

EXPLANATORY MEMORANDUM TO

THE VALUE ADDED TAX (EXTENSION OF ZERO-RATING TO ELECTRONICALLY SUPPLIED BOOKS ETC.) (CORONAVIRUS) ORDER 2020

2020 No. 459

1. Introduction

- 1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.
- 1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

- 2.1 This instrument amends Value Added Tax (VAT) legislation to extend the zero rate for supplies of printed publications to supplies of electronic versions of some of those publications subject to certain exclusions.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

- 3.1 This instrument breaches the 21-day rule to ensure that the relief applies at the earliest opportunity. Even though the changes made by this instrument do not relate to the current coronavirus crisis, it is felt to be expedient to bring it in with immediate effect to benefit people who are accessing digital publications online at home.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

- 3.2 As the instrument is subject to the negative resolution procedure, there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. Extent and Territorial Application

- 4.1 The territorial extent of this instrument is the whole of the United Kingdom.
- 4.2 The territorial application of this instrument is the whole of the United Kingdom.

5. European Convention on Human Rights

- 5.1 The Financial Secretary to the Treasury, the Rt Hon Jesse Norman MP, has made the following statement regarding Human Rights:

“In my view the provisions of the Value Added Tax (Extension of Zero-Rating to Electronically Supplied Books etc.) (Coronavirus) Order 2020 are compatible with the Convention rights.”

6. Legislative Context

- 6.1 The United Kingdom (UK) applies a zero rate to certain supplies of printed material (publications). This is contained in Group 3 of Schedule 8 to the Value Added Tax Act 1994 (“Group 3”).
- 6.2 This instrument amends Group 3 to extend the zero-rating of some of the publications listed in that Group to electronically supplied versions of those publications. The European Union (EU) vires for these changes are contained in Council Directive (EU) 2018/1713 which made changes to the scope of the EU’s optional reduced rate provisions. This Directive came into force in December 2018. Where member States (including the UK during the Transition Period) have a reduced rate (or an equivalent zero rate) for supplies of printed publications, it allows them to extend that reduced or zero rate to supplies of electronic versions of those publications subject to certain exclusions. The UK has decided to exercise this option to extend its zero rate to supplies of some electronic publications.
- 6.3 This instrument also amends the Notes to Group 3 to reflect the fact that the Group now includes electronically supplied publications which are supplies of services, not goods.
- 6.4 Schedule 8 to the Value Added Tax Act 1994 is also being amended by a separate instrument, the Value Added Tax (Zero Rate for Personal Protective Equipment) (Coronavirus) Order 2020 (S.I. 2020/458) also to come into force on 1 May. Given the urgency associated with that instrument, it was not possible to combine the two instruments. However, as they concern different provisions of Schedule 8, this approach is not expected to result in additional cost or cause confusion to taxpayers.

7. Policy background

What is being done and why?

- 7.1 The government announced at Budget, on 11 March 2020, that it would legislate to apply a zero rate of VAT to supplies of certain electronic publications (e-publications). As a result, supplies of e-books, e-newspapers, e-magazines and academic e-journals would be entitled to the same VAT treatment as supplies of their physical counterparts. The objective of this measure is to support literacy and reading in all of its forms.
- 7.2 Originally, the measure was due to take effect from 1 December 2020. However, following the outbreak of the coronavirus pandemic and the need for people to stay at home, the government has brought forward the implementation date to 1 May 2020 to further support and maintain literacy during these challenging times.
- 7.3 Subject to certain exclusions, the legislative changes made by this instrument will zero rate supplies of e-books, e-booklets, e-brochures, e-pamphlets, e-leaflets, e-newspapers, e-journals and e-periodicals (including magazines) as well as electronic versions of children’s picture and painting books.
- 7.4 The exclusions are e-publications that are wholly or predominantly devoted to advertising or to audible or video content. The exclusions for audible music and video content are necessary to comply with the vires in Council Directive (EU) 2018/1713. The sale of e-audio books continues to be standard rated in UK law in line with government policy.

- 7.5 Legislation was introduced in the Finance Act 2011 to counter avoidance schemes entered into by some businesses that artificially split supplies so that they could benefit from the zero rating for printed matter. This instrument ensures that businesses will not be able to enter into similar schemes when e-publications become zero rated.
- 8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union**
- 8.1 This instrument does not relate to withdrawal from the European Union.
- 9. Consolidation**
- 9.1 This instrument makes amendments to Group 3 and there are no plans to consolidate the legislation at this time.
- 10. Consultation outcome**
- 10.1 As the government has decided to bring forward the implementation date of this measure to 1 May 2020, it has not been possible to consult in the time available.
- 11. Guidance**
- 11.1 The changes made by the instrument will be reflected in published HMRC guidance initially by way of a Revenue and Customs Brief and standalone guidance, which will then be incorporated into [VAT Notice 701/10](#) and the [VBOOKS](#) series of guidance by 31 July 2020.
- 12. Impact**
- 12.1 The impact on business, charities or voluntary bodies will depend on whether they supply affected e-publications or purchase them. The changes will benefit businesses and charities that supply affected e-publications as they will no longer be required to charge VAT but will still be able to recover input tax incurred in relation to those supplies. In so far as this VAT saving is passed on to their customers, it should boost demand for their products. It should also benefit businesses, charities and voluntary bodies that purchase affected e-publications as they will no longer be charged VAT.
- 12.2 There is no, or no significant, impact on the public sector.
- 12.3 A Tax Information and Impact Note covering this instrument will be published on the website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.
- 13. Regulating small business**
- 13.1 The legislation applies to activities that are undertaken by small businesses. Small businesses that supply affected e-publications will benefit from not charging VAT but will still be able to recover input tax incurred on the supplies. In so far as the VAT saving is passed on to their customers, they should benefit from a boost in demand for their products. The main costs are expected to include familiarisation with the new rules and their application, as well as the need to change systems to account for VAT at the zero rate. Small businesses which purchase affected e-publications will benefit from no longer being charged VAT.

- 13.2 No specific action is proposed to minimise the impact of the requirements on small businesses (employing up to 50 people) as the rules are by necessity of general application within the sector.
- 13.3 The basis for the final decision on what action to take to assist small businesses is that the changes introduced by this instrument will benefit such businesses and public guidance will enable them to be aware of and apply the tax relief.

14. Monitoring & review

- 14.1 These changes will be kept under review through communication with affected taxpayer groups.
- 14.2 The instrument does not include a statutory review clause because it relates to tax and therefore meets the requirements of the exemption set out in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015 because the power by which this instrument is made is being exercised so as to make or amend provisions imposing, abolishing, or varying any tax, duty, levy, or other charge or provisions in connection with such provisions.

15. Contact

- 15.1 Email: epublications@hmrc.gov.uk
- 15.2 Ian Broadhurst, Deputy Director, Indirect Tax Directorate at HMRC, can confirm that this Explanatory Memorandum meets the required standard.
- 15.3 The Rt Hon Jesse Norman MP, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.