the delay of traffic of incoming goods at the port. Imported consignments with mixed descriptions would need to be processed to check and assess what goods are correctly applied, or excluded, to GST. This will undoubtedly require additional staffing and lead to a delay in the processing of incoming goods. This could lead to possible stockpiling of goods at the harbour and the airport, a concern of which the Jersey Chamber of Commerce has indicated must be avoided.

Impact on importers and Customs

Under the current GST Law, all goods imported into Jersey are potentially taxable (there will be a *de minimis* value below which goods will enter freely). Under these circumstances our proposed clearance procedures are simple and have been welcomed by the main importers and Chamber of Commerce. Any potential problems likely to be encountered by Customs are mainly limited to under-valuation.

However, if the proposed exclusions are approved, circumstances will be very different. Goods imported into Jersey will either be subject to 3% or 0% GST. Firstly Customs will be required to maintain an up-to-date and accurate Tariff to include a GST liability indicator for all commodities. Inevitably this will lead to additional problems of mis-description and perhaps a combination of mis-description and under-valuation (deliberately or by genuine error).

This will undoubtedly require additional staffing for Customs, and for non-GST registered importers has the potential to lead to delays in the clearance of incoming goods. This is something we have all been desperately trying to avoid.

It has been asserted that the States has already lost the aim of a simple tax by agreeing to a number of exclusions including education, child care, and medical supplies. This is incorrect. The exclusions to date have primarily been for services, rather than goods, provided from dedicated establishments, such as schools, and the tax system remains simple. On the other hand the administrative implications for processing the proposed exclusions of certain goods on imports, and for businesses having to account for mixed rates of tax, are enormous. The exemptions for goods now being proposed would dramatically increase the cost, for both the States and business, of accounting for and collecting the tax, and ensuring compliance.

Exclusion Creep

Once a start is made to exclude items on the basis that they are an essential spend of the less well-off, or because they are a virtuous activity, there will be no real defence to continued exclusion creep. If newspapers and books are excluded, then why not also petrol, electricity and domestic oil? If excluding children's clothes, then why not equally essential adult clothes? And lightbulbs? And beds and chairs? And toothpaste and soap? Where would it end ?

Other countries

It is true that some countries have a number of exclusions, or reduced rates, in their GST or VAT, but it is generally accepted that the most successful application of these taxes is in countries that have a simple broad-based tax, with a single rate and a high threshold. In fact, the countries generally held up as a good model for a GST are New Zealand and Singapore, where exclusions have been kept to a minimum.

It is also interesting to note that the proposed exclusions are generally subject to GST/VAT at rates above 3% in most of the E.U. member states, as shown in the attached Annex.

Analysis of the Annex reveals that most EU jurisdictions (22 out of 25 jurisdictions listed) apply VAT, to some extent (full rate, standard rate or reduced rate), to foodstuffs. With the exception of Eire and the U.K all the countries listed apply VAT to children's clothing, indeed at the full standard rate. VAT is applied to books and newspapers across all jurisdictions except the U.K. Only medical and dental care are widely treated across the EU as exempt from VAT and this is an item that has now also been excluded from the treatment of GST in Jersey.

Further exclusions will complicate what was intended as being the modern “simple” variation of a GST system. The simple system was the unanimous choice following a period of public consultation conducted by Crown Agents in late 2004. It is not just Jersey that has reached this conclusion. Any country currently going through the same process and considering the implementation of a GST/VAT arrives at the same preferred option. For example, Malaysia, Bahamas and Dubai are at different stages on the GST roadmap but have all discounted the U.K./European style system in favour of the New Zealand /Singapore simple model.

Staffing and Financial Consequences

The proposed exclusions will reduce the gross revenue yield by £3.5 million, and the net yield, after savings in income support, by approximately £3.1 million.

It is difficult to quantify the exact additional administrative costs of these exclusions. However, a reasonable approximation based on U.K. experience is that 8 additional staff will be required and the extra payroll, social security, IT, accommodation and other costs would be approximately £800,000 a year.

Therefore, the total cost to the States of these exclusions, in terms of loss of revenue and increased administration would be of the order of £3.9 million.

The extra cost to business is difficult to quantify, but whatever it is, is likely to be passed on to consumers, rich and poor alike, in increased prices.

Senator Shenton’s Incorrect Assertions

In his accompanying report to P.169/2007 Senator Shenton makes a number of incorrect assertions, which really have to be refuted. Firstly, he states that “a tax on food would be highly regressive”. As this paper has demonstrated, this statement is incorrect; the tax is slightly regressive.

Senator Shenton also states that financial services in Jersey will be exempted from GST. Again this is simply not true. Whilst it is true to say that generally speaking financial services around the world are exempted from VAT/GST, proposals will shortly be presented to the States which ensure that the finance industry in Jersey contributes some £5-£10 million to the GST tax take.

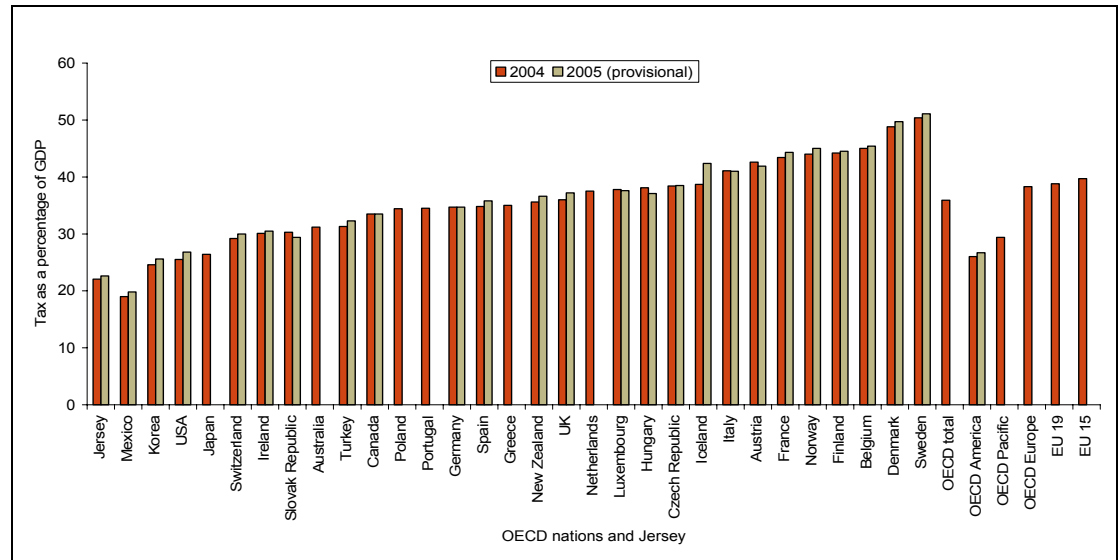
Senator Shenton also uses the Australian Household Expenditure as background for his arguments. The question should be asked as to why he has not used the Jersey Household Expenditure Survey (JHES) published last year. Surely this data would provide more credible evidence in relation to the possible effects of GST in the Island?

Furthermore, his statement that “Expenditure per person on food scarcely differs with Household income” is patently untrue. If Senator Shenton had taken the time to look at the recent Jersey Household Expenditure Survey rather than the Australian report he would notice that the average weekly household expenditure of the lowest quintile spent on food and non-alcoholic drinks in Jersey is £36.60 per week, whereas that of the highest quintile is £100.60 per week.¹

¹ Page 22, Report on the Jersey Household Expenditure Survey 2004/05.

Senator Shenton also suggests that Jersey is no longer a low tax economy. Nothing could be further from the truth. As Chart 1 below demonstrates, Jersey has one of the lowest percentages of taxation as a proportion of Gross Domestic Product (GDP) in the world.

Chart 1



Senator Shenton’s Report also states that Jersey has managed perfectly well for many decades in taxing some goods and not others without the need for massive and expensive bureaucracy. He refers to excise duties collected by Customs and Immigration. This again displays a basic misunderstanding of tax systems and their administration. Excise duties are generically considered to be high yield/low cost. The reasons for this are the ease of definition; imposed mainly on goods; it is a single stage tax only (collected at import or domestic production) and involves few taxpayers (in Jersey we are dealing with less than 30 Excise payers of any significance). GST/VAT is a completely different tax system levied on imports and all levels of the supply chain (multi-staged); involves supplies of goods and services; definitions can be difficult; taxpayers can be regular payment or repayment and we are dealing with larger numbers (for Jersey we estimate up to 2,000 GST registered taxpayers).

Conclusion

The Fiscal Strategy should and must be taken as a package. The individual elements of taxation, economic growth and, crucially, Income Support have been designed to complement each other. Whilst GST by itself is regressive, the package overall produces a progressive effect.

Furthermore, the Income Support proposals approved by the States will insulate those on low incomes from the effect of GST. It is universally accepted that this is a far more effective way of protecting the less well-off from the effects of GST than blanket exclusions.

In summary – the States has already decided on 3 separate occasions that it wants a broad-based GST at 3% with few exclusions. The States has repeatedly made this decision in the full knowledge that a broad-based GST would be, on its own, slightly regressive. There were good reasons for this:

- GST was never meant to be considered in isolation, but instead always intended to be part of a tax package with the progressive elements being ‘20% means 20%’ and Income Support;
- broad-based GST would enable a low 3% rate;
- exclusions do not make the package significantly more progressive;
- it may not be able to retain the 3% rate indefinitely if exclusions are agreed;
- exclusions significantly increase the complexity of the tax and hence the proportion of the tax that is spent on administration, plus adding to business overheads which, ultimately, the public will end up paying for through increased prices;
- granting exclusions from GST encourages yet more calls for further exclusions – exclusion creep.

Recommendation

The Minister for Treasury and Resources therefore urges States Members, for the reasons given above, to once again emphatically reject the proposals for exclusions from GST outlined in P.169/2007, and support the Minister’s proposals for a further increase in tax exemption thresholds.

