ppa | The PPA stands for professional publishers

Treasury Committee by 31st May VAT Submission

Written Evidence Submitted by PPA

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About Us

The Professional Publishers Association (PPA) is the voice of the magazine sector and represents publishers and providers of consumer, customer and business media in the UK. Our membership comprises 260 companies, publishing around 2,500 consumer magazine titles, 4,500 business-to-business publications, data and information providers, and smaller independents. The PPA's membership includes the UK's largest publishing houses, including Ascential, Bauer Media Group, Centaur, Condé Nast, Hearst, Time Inc. UK, Immediate Media, Haymarket Media Group, William Reed Business Media, as well as many smaller independent publishers.

Consumer magazine brands reach 7 in 10 of the UK population every month, through globally renowned brands such as Vogue, Radio Times, The Economist, Tatler, Campaign, Grazia, NME, The Grocer, Angling Times, Top Gear, Decanter, The Big Issue, The Week, and thousands of other much-loved household names.

With more than 20 million magazines sold every week in the UK, the sector is worth in excess of £4bn to the UK economy, employing 114,000 people.

Summary

PPA welcomes the Committee's Inquiry on VAT and the opportunity to highlight a long-standing anomaly in the tax system that damages consumer choice, holds back innovation and investment, and fails to meet the tests set for good tax principles.

VAT was introduced in the UK on 1st April 1973 at two rates, a standard rate of 10% and a zero rate on selected goods and services (such as food, children's clothes and shoes, books, newspapers and magazines).

That zero-rate on magazines, newspapers and books has been preserved since introduction, recognising the unique societal value of journalism and the written word. That recognition has failed to keep up-to-date with technology, and as journalism and magazine media moves increasingly digital, the tax system has dragged behind. Taxation should be neutral of platform, recognising the product regardless of the platform for delivery to the consumer.

The UK has been legally prevented from introducing new exemptions for VAT and can only apply two reduced rates to goods and services listed in ANNEX III of the EC VAT Directive. It must apply a basic rate of VAT above 15% to all other goods and services. The zero-rate for print has been protected throughout negotiations within the European Union on VAT harmonisation.

Through the freedoms granted by Brexit, or the passage of the proposed Council Directive on reduced VAT rates for electronic books, newspapers and periodicals, the UK will be free to update tax policy accordingly and reduce rates on e-publications to honour the intention of the policy.

As the business model for publishers evolves, particularly with the duopoly of Facebook and Google attracting an ever-increasing share of advertising spend, publishers are developing new products and consumer offerings in the digital world. In order to invest in quality journalism and to serve communities, publishers need to be able to deliver a return on that investment and are increasingly looking to paid-content models in digital. With added complexities of VAT on digital platforms this is stifling innovation and investment.

With publishers continuing to face economic challenges from declining advertising revenue and circulation volumes- despite growing audience reach through digital platforms- the urgency to adapt the existing VAT system and support UK businesses has never been greater.

This inquiry presents a timely opportunity to address this anomaly.

The PPA endorses The Publishers Association's (PA) and News Media Association's (NMA) submissions to this Inquiry, acknowledging the scope of the zero-rate on print publication and the need to extend this equally across all e-publications.

Consultation Questions

Questions on VAT and the tax gap – not answered.

VAT and Brexit

- **What opportunities and challenges for the UK VAT regime are presented by the UK's exit from the European Union?**

Brexit offers the UK government the opportunity to address a prolific unfairness in the taxation of the written word in magazine media, newsbrands and books. As we leave the European Union and are freed from the constraints of the VAT Directive, the UK government will be free to apply to zero-rate of VAT that applies to magazines, journals, newspapers and books in print format across delivery platforms.

Recognising the value of reading and journalism to civic society magazines, journals, newspapers and books have been subject to a zero rate since VAT's introduction. While printed publications continue to benefit from this rate, the law has failed to keep pace with advances in technology and the evolving way in which content is delivered through multi-platform channels.

The sixth VAT Directive (77/388/EEC) was adopted in May 1977 as EU members states agreed on a common criteria for the VAT base (i.e. which goods and services could be exempted from tax). Article 28(2) of the Directive allowed Member States to retain reduced rates and exemption which were in force on 31 December 1975 and satisfied the conditions stated in the last indent of Article 17 of the second council directive which refers to exemptions maintained for "clearly defined social reason and the benefit of the final consumer".

In June 1991 agreement was reached on harmonised rate of VAT (floor rate) which was encompassed in Directive 92/77/EEC (19th October 1992). It required:

- A standard VAT of 15% or more from 1st January 1993
- Option to apply one or two reduced rates to goods listed in Annex H of not less than 5%
- Permitted continuation of lower, or zero, rates that were in place on 1st January 1991

In November 2006, the European Council of Finance Ministers adopted EC VAT Directive (2006/112/EC) to clear up and recognise the provisions of previous directives. Annex H in the sixth directive is now Annex III and lists goods and services eligible for a reduced rate, where Member States wish to apply one.

Article 98(2) of the EU VAT directive, currently excludes electronically supplied services from a reduced rate of VAT. There is a current proposal for an EU Council Directive which would remove this barrier and grant Member States freedom over VAT rates on e-publications, which may be approved before UK departure from the European Union.