EU VAT Rates (also Singapore and New Zealand)

Full Rate	20	21	15	19	25	18	22	19.6	16	18	19	25	21	20	18	15	18	18	22	19	19	20	16	25	17.5	5	12.5
Foodstuffs	10	6	0	5	25	18	17	5.5	3	8	6	15	0	4	18	3	5	0	3	5	19	8.5	4	12	0	5	12.5
Books	10	6	5	5	25	5	8	5.5	3	4	6	5	0	4	5	3	5	5	0	5	19	8.5	4	6	0	5	12.5
Newspapers	10	0	5	5	0	5	0	2.1	3	4	6	15	13.5	4	5	3	5	5	7	5	19	8.5	4	6	0	5	12.5
Children's Clothing	20	21	15	19	25	18	22	19.6	16	18	19	25	0	20	18	3	18	18	22	19	19	20	16	25	0	5	12.5
	Austria	Belgium	Cyprus	Czech Republic	Denmark	Estonia	Finland	France	Germany	Greece	Holland	Hungary	Ireland	Italy	Latvia	Lux'bour	Lithuania	Malta	Poland	Portugal	Slovakia	Slovenia	Spain	Sweden	UK	Singapor	New Zealand

Note: Where there is more than one rate for any group then the lowest application rate is shown.

Sources: European Commission (DOC/1803/2006) and New Zealand and Singapore Government websites.

Notice 701/14 Food
May 2002

Foreword

This notice cancels and replaces Notice 701/14 (October 1997). Details of any changes to the previous version can be found in paragraph 1.1 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on **0845 010 9000**. **You can call between 8.00 am and 8.00 pm, Monday to Friday.**

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, **between 8.00 am and 6.00 pm, Monday to Friday.**

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

[709/1 Catering](#)

[701/40 Food processing services](#)

[701/38 Seeds and plants](#)

[701/15 Animals and animal food](#)

1. Introduction

1.1 What is this notice about?

This notice explains when food can be zero-rated.

It has been rewritten and restructured to improve readability but the technical content has not changed from the October 1997 edition (with accompanying Updates). Food processing is now contained in a new notice 701/40 Food processing services.

It and others mentioned are available both on paper and on our Internet website at www.hmce.gov.uk.

1.2 Who should read this notice?

You should read this notice if you are a food:

- producer;

- manufacturer;
- wholesaler; or
- retailer.

1.3 What law covers this subject?

The VAT Act 1994 of which:

- **Section 30** states that supplies of goods and services specified in Schedule 8 to the Act are zero-rated; and
- **Schedule 8, Group 1** specifies when food of a kind used for human consumption is zero-rated.

2. General VAT liability rules

2.1 Food supplied in the course of catering

You must always standard-rate food supplied in the course of catering, including hot take-away food. Further information can be found in Notice 709/1 Catering and take-away food.

2.2 Food not supplied in the course of catering

Most food of a kind used for human consumption (see paragraph 2.3) is zero-rated. There are, however, some exceptions as follows:

You must always standard-rate (SR)...	but you can zero-rate (ZR)...
ice cream, similar products, and mixes for making them – see 3.5;	frozen yoghurt that is designed to be thawed before being eaten;
confectionery, apart from cakes and some biscuits, – see 3.6;	drained cherries and candied peel; and
alcoholic beverages, – see 3.7;	milk and milk drinks, tea, maté, herbal tea, coffee & cocoa; and preparations of yeast, meat and egg.
other beverages, and preparations for making them – see 3.7;	
potato crisps, roasted or salted nuts and some other savoury snack products – see 3.8 and;	
products for home brewing and wine	

making – see 3.7.	
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How these criteria apply to general and specialised food products is explained in sections 3 and 4.

2.3 What does ‘food of a kind used for human consumption’ mean?

A product is ‘food of a kind used for human consumption’ if:

- the average person, knowing what it is and how it is used, would consider it to be food or drink; **and**
- it is fit for human consumption.

The term includes:

- products eaten as part of a meal, or as a snack; and
- products like flour, which, although not eaten by themselves, are generally recognised food ingredients.

The term would not usually include:

- medicines and medicated preparations;
- dietary supplements, food additives and similar products, which, although edible, are not generally regarded as food.

Some produce that is unfit for human consumption, such as waste and contaminated food products (including used cooking oil), may be eligible for zero-rating as animal feeding stuffs – see Notice 701/15 Animals and animal food.

Produce which is unfit for either human or animal consumption (for example, abattoir offal sold for processing into fertiliser) is standard-rated.

2.4 Food processing services

If you apply a treatment or process to another person’s goods so that new zero-rated food products are produced, you can zero-rate your services. Further information can be found in Notice 701/40 Food processing services.

3. General food products

This section explains how the criteria for zero-rating explained at paragraph 2.2 apply to general food products supplied for both home consumption and for processing within the food industry.

If you are supplying food in the course of catering you should read Notice 709/1 Catering and take away food.

3.1 Basic foodstuffs

You can zero-rate all supplies of unprocessed foodstuffs such as:

- raw meat and fish;
- vegetables and fruit;
- cereals, nuts and pulses; and
- culinary herbs,

whether you supply them direct to the public or for use as ingredients in the manufacture of processed foods, **provided they are fit for human consumption.**

In summary:

Food Item	Rate of VAT	Notes
Meat & poultry – beef, lamb, pork, chicken etc.	ZR	Butchered or complete carcass
Exotic meat – horse, ostrich, crocodile, kangaroo, etc.	ZR	Butchered or complete carcass
Live animals	ZR	If of a species generally used for human consumption
Live horses	SR	Not a recognised food species, see Notice 701/15 Animals and animal food
Animal products other than for human or animal food	SR	For example, for medicinal purposes
Fish	ZR	If fit for human consumption
Live fish	ZR	If of a species generally used for human consumption
Ornamental fish – such as Koi carp	SR	If prepared for human consumption, they are zero-rated
Fish for bait	SR	Unless fit for human consumption

Fish withdrawn from the food market under EC fisheries rules	ZR	If of a quality fit for human consumption
Vegetables & fruit	ZR	If of a quality fit for human consumption. However, for growing plants and seedlings, see Notice 701/38 Seeds and plants
Culinary herbs and spices	ZR	See Notice 701/38 Seeds and plants
Ornamental vegetables	SR	For example cabbages, that are grown for their appearance rather than consumption
Fruit and vegetable pulps	ZR	
Juice and juice concentrates	SR	Beverages or products for the preparation of beverages are standard-rated – see paragraph 2.2
Cereals	ZR	However supplied, such as growing crop, bulk or retail. See also Notice 701/15 Animals and animal food
Nuts & pulses	ZR	If raw and unprocessed for human consumption. Also roasted or salted nuts in their shells, however supplied bulk or retail – see also Notice 701/15 Animals and animal food
Nuts if shelled and either roasted or salted	SR	

3.2 Ingredients and additives used in home cooking and baking

As a general principle, you can zero-rate a product sold for use as an ingredient in home cooking or baking if it:

- has some measurable nutritional content;

- is used solely or predominantly, in the particular form in which it is supplied, in the manufacture of food; and
- is not one of the excepted items – see paragraph 2.2.

In summary:

Food Item	Rate of VAT	Notes
Prepared cake, sauce, soup and other mixes	ZR	For making up in the home kitchen
Mixes for ice-cream and similar frozen products	SR	See paragraph 3.5
Vegetable oils, maize (corn), rapeseed, groundnut (arachis), olive (including olive oil BP), almond (but not bitter almond oil), sesame seed, sunflower seed, palm kernel, walnut, soya and blends of these	ZR	Even if they are used as massage or cosmetic oils, provided they are of a type and grade suitable for culinary purposes, and they do not contain any substance, such as perfume, that would make them unsuitable for culinary use
Linseed oil and essential oils	SR	Not food
Waste and used oil for recycling	SR	May be eligible for relief as animal feed – see Notice 701/15 Animals and animal food
Starch & gelatine	ZR	Provided they are edible. This does not apply to starch for stiffening shirt collars, or 'photographic' gelatine
Salt for culinary use	ZR	Including fine salt, dendritic salt, and, in retail packs (12.5g or less) - rock and sea salt
Non-culinary salt	SR	Including compacted salt (pellets & tablets), granular salt, rock salt (other than retail packs), soiled salt, salt for dishwashers and salt of any type for non-food use
Sweeteners	ZR	Including natural products like honey & sugar, and artificial

		products like saccharin, aspartame and sorbitol
Flavourings and flavour enhancers	ZR	Including natural essences such as peppermint & vanilla, culinary rosewater and synthetic flavourings
Flavouring mixes	ZR	Including dusting powders, blended seasonings and marinating mixes, whether natural or synthetic
Monosodium glutamate	SR	Not a food product in its own right
Other food additives such as baking powder, cream of tartar, rennet, lactase & pectin for culinary use	ZR	
Non-food additives such as bicarbonate of soda, saltpetre & other single chemicals for use in brining or other processing of meats or fish	SR	

3.3 Processed foods

If you supply processed foodstuffs you need to check that they are not standard-rated – see paragraph 2.2. If you have a substantial lunchtime trade, for example in ready-to-eat pies, pasties and sandwiches, you may also have to decide whether your supplies are in the course of catering and therefore standard-rated – see paragraph 2.1.

In summary:

Food Item	Rate of VAT	Notes
Canned and frozen food other than ice cream and similar frozen products	ZR	These have the same liability of the unprocessed product, such as peas or fish
Ice creams, sorbets, frozen yoghurt (designed to be eaten as such) or ice lollies	SR	See paragraph 3.5
Chilled or frozen ready meals, convenience foods etc	ZR	For further preparation, such as reheating at home

Sandwiches – as a general grocery item	ZR	Zero-rated as prepared food
Sandwiches – as part of a party or buffet service	SR	A supply of catering – see paragraph 2.1

3.4 Bakery products

Although most traditional bakery products, such as bread, biscuits and cakes, are zero-rated, some confectionery is standard-rated including:

- biscuits wholly or partly covered in chocolate (or some product similar in taste and appearance); and
- any item of sweetened prepared food, other than cakes and non-chocolate biscuits, which is normally eaten with the fingers.