The PPA believes that the application of VAT should be platform neutral and that the zero-rate applied to magazines, journals, books and newspapers should apply equally to digital editions of zero-rated publications. Failure to deliver platform neutrality is an attack on the zero-rate and a tax on reading which will have a lasting and damaging impact on literacy and democracy.

Platform neutral application of VAT in a digital age will help the industry deliver innovation, benefit consumers through lower prices, and – in an era of fake news – support equal access to quality content. Ensuring that access to written content is future-proof and does not create generational inequality can be delivered by reducing the VAT rate on digital to match its print counterpart at zero.

VAT and business

- **What aspects of VAT (either process or design) cause the biggest problems for problems for businesses? How might they be improved?**
- **Can disagreements between HMRC and a business about how much VAT is due be resolved quickly and fairly? If not, what are the obstacles and how might they be overcome?**

In order to qualify for the zero rate on printed products, published magazine media content must meet the HMRC definition of a periodical:

> *"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."*[1]

Digital magazine content is increasing in popularity. As publishers diversify their titles and offer content across a variety of platforms, consumers are turning increasingly digital. The latest ABC data shows that while consumers continue to enjoy magazine media in printed formats, digital now makes up approximately 20% of content sales.[2]

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[1] http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_CL_000102&propertyType=document#P87_8158

[2] https://www.abc.org.uk/

One notable area where the current VAT rules cause problems for businesses, stifle innovation and harm consumer choice is around bundling of subscription packages. Where publishers offer both a paid print and paid digital product, the majority also offer consumers a combined bundle. This allows consumers to access quality content across different platforms (print, digital, mobile, etc). Publishers offering this choice are burdened by complexity and risk when determining VAT rate on subscriptions.

To establish the VAT liability on a bundle subscription, publishers must treat the sale as a "mixed supply" of goods which have different rates applicable (i.e. 0% on print and 20% on digital) the tax value is calculated based upon the value of each of each supply. HMRC does not offer clear guidance on acceptable methods of calculating VAT liability in this area and refuses to certify any publisher's calculation, building in multiple years of potential risk around liability.

This lack of clear HMRC guidance has resulted in publishers using a variety of different methods to calculate VAT liability. Some base the VAT-able rate on the total price charged, whilst some use a cost-based apportionment. Some even apply VAT to the full bundle price to avoid risk, meaning consumers do not benefit from the zero-rate applicable to the print product. This complexity leaves business with uncertainty and potential unsettled tax liabilities, in turn hampering investment. With no common means of establishing a VAT-able cost base for bundled products, publishers spend considerable time and resources ensuring compliance with HMRC. Some larger businesses adapt their corporate structure to accommodate VAT compliance and the time intensive procedures to ensure this. Not all publishers are able to do this, inhibiting smaller publishers from undertaking such a venture, and resultantly impacting innovation and the digitalisation of titles. Complexity is affecting consumers and costing businesses.

The simple and effective solution to this problem is to extend the zero-rate to digital content/e-publications, providing clarity and certainty for publishers and consumers; eliminating risk around VAT liability.

VAT and good tax policy

- **How does VAT measure up against the principles that tax policy should:**
  - **Be fair**

The current system of VAT application to magazines, journals, books and newspapers is not fair. The zero-rate for print product rightly recognises the unique value of these products to society, but that tax system has not kept up to date with technological development and the medium of content delivery. As delivery becomes increasingly digital and paid content becomes more commonplace, consumers will lose out if the tax system is not modernised.

There is an inerrant unfairness in a tax system that applies a 20% penalty for a consumer choosing the read the content in a digital format over another consumer reading the exact same content in print.

- **Support growth and encourage competition**

The current system of VAT application is stifling growth and competition. Magazine media is a highly competitive market, and very price elastic. By placing a 20% premium of digital content, the tax system is hampering competition and growth in the paid content market.

Innovative new product developments, such as micro-payments for individual articles (e.g. blendle.com), are made more complex by the VAT regime for digital content. Applying the same rules to digital and physical publications would encourage innovation and the development of new products, benefiting consumer choice.

Platform neutrality will support growth, innovation and new product development. It would enable more money and resources to be invested in high quality content for customers, and new sustainable business models to ensure the long term vitality of magazine titles. As publishers become more dependent on readership revenue, reducing the cost of digital subscriptions could facilitate greater reader consumption on digital platforms.

- **Be practicable, meaning that a person's tax liability should be easy to calculate and straightforward and cheap to collect**

As outlined above, the current complexities in subscription bundling mean it is impossible to accurately calculate tax liability. This leaves businesses facing undue cost burden and financial risk.

Conclusion

An injustice exists within the tax system that penalises innovation and technological advancement and runs counter to the accepted principles of taxation. Through Brexit, or development in European law, the UK government will be free to correct this anomaly. Modernising the application of VAT to a platform neutral system for delivering of magazine media journalism will be beneficial to society, consumers and publishers alike.

The PPA urges the committee to utilise this timely inquiry to recommend reform of the VAT system and modernisation to correct a long-standing anomaly, delivering platform neutral application of the zero-rate of VAT afforded to magazines, journals, books and newspaper. This policy is both fit for a digital age, and coherent with taxation principles of fairness, practicality, and supporting growth.

Thank you for the opportunity to reply to this call for evidence. We are happy to answer any follow up consultation or supply further evidence or case studies as required.

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On behalf of PPA