See also paragraph 3.6

In summary:

Zero-Rated	Standard-Rated
Bread and bread products such as rolls, baps and pitta bread	The same products supplied as part of a hot take-away meal, such as a hot hamburger in a bun, or a hot kebab in a pitta or to "eat in" – see Notice 709/1 Catering and take-away food
Cakes including sponges, fruit cakes, meringues, commemorative cakes such as a wedding, anniversary or birthday cakes	Cakes supplied in the course of catering – see Notice 709/1 Catering and take-away food
Slab gingerbread	
Flapjacks	Cereal, muesli and similar bars with honey or other added sweetening matter
Marshmallow teacakes (with a crumb, biscuit or cake base topped with a dome of marshmallow coated in either chocolate, sugar strands or coconut)	"Snowballs" without such a base are classed as confectionary
"Crunch cakes" - corn flakes or any other breakfast cereal products coated in chocolate or carob and pressed into brittle flat cakes	Florentines
Caramel or "millionaire's" shortcake	Shortbread partly or wholly chocolate-

consisting of a base of shortbread topped with a layer of caramel and (usually) chocolate or carob	covered
Lebkuchen	Coconut ice

3.4.1 Cake Decorations

If you sell inedible cake decorations with a cake, such as silvered horseshoes or bride and groom figures with wedding cakes, you do not have to treat your supply as a mixed supply and account for VAT on the decoration unless it is clearly a separate item in its own right. For example, a toy supplied as decoration to a child's birthday cake which is clearly intended to be kept and played with after the cake has been eaten. However you may still be able to treat the supply of the cake and the toy as a single supply if the linked goods conditions are met, see paragraph 6.1.

In summary:

Zero-Rated	Standard-Rated
Chocolate couverture, chips, leaves, scrolls etc (designed specifically as cake decorations)	Chocolate buttons
Jelly shapes, sugar flowers, leaves etc designed specifically as cake decorations	Chocolate flakes (except when they are supplied within the bakery and ice cream industries, when they may be zero-rated if sold in packs of one gross or more, clearly labelled " for use as cake decorations only: not for retail sale ")
Hundreds and thousands, vermicelli and sugar strands	Any other items which are sold in the same form as confectionery
Royal icing	
Toasted coconut and toasted almonds held out specifically for baking use	
Cherries used in baking (often described as "glacé")	
Edible cake decorations whether sold as part of a cake or sold separately unless they fall within the exceptions relating to confectionery (see paragraph 3.6) or roasted nuts (see paragraph 3.8)	Inedible cake decorations sold on their own

3.4.2 Biscuits

Biscuits covered or partly covered in chocolate or some other products similar in taste and appearance to chocolate are standard-rated.

In summary:

Zero-Rated	Standard-Rated
Chocolate chip biscuits where the chips are either included in the dough or pressed into the surface before baking	All wholly or partly coated biscuits including biscuits decorated in a pattern with chocolate or some similar product
Bourbon and other biscuits where the chocolate or similar product forms a sandwich layer between two biscuit halves and is not continued onto the outer surface	Chocolate shortbread
Jaffa cakes	Gingerbread men decorated with chocolate unless this amounts to no more than a couple of dots for eyes
Biscuits coated with caramel or some other product that does not resemble chocolate in taste and appearance	Ice cream wafers partly covered in chocolate such as "chocolate oysters"

3.4.3 Hot Food

Many bakery products, particularly pies, pasties and other savouries, are baked on the retail premises, and are sold while hot. If you sell products that are hot simply because they are freshly baked, with no intention of supplying them to be eaten while hot, they can be zero-rated. However, if you sell hot food specifically for consumption while still hot, then this is a supply in the course of catering and standard-rated. The borderline between "freshly baked" and "hot take-away" food can be a difficult one, and if you sell any hot food you are advised to read Notice 709/1 Catering and take-away food which sets out the distinction in more detail. If you are still in any doubt contact our National Advice Service.

3.5 Ice cream and similar frozen products

You must standard-rate your supplies of **any** product designed to be eaten while frozen.

Products which are supplied frozen, but have to be cooked before they can be eaten, or which have to be thawed completely before eating, are zero-rated.

In summary:

Zero-Rated	Standard-Rated
Baked Alaska	Ice cream and ice lollies
Cream gateaux	Ice cream gateaux and cakes, including arctic rolls

Mousse	Water ices, sorbets and granitas
Frozen yoghurt which needs to be thawed completely before it can be eaten and which has been frozen purely for storage or distribution	Frozen yoghurt
Desserts which are equally suitable for consumption frozen or defrosted (unless primarily designed for eating frozen and made substantially of ice cream or similar products)	Powders and mixes for making ice creams and similar frozen products, including incomplete mixes and emulsions used by the trade and fruit syrups sold in plastic tubes for home freezing as ice lollies
Wafers and cones	Wafers and cones sold with ice cream or similar products
Toppings, sauces and syrups unless sold with ice cream or similar products	

3.6 Confectionery

Standard-rated confectionery includes, chocolates, sweets and candies, chocolate biscuits and any other "items of sweetened prepared food which is normally eaten with the fingers" – **and** which must be both sweetened and have some sweetness to the taste.

Here are some examples of standard and zero-rated confectionery:

Zero-Rated	Standard-Rated
Cakes including sponge cakes, pastries, eclairs, meringues, flapjacks, lebkuchen and marshmallow teacakes	Chocolates, bars of chocolate including those containing nuts, fruit, toffee, or any other ingredients, diabetic chocolate, liqueur chocolates and similar sweets
Chocolate spread, liquid chocolate icing, chocolate couverture, and chocolate chips, strands, vermicelli etc held out for sale solely for culinary use; chocolate body paint	Sweets, pastilles, gums, lollipops, candy floss, sherbet, chewing gum, bubble gum, Turkish delight, marshmallow, fondants and similar confectionery
Biscuits coated with icing, caramel or some other product different in taste and appearance from chocolate	Compressed fruit bars, consisting mainly of fruit and nuts, with added sweetening matter (including honey)
Chocolate cups	Sweetened popcorn
Toffee apples and other apples on a stick	Nuts or fruit with a coating, for example

covered in chocolate, nuts etc	of chocolate, yoghurt or sugar
Ginger preserved in syrup, drained ginger or dusted ginger can be zero-rated as long as it is not held out for sale as confectionery	Crystallised, sugared or chocolate covered ginger
Candied peels, angelica, drained cherries for use in home baking often described as "glacé" cherries and cocktail or maraschino cherries	Drained, glacé or crystallised fruits including Petha, Marrons glacés
Halva (unless coated with chocolate or chocolate substitute or held out for sale as confectionery)	Bars consisting mainly of sesame seeds and sugar or other sweetening matter
Edible cake decorations	Cereal bars, whether or not coated with chocolate, with the exception of bars which qualify as cakes
Sweetened dried fruit held out for sale as snacking and home baking	Sweetened dried fruit held out for sale as confectionery/snacking
Traditional Indian and Pakistani delicacies such as barfis, halvas, jelabi, laddoos; and traditional Japanese delicacies	Slimmers' meal replacements in biscuit form that are wholly or partly covered in chocolate or something similar in taste and appearance

3.7 Drinks

Although most drinks (other than medicinal drinks) are considered to fall within the general category of "food" for VAT purposes, many drinks are standard-rated as alcoholic or non-alcoholic beverages. For VAT purposes, a beverage is:

a liquid commonly consumed to increase bodily liquid levels, to slake thirst, to fortify or to give pleasure.

A number of non-alcoholic beverages are, however, specifically allowed zero-rating. These are listed at paragraph 3.7.2.

3.7.1 Alcoholic beverages

You must standard-rate all your supplies of drinks containing alcohol, whether you sell them for consumption on or off your premises. Examples include:

- beer, cider and perry (including black beer and shandy);
- wine (including made-wine and fermented communion wine); and
- spirits and liqueurs.

This standard-rating only applies to beverages containing alcohol. Other food products containing alcohol follow the normal liability rules, for example:

Zero-Rated	Standard-Rated
Fruit preserved in alcohol	Liqueur chocolates
Alcoholic dessert jellies	Semi-set alcoholic jellies designed to be swallowed as cocktails
Rum babas	

3.7.2 Non-alcoholic beverages

Some non-alcoholic beverages are zero-rated. Here are some examples:

Zero-Rated	Standard-Rated
Milk and flavoured milk drinks (including milk shakes)	Flavourings for milk shakes (except preparations and extracts of cocoa or coffee, which are zero-rated)
Tea, maté, herbal teas and similar products, and preparations and extracts of these (but this does not include soft drinks containing tea as only one of several ingredients)	Purgative and laxative "teas", such as senna, and similar medicinal teas.
Cocoa and drinking chocolate and other preparations and extracts of cocoa	Mineral, table and spa waters held out for sale as beverages
Coffee and chicory and other roasted coffee substitutes, and preparations and extracts of these (including coffee extracts for flavouring milk shakes)	Alcohol-free beer and wines
Preparations and extracts of meat, yeast, egg or milk	Ginger, glucose, honey, peppermint and barley water drinks
	Syrups, crystals, powders and flavourings for making any standard-rated drink
	Carbonated drinks such as lemonade, cola and mixers such as tonic and soda
	Fruit cordials and squashes

All hot beverages are standard-rated and **all** beverages sold for consumption on your premises are standard-rated.

3.7.3 Drinks which are not beverages

There are a number of types of drinks which do not fall within the above definition of a beverage. These (and the mixes etc for making them) can be zero-rated. They are:

- plain soya or rice milk (unflavoured and unsweetened);
- coconut milk;
- meal replacement drinks for slimmers or invalids;
- unfermented fruit juice intended specifically for sacramental purposes (see paragraph 4.7); and
- Angostura Bitters.

3.7.4 Ingredients for home beer and wine making

Products that are canned, bottled, packaged or prepared for use in home wine or beer making are standard-rated. This includes:

- kits for home brewing, wine making etc;
- retail packs of hopped malt extract, malted barley, roasted barley, hops;
- special wine and brewers' yeasts;
- grape concentrates; and
- retail packs of foods, which are specialised to home wine making, such as dried elderberries or sloes for making country wines.

You must also standard-rate any general food product that you hold out for sale specifically for home wine making or brewing, such as fresh, dried or canned fruit, fruit juices and concentrates, barley, glucose and plant malt extract. In this context, you hold them out for sale for home brewing and wine making if you:

- sell them through a retail outlet that specialises in home brewing and wine making materials;
- sell them in the home brewing and wine making department or section of a general outlet; and
- label, advertise or otherwise display them as materials for home brewing or wine making, or provide with them or on their packaging any brewing or wine making recipes, or instructions for using them in the making of beer or wine (for example, the amount of sugar required for their fermentation or the type of yeast to be used).

3.8 Savoury snacks

3.8.1 General

The following three categories of savoury snack products are standard-rated:

- Potato snacks, made from sliced potato or from potato flour or starch (although a small amount of potato flour in the recipe of a savoury biscuit would not make that biscuit standard-rated if otherwise it had none of the characteristics of a standard-rated potato product).
- Snacks made by the swelling of cereals. This applies only to products produced by the puffing of individual kernels or by an extrusion process where air is introduced under pressure into the cereal flour or starch paste during manufacture to produce an expanded, aerated product. These are frequently known in the trade as "light" products.
- Roasted and salted nuts.

For standard-rating to apply the potato and cereal products must also be packaged and ready to eat without any further preparation on the part of the customer. By packaged we mean pre-packed for retail sale in a sealed bag, carton or other container. Roasted or salted nuts are standard-rated even when sold loose.

Savoury snacks not falling within one or other of these three categories are zero-rated.

See paragraph 5.2 for advice on mixtures containing both standard and zero-rated constituents, for example, Bombay Mix.

In summary;

Zero-Rated	Standard-Rated
Savoury snacks consisting of sliced and dried or roasted vegetables other than potatoes for example beetroot, carrot etc	Potato crisps, potato sticks, potato puffs, and similar products including those made from a combination of potato starch or flour and cereal flour if the end product has the taste and texture of a potato product
Tortilla chips, corn chips, bagel chips, cocktail cheese savouries and Twiglets®	Savoury popcorn (but not corn for popping for example "microwave" popcorn)
Prawn crackers made from tapioca	Prawn crackers made from cereals (but not unpackaged prawn crackers, for example, those supplied in unsealed

	bags as part of a takeaway meal)
Roasted pulses and legumes, for example chick peas and lentils	Rice cakes (but not unflavoured rice cakes intended for consumption with cheese or other toppings)
Roasted or salted nuts supplied while still in their shells (such as “monkey nuts” and pistachios), toasted coconut, toasted almonds and other toasted chopped nuts held out for sale in retail packs specifically for home baking	All other roasted or salted nuts

4. Specialised products

4.1 General

Dietary products designed to meet particular nutritional needs, either as supplements to a normal diet, or as food for specialised groups of people, such as invalids, slimmers and sportsmen, are often sold through specialised health food outlets or chemists' shops. To determine the liability of these products you must consider whether they fall within the normal and everyday meaning of food – see paragraph 2.3.

4.2 Food supplements

Dietary supplements of a kind not normally purchased and used as food are standard-rated. This includes:

- vitamin and mineral supplements of all kinds;
- royal jelly products (but not regular food products such as honey which simply have royal jelly added to them);
- tablets, pills and capsules containing, for example, wheatgerm, iron, calcium, fibre, yeast, garlic, ginseng, pollen, propolis, seaweed, evening primrose, guarana or other similar herbal preparations, and powders of these other than garlic and yeast;
- charcoal biscuits;
- cod liver oil and other fish oils held out for sale as dietary supplements;
- elixirs and tonics, including mixtures of cider vinegar and honey sold as a dietary supplement; and

- malt extract with cod liver oil (but the supply of plain malt extract with or without added vitamins, is zero-rated unless it is held out for sale for home-brewing etc).

4.3 Invalid foods

These products are often supplied in liquid form or as a powder meant to be made up into a liquid. They include parenteral products, (products given intravenously). Provided the product is designed to meet nutritional needs, and not provide treatment for any medical condition, they can be zero-rated, subject to the normal rules and exceptions. Foods in liquid form, intended to build patients up, are zero-rated as food since they fall outside the definition of a beverage.

4.4 Diabetic and hypoallergenic products

You can also zero-rate specialised food products designed specifically for diabetics or allergy sufferers, such as sugar-free preserves or gluten-free flour and cakes. However, products such as sugar-free confectionery or gluten-free chocolate biscuits, are standard-rated in the same way as their mainstream equivalents.

4.5 Slimmers' foods

Low calorie foods designed for slimmers are treated in the same way as their mainstream food equivalents. Slimmers' meal replacement products (including drinks) are always zero-rated except for meal replacements in the form of confectionery such as chocolate or carob-coated biscuits or sweetened cereal or compressed fruit bars.

Appetite suppressants are not food, and must be standard-rated, whether supplied in pill, powder or other form. However, you can zero-rate a genuine slimmers' food product that contains an appetite suppressant, for example soups containing cellulose, provided that product is still obviously food and is meant to take the place of a "normal" food equivalent in the slimmer's daily food intake.

4.6 Sports products

There are a wide variety of these products available including drinks, tablets, and bars. The VAT liability of these is as follows:

4.6.1 Sports/energy drinks

Drinks that are preparations of milk, meat, yeast or egg are zero-rated in their own right – see paragraphs 3.7.2 and 3.7.3.

Sports energy drinks are standard-rated beverages (see paragraph 3.7) unless the product meets all the conditions below in which case it is zero-rated:

Condition	Description
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1	It is aimed at supplying energy to enhance performance and/or accelerate recovery after exercise and both the packaging and advertising of the product reflect this.
2	It is not primarily marketed for consumption as a soft drink.
3	Its primary purpose is <ul style="list-style-type: none"> • the provision of energy; or • the provision of creatine; or • to build bulk; but • not rehydration
4	It is in the form of powder, syrup, concentrate, essence, crystal or gel or is the equivalent of these with water added.
5	It has as its main ingredient(s), other than water: <ul style="list-style-type: none"> • carbohydrate the majority of which is not sugar, or • creatine, or • protein, or • a mixture of each.

4.6.2 Tablets

These are standard-rated, with the exception of glucose, dextrose and Horlicks® tablets, which are zero-rated.

4.6.3 Cereal/fruit bars

Standard-rated items include compressed fruit bars, consisting mainly of fruit and nuts, with added sweetening matter (including honey) and also cereal bars, whether or not coated with chocolate, with the exception of bars which qualify as cakes – see paragraph 3.6.

Standard-rating applies to any product falling within the general definition of confectionery even when that product is intended to meet the special nutritional needs of athletes.

4.6.4 Creatine

With the exception of sports/energy drinks (see above), items made up wholly or mainly of creatine are standard-rated. Where it is clear that the main benefit of the product is not the creatine but carbohydrate, protein or fat, then it is treated as a food, and will be zero-rated unless it falls within one of the exceptions.

4.7 Food and drink for religious and sacramental use

The existence of religious laws requiring certain foods to be prepared in particular ways (for example, kosher or halal) does not affect the liability of the final product, which is judged according to the normal VAT rules. However, the following concessions have been agreed in respect of some specialised food products, which have exclusively sacramental use:

- communion wafers used in the celebration of the Christian Communion, Mass or Eucharist are zero-rated;
- unfermented communion wine is also zero-rated (but fermented communion wine is standard-rated); and
- unfermented grape juice for use at the Jewish seder or kaddish is zero-rated provided it is marked prominently in English "for sacramental use only".

5. Products used in commercial food manufacture

5.1 Introduction

Many substances used in the preparation of commercially produced foodstuffs would not be used in the domestic kitchen and are not immediately recognisable to the average person as 'food'. In general:

- products included for their nutritional content are food, and
- products that are included for other than strictly nutritional reasons are not food and are standard-rated.

5.2 Ingredients

Most ingredients used in commercial food production are the same as those used in home cooking and baking, therefore the rules explained at paragraph 3.2 will apply.

In addition, natural or synthetic flavourings are zero-rated even if they have no measurable nutritional content provided they are essential to the making of that particular food, and they meet the 2nd and 3rd conditions of paragraph 3.2. Edible sausage skins are also zero-rated.

5.3 Additives

Many additives are included in foodstuffs for commercial rather than nutritional reasons, for example, to prolong shelf life or improve appearance. While they may be both necessary and desirable on commercial grounds (and in the case of preservatives, even on health grounds) they are standard-rated if they do not meet the conditions outlined at paragraph 3.2.

The following classes of commercial additives are standard-rated:

- preservatives including unflavoured wet and dry brine mixes and cures for curing or salting meats;
- anti-oxidants including vitamins A and E;
- vitamin supplements (including those required by law to fortify flour before it can be put on the market);
- stabilisers and thickening agents (including agar, carageenan, guar gum, gum arabic, gum tragacanth and xanthan gum, but not corn starch);
- fillers and bulking agents other than flour and starch;
- colourants (other than naturally derived colourings which are also food stuffs in their own right, such as caramel, cocoa, saffron and turmeric, and cochineal);
- flavour enhancers such as monosodium glutamate (MSG), ribonucleotides and hydrolysed vegetable protein (HVP); and
- flour improvers and bleaching agents.

A few commercial additives that add no nutritional content to the finished product are, however, accepted as zero-rated products because their action makes them essential to the production of a particular foodstuff. These are:

- food grade, naturally derived emulsifiers and stabilisers, such as lecithin, specifically tailored or mixed for food purposes (such as in margarine) which are essential to the production of that food and cannot be used for any other purpose;
- artificial sweeteners; and
- artificial flavourings.

6. Mixed supplies: mixtures, promotional linked items and packaging

6.1 Mixed supplies, including linked goods

If you supply standard and zero-rated food items (or zero-rated food items and standard-rated non-food items) together for a single price, this is a mixed supply for VAT purposes. The general rules for the treatment of mixed supplies and the way in which you should account for tax on them is dealt with in Notice 700 The VAT Guide.

Examples of mixed supplies are:

- food hampers;
- special gift or presentation packs containing linked items (like coffee supplied with a mug, tea with a pack of chocolate biscuits);
- linked goods promotions; and
- food supplied in or with re-usable storage containers.

Where, however, you supply together a **minor** standard-rated item with a main zero-rated food item you can treat the supply as a single supply of the main zero-rated item where the standard-rated item:

- is not charged at a separate price;
- costs you no more than 20% of the total cost of the supply; and
- costs you no more than £1 (excluding VAT).

Once these conditions have been met, the linked goods are treated throughout the rest of the distribution chain as a single zero-rated supply.

If you are not the person who linked the goods - for example, you are a wholesaler or retailer who received them already linked as a package - you may be unsure whether these conditions have been met. In many cases the standard-rated item is so minor that it is obvious, such as where a small plastic spoon is supplied with a yoghurt. In less obvious cases, your supplier's supporting documentation should tell you whether you can treat the package as a single zero-rated supply or not. If you are in any doubt, you should check the position with your supplier.

There are also special rules for the treatment of mixtures & assortments and packaging, which are covered in paragraphs 6.2 and 6.3.

6.2 Mixtures and assortments

Mixtures and assortments containing both standard-rated and zero-rated items are mixed supplies for VAT purposes. As a general rule you will therefore need to work out the tax value of each part of the mixture or assortment in order to calculate how much tax is due. You will find more about this in Notice 700 The VAT Guide.

However, as an exception to the normal rule, certain products containing only small quantities of standard-rated items may be treated as a single zero-rated supply.

The products are:	
1.	assortments of biscuits where the weight of standard-rated chocolate biscuits does not exceed 15% of the net weight of the whole;
2.	fruit and nut mixes (including Bombay and similar savoury mixes) where the weight of any standard-rated items, such as sweetened fruits, or pieces of chocolate or roasted nuts does not exceed 25% of the net weight of the whole;
3.	petits fours in assortments containing standard-rated chocolate biscuits or sweets where: <ul style="list-style-type: none">• the net weight of chocolate biscuits, or the combined net weight of chocolate biscuits and sweets, does not exceed 15% of the net weight of the whole; or• the net weight of sweets where sweets are the only standard-rated item does not exceed 25% of the net weight of the whole.

These concessions apply only to mixtures and assortments supplied in a single pack, not to "variety" selections of individual packs.

It is unlikely that any mixture or assortment, which does not pass these quantity tests, will meet the cost conditions of paragraph 6.1. However, if it does (if, for example, the standard-rated components of a fruit and nut mix exceed 25% of the total by weight, but still meet the cost conditions in paragraph 6.1) that mix can also be treated as a single zero-rated supply.

6.3 Food packaging

Packaging simply to contain, protect and promote the food it contains, is considered part of the supply of the food inside it, rather than a supply in its own right, and takes the same liability as its contents.

However, if you supply zero-rated foodstuffs in containers, which do more than contain, protect and promote their contents, these containers constitute supplies in their own right. Your supplies are then mixed supplies, and you must account for tax on that part of their price as described in paragraph 6.1 of this notice.

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You must treat the following types of containers as separate supplies in their own right and account for tax on them (subject to the "linked goods" concession in paragraph 6.1 of this notice):

- any container which you specifically advertise or hold out for sale as having value in its own right (for example, by advertising the product as "with free storage tin");
- any container with a clear and obviously intended after-use (such as tumblers containing coffee, honey or preserves in ceramic serving bowls);
- storage jars obviously intended for use in storing future supplies of the product, or other products;
- biscuit tins containing built-in hydroscopic crystals;
- tea caddies (but not simple tins bearing the supplier's name and details of the weight and variety of the tea they contain, where it is the supplier's practice to put out their tea in this way);
- ceramic pâté pots and other ceramic containers in the shape of birds, animals etc, or which are otherwise clearly suitable for future decorative use; and
- hampers and picnic baskets (other than simple cardboard cartons).

Seasonal packaging is frequently more elaborate than that supplied during the rest of the year (for example, Christmas overwraps or decorated tins in place of, or in addition to, a product's normal paper or plastic packaging). Such packaging is not considered a separate supply unless it falls within one of the categories listed above.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

HM Customs and Excise
Social Exemptions and Zero Rates Team
4th Floor East
New Kings Beam House
22 Upper Ground
London
SE1 9PJ

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmce.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP

Phone: (020) 7930 2292

Fax: (020) 7930 2298

E-mail: adjudicators@gtnet.gov.uk

Internet: <http://www.adjudicatorsoffice.gov.uk/>

APPENDIX 2

Notice 701/10 Zero-rating of books etc
August 2003

Foreword

This notice cancels and replaces Notice 701/10 (October 1999). Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on 0845 010 9000. You can call between 8.00 am and 8.00 pm, Monday to Friday.

If you have **hearing difficulties**, please ring the **Textphone** service on 0845 000 0200.

If you would like to speak to someone in **Welsh**, please ring 0845 010 0300, between 8.00 am and 6.00 pm, Monday to Friday.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

[48 Extra-Statutory Concessions](#)

[700 The VAT Guide](#)

[701/1 Charities](#)

[700/7 Business promotion schemes](#)

[700/24 Postage and delivery charges](#)

[700/57 VAT: Administrative agreements entered into with trade bodies](#)

[701/58 Charity advertising and goods connected with collecting donations](#)

[VAT Information Sheet 2/01 \(July 2001\) – “Single or Multiple Supplies – How to Decide](#)

1. Introduction

1.1 What this notice is about

It explains the nature of, and the circumstances when you can zero-rate books (the items listed in Group 3 of schedule 8 of the Value Added Tax Act 1994 reproduced in paragraph 1.3).

1.2 What's changed?

The notice has been rewritten to improve readability. However, we have taken the opportunity to update the material and clarify certain matters on which we have received queries since the publication of the last edition. We have:-

- (a) removed all reference to "printed and similar matter" (including the title of the notice which is now Zero-rating of Books etc) as this phrase does not appear in the VAT Act 1994 and we have received indications that there has been general misunderstanding of its meaning.
- (b) updated our policy on leaflets to take account of recent developments in the printing industry – see paragraph 3.3.
- (c) made it clear that the 25% test for items with areas for completion, detachment or return is not a rigid guideline - see paragraph 3.4.
- (d) shown the special rules for charities in paragraphs 4.6, and 6.6.
- (e) included for the first time the liability of supplies by libraries - see paragraph 5.3.
- (f) updated our guidance on single and multiple supplies and the package test to take account of the decision in the European Court of Justice case of Card Protection Plan - see section 6. In particular we have included additional guidance on the operation of the package test when supplies of items printed on paper and card are supplied to charities - see paragraph 6.6.
- (g) clarified the distinction between supplies of services where zero-rated goods are incidental products, and those supplies of services which result in the production of zero-rated goods - see section 7.

You can access details of any changes to this notice since August 2003 either on our Internet website at www.hmce.gov.uk or by telephoning the National Advice Service on 0845 010 9000.

This notice and others mentioned are available both on paper and on our website.

1.3 What law covers this notice?

The Value Added Tax Act 1994, section 30 provides for the zero-rating of goods listed in Schedule 8 of the Act.

Schedule 8, Group 3 sets out which books, etc which may be zero-rated as follows:

Group 3 - Books, etc.

Item No.

1. Books, booklets, brochures, pamphlets and leaflets.

2. Newspapers, journals and periodicals.
3. Children's picture books and painting books.
4. Music (printed, duplicated or manuscript).
5. Maps, charts and topographical plans.
6. Covers, cases and other articles supplied with items 1 to 5 and not separately accounted for.

Note:

Items 1 to 6 –

(a) do not include plans or drawings for industrial, architectural, engineering, commercial or similar purposes; but

(b) include the supply of the services described in paragraph 1(1) of Schedule 4 in respect of goods comprised in the items.

The effect of paragraph 1(1) of Schedule 4 is explained in paragraph 5.3.

2. The format of the Group 3 items

The words in Group 3 are used in their ordinary, everyday sense. This means they are restricted to goods produced on paper and similar materials such as card (but see paragraph 3.7). Most items qualifying for the zero-rating will be products of the printing industry (including items printed in Braille), but goods which are photocopied, typed or hand-written will, in some cases, also qualify.

Goods containing text in other formats such as audio or video cassettes or CD Rom are standard-rated. This includes the storage and distribution of text by fax, e-mail, microfiche, or any similar process. Transcripts or print-outs made of such information are zero-rated if they are supplied in the form of books, booklets, brochures, pamphlets or leaflets as defined in section 3.

The supply of text by electronic transmission, via the internet, or similar means is also standard-rated. Such supplies are of services, not of goods, and different VAT rules will apply to them (such as those on the place of supply of services – see Notice 741 Place of supply of services).

3. Meaning of the Group 3 items

The meaning of the individual items is explained in detail below. Whether a particular item falls within those meanings depends mainly on its physical characteristics and function but also, to a lesser extent, on its content.

3.1 Books and booklets

These normally consist of text or illustrations, bound in a cover stiffer than their pages. They may be printed in any language or characters (including Braille or shorthand), photocopied, typed or hand-written, so long as they are found in book or booklet form.

Supplies of any of the following are zero-rated:

- literary works;
- reference books;
- directories and catalogues;
- antique books;
- collections of letters or documents permanently bound in covers;
- loose-leaf books, manuals or instructions, whether complete with their binder or not; and
- amendments to zero-rated loose-leaf books, even if issued separately.

School work books and other educational texts in question and answer format, are zero-rated because the spaces provided for the insertion of answers are incidental to the essential character of the book or booklet. The same applies to exam papers in question and answer format provided they qualify as books, booklets, brochures, pamphlets or leaflets.

But supplies of the following are standard-rated:

- books of plans or drawings for industrial, architectural, engineering, commercial or similar purposes;
- picture card and stamp albums, **unless** they contain a substantial amount of reading matter which is complete in itself, and no more than 25% of the album is set aside for the mounting of cards and stamps;
- completed stamp albums; and
- products that are essentially stationery items, for example, diaries and address books.

3.2 Brochures and pamphlets

These are not defined in law and whether a particular product qualifies as a brochure or pamphlet is a matter of fact and impression.

Brochures usually consist of several sheets of reading matter fastened or folded together, which are not necessarily bound in covers. They usually contain advertising material in the form of text or illustrations.

Pamphlets are similar, but are usually comprised of material of a political, social or intellectual nature.

Single sheet brochures and "Wallet" type brochures designed with a flap may be zero-rated provided they:

- convey information; and
- contain a substantial amount of text, with some indication of contents or of the issuing organisation; and
- are not primarily designed to hold other items; and
- are supplied complete.

3.3 Leaflets

These are also not defined in law and again whether a particular product qualifies as a leaflet is a matter of fact and impression. Leaflets normally:

- consist of a single sheet of paper not greater than international standard A4 in size (larger publications up to A2 size can be zero-rated provided that they are printed on both sides, folded down to A4 size or smaller and meet the other conditions);
- are intended to be held in the hand for reading by individuals (rather than for hanging up for general display);
- convey information;
- are complete (and not a part work);
- are supplied in sufficient quantity (at least 50 copies) to permit general distribution;
- are printed on limp paper; and
- will either be of an ephemeral nature (designed to be read a few times and then thrown away) or be designed to accompany some other product or service, for example an instruction leaflet.

Items printed on stiff paper and card are not automatically excluded from the definition of leaflets. However we do regard the use of stiff paper and card as an indicator that the items have a function which **would** exclude them.

For example if the item's main function were designed to be kept or used for a specific purpose in its own right, rather as ancillary to another supply, it would not be a leaflet. Examples of items that would **not** be leaflets would be those designed to be used for **any** of the following:

- as a calendar;
- to obtain admission to premises;
- to obtain a discount on goods or services;
- as reference material; or
- for completion or return (see paragraph 3.4).

We consider that items printed on laminated paper are designed to be kept and therefore not leaflets. On the other hand, orders of service are not normally designed to be kept and may be zero-rated.

3.4 Items with areas for completion

Items which might otherwise be considered to be leaflets, brochures and pamphlets may not be zero-rated if they are primarily intended for completion or detachment. This distinguishes brochures, pamphlets and leaflets from standard-rated forms.

We accept that items are **not** primarily intended for completion or detachment if 25% or less of their total area consists of:

- areas which are blank and available for completion; or
- parts to be detached and returned.

Where there is both an area for completion and a part to be detached and returned, then the two together must not exceed 25% of the total area of the publication.

If you have items with areas for completion or detachment which does exceed 25%, but you consider they are nevertheless **not** primarily forms or other stationery, you should obtain a written ruling from our National Advice Service before zero-rating them.

Whatever the area for completion, a publication which is designed to be returned whole after completion is always standard-rated.

3.5 Newspapers

Newspapers are issued at least once a week in a continuous series under the same title. Each issue is usually dated and/or serially numbered. They usually consist of several large sheets folded rather than bound together, and contain information about current events of local, national or international interest.

Publications which do not contain a substantial amount of news are not newspapers.

Many newspapers also carry items such as readers' letters, sports news, the weather forecast, crosswords and features (including feature supplements) on fashion, gardening, etc., or more specialised topics.

3.6 Journals and periodicals

These are magazines issued in a series at regular intervals, more frequently than once a year, either in newspaper format or as paper-bound publications. They may contain information of a specialised nature (for example legal, medical, financial, commercial, fashion or sporting) or be of more general interest. They are normally a mixture of articles and stories with the content changed for each edition. Although they consist essentially of reading matter, they may also consist mainly of illustrations or advertising matter.

'Poster-magazines', which have some textual material on one side and a related picture capable of being used as a poster on the other side and which are folded into a magazine format are zero-rated as periodicals, provided they are issued at regular intervals.

Publications whose main purpose is to promote your own products or services are not journals or periodicals, even if they are published regularly. If you supply such publications, you can still zero-rate them if they fall within one of the zero-rated categories, such as brochures.

3.7 Children's picture books

These are zero-rated, whether they are printed on paper, plastic or textiles, such as children's rag books, unless the article is essentially a toy. Examples of articles which are standard-rated as toys include:

- books consisting wholly or mainly of pictures of models for cutting out - but books with printed text directly related to the material for cutting out covering at least 25% of the pages can be zero-rated. (Pages of assembly instructions should not be included as printed text for the purpose of determining eligibility for zero-rating); and
- items where the "pages" are boards for games.

3.8 Children's painting books

Supplies of the following are zero-rated:

- children's painting and drawing books with sample pictures for copying, or outlines of pictures for colouring, painting or drawing;

- similar books with 'invisible' outlines to colour which can be made visible by rubbing with a pencil or applying water with a paint brush;
- painting books in which the small amounts of water colour required for colouring are contained in the book (for example, in the form of a palette); and
- activity books which combine pages of colouring with pages of puzzles, quizzes and the like.

3.9 Music

Printed, duplicated or manuscript music of all kinds is zero-rated. It may be:

- instrumental or vocal;
- printed or hand-written;
- bound or on loose sheets;
- illustrated or not; or
- in any system of notation, including numerical symbols or Braille.

Music rolls and blank music manuscript are **standard-rated**.

A piece of music commissioned from a composer is **standard-rated** (see paragraph 7.2).

3.10 Maps, charts and topographical plans

Supplies of all printed maps and charts designed to represent the natural or artificial features of countries, towns, seas, the heavens, etc are zero-rated. They can be printed on paper or other material (such as cloth) and in the form of single or folded sheets or a collection of such sheets bound together in book form (for example, an atlas).

But supplies of **any of these** are **standard-rated**:

- plans or drawings for industrial, architectural, engineering, commercial or similar purposes, in any format;
- framed maps whose primary purpose is decorative;
- posters;
- pictorial wall charts;
- aerial photographs;

- globes, three dimensional models and similar articles; or
- decorative maps printed or woven into textile articles such as scarves, handkerchiefs, tea-towels, tapestries, rugs.

4. Items not included within any of the Group 3 items

4.1 Posters

Sheets intended for public display are standard-rated. For 'Poster-magazines', see paragraph 3.6.

4.2 Stationery

Stationery items such as account books and exercise books are standard-rated. Some items which are standard-rated stationery when new and unused can be zero-rated if sold after they have been completed, provided that they then have the physical characteristics of a book or other zero-rated item. Examples are completed diaries or ships' logs, but not completed stamp albums.

4.3 Letters

Individual manuscript or typed letters are standard-rated, as are collections of such letters if they are unbound or loosely bound. Permanently bound collections of letters are zero-rated.

If a 'stock' or basic letter is supplied with an individual name or address of the recipient added (by whatever means) that supply is standard-rated. Uncompleted 'stock' or basic letters may qualify as **leaflets** (paragraph 3.3), if the portion for completion consists of no more than the recipient's name and address, a reference number and a signature.

4.4 Incomplete publications

Parts of books, unbound pages and separate illustrations are standard-rated.

By concession, the following are zero-rated:

- Part work publications designed to build up into a zero-rated book. Once a complete book has been supplied, amendments to it may also be zero-rated.
- Card based continuity series publications, even though not bound, but stored in their container will for VAT purposes, be treated as a book.

See Notice 48 Extra-Statutory Concessions.

4.5 Photocopies

Photocopies of zero-rated items are always standard-rated unless the copies can be properly described as books, booklets, brochures, pamphlets, leaflets etc, and meet all the criteria for such items in the relevant preceding paragraphs. A bundle of photocopies would not constitute a book unless it included copies of all the pages of a book and was in a permanent binding. Photocopies of parts of books, extracts from periodicals etc cannot be zero-rated unless they are complete in themselves and have the characteristics of zero-rated items.

If you provide 'instant' photocopying or duplicating services and you cannot determine the VAT liability of the copies which you supply, you should charge and account for VAT at the standard rate.

4.6 Supplies to charities

Certain printed items that are not within the group 3 zero-rating and are therefore usually standard-rated, may be zero-rated when supplied to charities for use in connection with collecting monetary donations. For details see Notice 701/58 Charity advertising and goods connected with collecting donations.

5. Related supplies

5.1 Incidental articles supplied with zero-rated items

Minor accessories for example dust covers, clasps, book marks, slip cases and presentation cases, supplied with any zero-rated items, are usually regarded as forming part of the zero-rated item (but see section 6).

5.2 Binders and folders

Ring-binders and similar binders supplied on their own are zero-rated if they are designed to contain a loose-leaf book, provided the exact title of that book is printed on the outside. A company name alone is not enough for zero-rating. A binder supplied with loose-leaf pages to make a book is treated as part of the zero-rated supply whether titled or not. All other binders or files for general or office use are standard-rated. This includes binders for part works, journals or periodicals (whether specifically titled or not).

Most folders and wallets are standard-rated but if they convey information themselves they may qualify as brochures (see paragraph 3.2).

5.3 Loans, hire and shares

If you lend or hire out an article which is zero-rated under the rules explained in this notice, or sell a share or part interest in such an article, your supply is always zero-rated.

Libraries which charge for the loan of books will therefore be making zero-rated supplies. This will also apply to reference libraries which charge for the use of their books on their own premises.

Please note that libraries which charge for use of a number of different facilities must consider section 6.

Note: This is the effect of note (b) to group 3 of schedule 8 and paragraph 1(1) of Schedule 4 of the Value Added Tax Act 1994.

5.4 Book tokens

If you...	then...
<ul style="list-style-type: none">print book tokens for someone	your supply is standard-rated
<ul style="list-style-type: none">sell a book token to the general public for its face value or less	no VAT is due
<ul style="list-style-type: none">sell a book token to the general public for more than its face value	you must account for VAT on the difference between your selling price and its face value
<ul style="list-style-type: none">make a separate charge for a greetings card	that charge is standard-rated

Further guidance is in Notice 700/7 Business promotion schemes.

5.5 Small order surcharges

If you impose a surcharge for handling a small order, which increases the unit price of the goods, it is part of the price of the goods and is zero-rated if the goods are zero-rated.

5.6 Postage packing and delivery charges

Guidance is given in Notice 700/24 Postage and delivery charges.

5.7 Subsidy or vanity publishing

Subsidy or vanity publishing occurs when an author who is unable to have work published pays a publisher to do so. If the publisher produces books which are all delivered to the author, the payment by the author is a consideration for a supply of books and is zero-rated.

If the bulk of the books remain with the publisher, payment by the author is partly for the supply of books (zero-rated) and partly for publishing services (standard-rated).

Agreement has been reached with the British Printing Industries Federation in calculating the value of such supplies which can be seen in Notice 700/57 VAT: Administrative agreements entered into with trade bodies.

6. Single and multiple supplies

6.1 Transactions with more than one element

When you supply the same person at the same time with a number of different goods or services or both, a transaction with more than one element occurs. You may, or may not, charge a single inclusive price for the transaction.

If the individual elements are all liable to VAT at the same rate, you can calculate the tax that is due in the normal way. If the individual supplies are not liable to VAT at the same rate, you have to decide whether you are making a **single supply** or a **multiple supply**.

There are exceptions to the normal rule:

- for packages consisting entirely of items printed on paper or card - see paragraphs 6.5 and 6.6.
- for certain cover mounted items on magazines - see paragraph 6.7.

6.2 What is a single supply?

You make a single supply when one element of the supply is the principal or significant element to which all the other elements are ancillary, integral or incidental.

6.3 What is a multiple supply

You make a multiple supply if more than one element is distinct and independent.

6.4 What are the VAT consequences of the distinction between single and multiple supplies?

If you make a **single supply**, you must treat the whole transaction as having the VAT liability of the principal element. If you make a **multiple supply** each element will take its own liability and, if you charge a single inclusive price for the transaction, you will have to make an apportionment of that price. Notice 700 The VAT Guide shows how you may apportion output tax. **However**, there is an exception for packages consisting entirely of items printed on paper and card.

6.5 Packages consisting entirely of items printed on paper or card (“The package test”)

Where you make a **multiple supply** of a package consisting entirely of items printed on paper or card, you have a choice. You can account for VAT by apportionment between the standard-rated and zero-rated elements or you can apply the **package test**.

For this purpose, a package is a collection of items printed on paper or card usually enclosed in some sort of wrapper. The articles must physically form a package and have a common link in that they are intended to be used together, examples are:

- Packages contained in an outer polythene or paper envelope; for example, a package sent to a shareholder which includes company reports, circulars, a proxy voting form and a reply-paid envelope.
- Cardboard folders with pockets into which are inserted a variety of forms, leaflets, etc.
- Advertising packages often from financial institutions.

The package test may reduce your tax burden and be simpler than the apportionment described above. It operates as follows:

- if the package contains more zero-rated than standard-rated items, the package as a whole can be zero-rated;
- if there are more standard-rated items, the package as a whole is standard-rated; and
- where there are equal numbers of zero-rated and standard-rated items, the liability of the package is decided by the costs of the goods. If the zero-rated elements of the package cost more, the whole package is zero-rated and vice versa.

In the unlikely event that the standard and zero-rated elements cost exactly the same amount, apportionment should be applied.

Note:

(a) The outer envelope in which the package items are enclosed is not taken into account in the count, but a reply-paid envelope counts as a standard-rated item.

(b) If any item in the package is not printed on paper or card the package test cannot be applied.

6.6 The package test for charities

From the date of this notice (1st day of the month), if you supply a package to a charity you can treat some items connected with collecting monetary donations as zero-rated for the purposes of the package test. The items must meet the criteria set out in Notice 701/58 Charity advertising and goods connected with collecting donations.

Item...	Treatment for the package test...
Letter appealing for donations	Zero-rated
Printed envelopes for use with appeal letters	Zero-rated
Money collecting envelopes	Zero-rated
Stickers	Standard-rated for the package test
Money collecting boxes made of card	Zero-rated
Any item not made of paper or card	Package test cannot be used

6.7 Promotional items in magazines

If you link a cover-mounted item such as a sachet of perfume or a CD to a magazine, you can treat it as zero-rated if the following conditions are met:

- you do not make a separate charge for it; **and**
- issues with cover mounted items are sold at the same price as those that do not; **and**
- the cost to you of the cover mounted item or items included in any individual issue does not exceed:
 - 20% of the total cost to you of the combined supply (excluding VAT); **and**
 - £1 (excluding VAT).

This linking of goods is normally done by the publisher, but can take place at any point in the distribution chain (for example, distributor, retailer).

If at the point of linkage the supply satisfies the terms of this concession, it becomes a single zero-rated supply and will continue to be a single supply throughout the chain.

If the supply does not satisfy the terms of the concession, you will have to consider whether the supply is a single or multiple supply under the normal rules explained above.

6.8 Where can I find further information about this?

In VAT Information Sheet 2/01 (July 2001) - "Single or Multiple Supplies - How to Decide".

7. Production of zero-rated goods

7.1 Nature of the service

Some contracts to supply services involve, to a greater or lesser extent, the production of goods zero-rated under group 3. If you supply such services, you should first consider whether the your supply is of:

- (a) an original or specialist nature; or
- (b) the production of goods (which will be more likely if you work in the printing industry)

if...	then...
your services are of an original or specialist nature (see paragraph 7.2)	they are always standard-rated, as any goods produced are incidental to your services
your service is of the production of goods	it will be zero-rated where: <ul style="list-style-type: none">• your service has produced new goods and those goods are themselves zero-rated (see paragraph 7.3)

7.2 When do you supply services of an original or specialist nature?

When you supply a service such as

- original writing or composition;
- those involving a specialism such as translation, typing, shorthand transcription or transcription of musical scores,

such services are standard-rated. When you also supply goods with those services as incidental products then you must standard-rate those goods even if they are zero-rated under group 3. Here are some examples:-

- a manuscript of a book supplied by an author;
- a piece of music commissioned from a composer;

- a report commissioned from a consultant, analyst or adviser;
- a translation;
- a shorthand transcription;
- a typed manuscript; and
- a musical score

However, you may zero-rate any extra copies of such items provided:

- they are in a format which qualifies for zero-rating; **and**
- they are supplied at a price which covers only the cost of producing the extra copies and a reasonable mark-up.

7.3 When is your service that of the production of new zero-rated goods?

New goods are produced when the essential characteristics of the goods are altered. Note in particular in the following situations.

7.3.1 Preparatory or post-production work

Where you have a contract to supply items that qualify for zero-rating, you may zero-rate any preparatory or post-production work (other than alterations) that you perform in conjunction with it. This applies whether or not you itemise the various processes on your tax invoice and charge for them separately, and even if you have employed sub-contractors.

7.3.2 Sub-contract work

As a sub-contractor you can only zero-rate work if you produce new zero-rated goods. If you do not produce zero-rated goods yourself, you cannot zero-rate your supply even if you know that the final product will be zero-rated. Therefore, if you provide typesetting only, your charge must be standard-rated. However, if you bind pages together to make a book (with cover) you are producing a zero-rated item and your supply can be zero-rated.

There will be occasions when a sub-contractor will need to charge VAT for a contribution to the production process, although the main printer may zero rate the supply to the final customer.

7.3.3 Work on other people's goods

If you apply a treatment or process to someone else's goods which produces new goods, the liability of your service follows that of the goods produced. If these new goods would qualify for zero-rating, then you have provided a zero-rated service. Any other service you provide is standard-rated including post-production alterations.

For example, if you bind loose papers into a book, your service is zero-rated; but if you re-cover or otherwise repair an old volume your services are standard-rated.

8. Liability of some common items

In the list below we give our views of the liability of items which are commonly the subject of queries about the zero-rating for books etc.

However, you should not assume that an article is zero-rated under group 3 just because it is not shown as standard-rated in the list, or determine liability by referring only to this list. You must satisfy yourself by reference to the general body of guidance in this notice that the product qualifies for zero-rating under one of the items of Group 3 (reproduced at paragraph 1.3).

Item	Liability
Acceptance cards	Standard-rated
Account Books	Standard-rated
Accounts (fully printed)	Zero-rated
Address books	Standard-rated
Advertising leaflets	Zero-rated
Agendas (fully printed)	Zero-rated
Albums	Standard-rated
Almanacs	Zero-rated
Amendment slips	Standard-rated
Amendments (loose-leaf)	Zero-rated
Announcement cards	Standard-rated
Annuals	Zero-rated
Antique books	Zero-rated
Antique maps	Zero-rated
Appointment cards	Standard-rated
Articles of association (complete in booklet form)	Zero-rated
Astronomical charts	Zero-rated

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Item	Liability
Atlases	Zero-rated
Autograph albums (uncompleted)	Standard-rated
Autograph books (completed)	Zero-rated
Badges	Standard-rated
Bags, paper	Standard-rated
Ballot papers	Standard-rated
Bankers' drafts	Standard-rated
Bibliographies	Zero-rated
Billheads	Standard-rated
Bills of lading	Standard-rated
Bills of quantity (blank)	Standard-rated
Bills of quantity (completed)	Zero-rated
Binders	Standard-rated (but see paragraph 5.2)
Bingo cards	Standard-rated
Biorhythm charts	Standard-rated
Blotters	Standard-rated
Book covers	Standard-rated
Book marks	Standard-rated
Book tokens	Standard-rated
Booklets	Zero-rated
Bookmakers' tickets	Standard-rated
Books	Zero-rated
Brochures	Zero-rated
Bulletins	Zero-rated
Business cards	Standard-rated

Item	Liability
Calendars	Standard-rated
Catalogues	Zero-rated
Certificates	Standard-rated
Charts (geographical or topographical)	Zero-rated
Cheques and cheque books	Standard-rated
Cigarette cards	Standard-rated
Circulars	Zero-rated
Cloakroom tickets	Standard-rated
Colour cards	Standard-rated
Colouring books (children's)	Zero-rated
Comics	Zero-rated
Company accounts and reports	Zero-rated
Compliment slips	Standard-rated
Copy books	Standard-rated
Correspondence cards	Standard-rated
Coupon books	Standard-rated
Coupons	Standard-rated
Credit cards	Standard-rated
Crossword books	Zero-rated
Delivery notes	Standard-rated
Diaries (completed)	Zero-rated
Diaries (unused)	Standard-rated
Dictionaries	Zero-rated
Directories (completed)	Zero-rated
Dividend warrants	Standard-rated

Item	Liability
Dressmaking patterns	Standard-rated
Election addresses	Zero-rated
Encyclopaedias	Zero-rated
Engineers' plans	Standard-rated
Envelopes	Standard-rated
Exercise books	Standard-rated
Fashion drawings	Standard-rated
Flash cards	Standard-rated
Folders	Standard-rated
Football pool coupons	Standard-rated
Football programmes	Zero-rated
Form letters	Standard-rated (but see paragraph 4.3)
Forms	Standard-rated
Framed decorative maps	Standard-rated
Games	Standard-rated
Geological maps	Zero-rated
Globes	Standard-rated
Graph paper	Standard-rated
Greetings cards	Standard-rated
Handbills	Zero-rated
Holiday and tourist guides	Zero-rated
Hydrographical charts	Zero-rated
Hymn books	Zero-rated
Index cards	Standard-rated
Inlay cards for cassette, CD or video	Standard-rated

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Item	Liability
Instruction manuals	Zero-rated
Insurance cover notes	Standard-rated
Invitation cards	Standard-rated
Invoices	Standard-rated
Journals	Zero-rated
Labels	Standard-rated
Leaflets	Zero-rated
Letter headings	Standard-rated
Letters (handwritten)	Standard-rated
Log books (blank)	Standard-rated
Loose leaf books	Zero-rated
Lottery tickets and cards	Standard-rated
Magazines	Zero-rated
Mail order catalogues	Zero-rated
Manuals	Zero-rated
Manuscript paper	Standard-rated
Manuscripts	Standard-rated
Maps	Zero-rated
Medical records	Standard-rated
Membership cards	Standard-rated
Memo pads	Standard-rated
Memoranda of association (completed in booklet form)	Zero-rated
Memorial cards	Standard-rated
Menu cards	Standard-rated
Microfiche	Standard-rated

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Item	Liability
Microfilm	Standard-rated
Microform copies	Standard-rated
Missals	Zero-rated
Monographs	Zero-rated
Music	Zero-rated
Music rolls	Standard-rated
Music scores	Zero-rated
Newspapers	Zero-rated
Note books, pads and paper	Standard-rated
Order books and forms	Standard-rated
Orders of Service	Zero-rated
Painting books (children's)	Zero-rated
Pamphlets	Zero-rated
Paper, unprinted	Standard-rated
Parts of books (see paragraph 4.4)	Standard-rated
Pattern cards	Standard-rated
Periodicals	Zero-rated
Photograph albums	Standard-rated
Photographs	Standard-rated
Picture books	Zero-rated
Plans	Standard-rated (but see paragraph 3.10)
Playing cards	Standard-rated
Poll cards	Standard-rated
Pools coupons	Standard-rated
Postcards (whether completed or not)	Standard-rated

Item	Liability
Poster magazines (see paragraph 3.6)	Zero-rated
Posters	Standard-rated
Prayer books	Zero-rated
Price cards and tags	Standard-rated
Price lists (fully printed leaflets or brochures)	Zero-rated
Printed pictures	Standard-rated
Programmes	Zero-rated
Questionnaires	Standard-rated
Rag books (children's)	Zero-rated
Receipt books and forms	Standard-rated
Recipe books	Zero-rated
Record books	Standard-rated
Record labels	Standard-rated
Record sleeves	Standard-rated
Registers	Standard-rated
Rent books	Standard-rated
Reply-paid coupons and envelopes	Standard-rated
Reproductions of paintings	Standard-rated
Road maps	Zero-rated
Score cards	Standard-rated
Scrap books (blank)	Standard-rated
Scrap books (completed)	Zero-rated
Scrolls (hand-written)	Standard-rated
Seals	Standard-rated
Shade cards (unless they contain	Standard-rated

Item	Liability
substantial printed text)	
Share certificates	Standard-rated
Ships' logs (completed)	Zero-rated
Sports programmes	Zero-rated
Staff journals	Zero-rated
Stamp albums (whether completed or not)	Standard-rated
Stationery	Standard-rated
Stationery books	Standard-rated
Stickers	Standard-rated
Swatch books	Standard-rated
Swatch cards	Standard-rated
Sweepstake tickets	Standard-rated
Tags	Standard-rated
Temperature charts	Standard-rated
Text books	Zero-rated
Theses	Zero-rated
Tickets	Standard-rated
Time cards and sheets	Standard-rated
Timetables (in book or leaflet form)	Zero-rated
Tokens	Standard-rated (but see paragraph 5.4)
Topographical plans	Zero-rated
Toys	Standard-rated
Tracts	Zero-rated
Trade catalogues	Zero-rated
Trade directories	Zero-rated

Item	Liability
Transcripts	Standard-rated
Transfers	Standard-rated
Transparencies	Standard-rated
Travel brochures	Zero-rated
Visiting cards	Standard-rated
Vouchers	Standard-rated
Wall charts	Standard-rated
Waste paper	Standard-rated
Wills	Standard-rated
Winding cards	Standard-rated
Wrapping paper	Standard-rated
Wreath cards	Standard-rated

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Customs and Excise
Social Exemptions and Zero Rates Team
Policy Group
4th Floor East
New Kings Beam House
22 Upper Ground
London
SE1 9PJ**

Please note this address is not **for general enquiries**. You should ring our National Advice Service about those.

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmce.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP

Phone: (020) 7930 2292

Fax: (020) 7930 2298

E-mail: adjudicators@gtnet.gov.uk

Internet: www.adjudicatorsoffice.gov.uk/

Update 1 issued March 2007

This Update amends section 6 on single and multiple supplies. It replaces the guidance provided in Business Brief 20/2003.

6 Single and multiple supplies

Delete the text contained in paragraphs 6.2 to 6.4 and **replace** with the following.

6.2 Distinguishing between single and multiple supplies

When you supply books or magazines etc packaged with another item, you must determine whether they constitute single or multiple supplies, in line with the principles established in the European Court of Justice judgment in Card Protection Plan (CPP).

You make a single supply when one element of the supply is the principal element to which all the other elements are ancillary, integral or incidental. An ancillary element does not constitute, for the customer, an aim in itself, but is a means of better enjoying the principal service (or good) supplied. Integral elements are elements that are essential, necessary or incidental to the main supply. An incidental element is something that naturally accompanies the main supply, such as packaging.

General indicators of a single supply, (although they are not conclusive), are:

- Single price.
- Advertised as a package.
- Components not available separately.
- Goods physically packaged together.
- Customer perceives that what they are getting is a single supply not a package (e.g. a tailor made suit not cloth and tailoring services).

You make a multiple supply if one or more element is distinct and independent. The following points may indicate that more than one supply is taking place:

- Separate pricing/invoicing.
- Items available separately.
- Time differential between parts of the supply.
- Elements of the supply are not inter-dependent/connected.

6.3 The three possible liability outcomes

There are three possible liability outcomes if zero-rated printed matter is supplied with other items:

- The standard-rated item may be ancillary to, or an integral part of, the supply of zero-rated printed matter. The resulting supply is a single, zero-rated supply. (However, covers, cases and similar articles not separately accounted for are already zero-rated under Item 6 of Group 3, Schedule 8 of the VAT Act 1994.)
- The zero-rated printed matter may be ancillary to, or an integral part of, the supply of the standard-rated item. For example, an instruction booklet provided with a new washing machine. The resulting supply is a single, standard-rated supply.
- There may be a multiple supply, where two or more items are distinct and independent. If the items are sold for a single price and are liable to different rates of VAT you must make an apportionment, (see VAT Notice 700).

6.4 Common examples and problem areas

Sometimes it is easy to identify a multiple supply, as items supplied together can be used independently of each other. Common examples are books issued with films or tapes and children's colouring books issued with felt-tip pens. It is quite possible to use the film or tape independently of the book and, indeed, they need separate equipment to use them. Similarly, a child can use a felt-tip pen on any paper of his/her choice - it is sold with a colouring book as a marketing device.

One particular area that causes problems is children's activity packs. These may contain zero-rated books or booklets and standard-rated items such as jigsaw puzzles or toys. You need to decide whether the omission of any one component part would diminish the pack as a whole. It is not possible to give overall guidelines on these activity packs as each one is different, and must be judged on its own merits.

Re-issue Note

This comment is re-issued because the attached Appendices 1 and 2 were not included with the text of the comment when originally submitted to the States Greffe for publication.