

PO-CH/NL/OS12

PART A



PO CH/NC/OS12  
PART.A

PO CH/NC/OS12  
PART.A

1989 BUDGET VALUE  
ADDED TAX ON NON-  
DOMESTIC CONSTRUCTION.

26.1.89

THIS FOLDER HAS BEEN  
REGISTERED ON THE  
REGISTRY SYSTEM



VAT ON  
NON-DOMESTIC  
CONSTRUCTION

30%

5/2





Board Room  
H M Customs and Excise  
New King's Beam House  
22 Upper Ground  
London SE1 9PJ  
Telephone: 01-620 1313 Extn 5015

ECONOMIC SECRETARY

*Ch: BT is in charge of putting together a charities package, + will want to take this into on board.*  
25 17/11

FROM: P G WILMOTT  
DATE: 17 JANUARY 1989

**VAT: CHARITIES AND THE HANDICAPPED: BUDGET 1989**

We had delayed putting forward a submission on Budget Starter No. 32 until it was clear how charities were likely to fare under the European Court judgement, and also until the usual pre-Budget submission from the Charities VAT and Tax Reform Group had been received. This minute looks at the arguments for or against offering charities further 'lollipops' in the Budget, and examines individual VAT measures that could, if desired, be adopted. We understand that the Inland Revenue have already put forward a submission on direct tax measures for charities; our two minutes will need to be considered together.

*The fund raising submission seems well worth making. The only drawback is whether it helps or hinders the work of charities. I think it will be a net benefit for charities. I think it will be a net benefit for charities. I think it will be a net benefit for charities.*

Distribution:

**Chancellor**

- Chief Secretary
- Financial Secretary
- Paymaster General
- Sir P Middleton
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Mr Michie
- Mr Tyrie
- Mr Call
- PS/Inland Revenue

- CPS
- Mr Jefferson Smith
- Mr Allen
- Ms Barrett
- Mr Michael
- Mr Holloway
- Mr Monk
- Mr Tracey

*not yet submitted, in fact.*



## European Court Judgement

The decisions taken on the implementation of the European Court judgment are likely on the whole to be welcome to charities. The definition of 'domestic' has been widely drawn, and homes for the disabled and other communal residential establishments will still be entitled to zero rating on new construction and fuel and power. In addition, fuel and power and the construction of non-domestic buildings, other than shops, offices and warehouses, will continue to be zero-rated provided they are to be used for non-business purposes, and there is to be a phasing in period of five years (rather than two) for charity tenants whose landlords opt to charge tax on their rents. Charities will, however, object to the exclusion of shops, offices and warehouses from the zero rate for new construction, and also to the fact that they are to have no veto over their landlords' exercise of the option to tax. There are also likely to be complaints from charities like public schools and village halls whose business activities will preclude some or all of their entitlement to the zero rate.

What the cost to charities of implementation of the ECJ judgment is likely to be is difficult to estimate. Figures collected by the CVTRG show that the cost to 114 of their members of taxing non-domestic non-business construction would be around £3m (this, however, probably includes a number of buildings which are now to be relieved) and of taxing rents £0.5m. The CVTRG, however, represent only the largest charities; the cost to smaller charities of landlords' opting to tax rents could well be disproportionately greater.

No VAT 'lollipops' that we can put forward could compensate charities for the financial costs of the ECJ judgment; indeed, given the EC constraints on extensions of zero-rating, all that can be offered are minor palliatives. No concession can be offered on the landlord's option to tax rents; to allow one set of tenants a right of veto would inevitably provoke claims for a more general concession, and would in any case considerably complicate the landlord's accounting for the tax. A concession on the construction of shops, offices and warehouses is, as the Chancellor noted at his meeting on 14 November, a possibility, but one that he preferred to keep in abeyance until the strength of the opposition became clearer.

We would recommend that any VAT 'lollipops' that are decided on should be announced as part of the Budget package, not held in reserve to buy off pressures during the passage of the Finance Bill. In themselves, the 'lollipops' are not of sufficient financial worth to buy off serious pressures, and their presentational impact will be substantially greater if brought forward as a free and voluntary concession at Budget time than if they appeared to be wrung late and reluctantly from an unwilling Government.



### Charity Fundraising Events

The main concession which we wish to recommend is an exemption, subject to an overall turnover limit, for charity and certain other fundraising events. As you may recall, you authorised us after last year's Budget to discuss with the CVTRG the case for introducing legislation to implement Article 13A1(o) of the EC 6th Directive, which exempts (subject to any restrictions member states choose to lay down) fundraising events by political parties, trades unions, sports clubs and medical, educational, welfare and cultural charities, providing that these do not distort competition with ordinary commercial businesses.

We have in the past argued that specific measures to implement this provision in the UK have been unnecessary; the high level of our VAT registration limit has meant that charities have automatically been able to gain exemption that other member states have needed special measures to provide. From our discussions with the CVTRG however it does appear that some of the larger charities are finding the absence of a more generous relief a genuine hindrance in their fundraising activities, and that the disaggregation arrangements to which some of them resort in order to avoid VAT (eg allowing individual volunteers rather than the charity itself to take financial responsibility for a fundraising event) do carry a risk that money raised for charitable purposes could, inadvertently or deliberately, find itself diverted to other ends.

So far as the form of any relief is concerned, the best solution would seem to be to allow exemption for events up to a turnover limit expressed as a multiple of the VAT registration limit; the CVTRG's figure of 10 (ie turnover of £221,000 at the current registration limit) would be acceptable. We would recommend that the relief should be extended to all charities. Strictly speaking the wording of the Directive would exclude several eminently worthy types of charity, including those concerned with medical research and animal welfare and rescue organisations like the RNLI. To leave these out would however be difficult to defend in any other than narrow legalistic terms, and we doubt if the EC Commission would take serious exception to this minor extension of the relief. It would also be necessary to include political parties and the other bodies covered by the Directive.

The CVTRG estimate that a relief along these lines would cost between £1m and £2m. Even taking into account the other non-charitable bodies to be covered, we imagine that the overall revenue cost would still be well below £5m.

A VAT relief for charities' fundraising events would tie in well with the measures that have been taken over recent years on the direct tax side to encourage charities to



attract popular funds, and it would also avert the CVTRG's threat, if no legislative action is forthcoming, to take a suitable test case to a VAT Tribunal - a public airing of the dispute that it would be preferable to avoid. We therefore recommend adoption of this particular option; the necessary legislation can be effected by Treasury Order and, if desired, come into effect on 1 April.

### CVTRG Pre-Budget Representations

The CVTRG pre-Budget representation suggested a number of other VAT measures to provide relief for charities - all of them repetitions of cases made in previous years. We would continue to recommend against the major one, building alterations for social welfare charities; an extension of zero-rating on this scale runs the risk of falling foul of the EC Commission, and it would in any case be difficult, as their reference to the RNLI shows, to confine the relief solely to social welfare charities. Nor do we see a strong case for relief for general purpose equipment for medical activities or wireless sets for the bedridden; both carry risks of abuse and also the likelihood of repercussive claims for parallel treatment for similarly worthy causes.

There are however two minor concessions which could be made without serious risk of repercussions if you wished to do so. The first is autoclaves (large sterilising machines used in laboratories). The present relief covers medical, scientific, computer, video or refrigeration equipment used solely in medical research, diagnosis or treatment when bought with charitable or voluntary funds and supplied to various non-profit making eligible bodies. There would be little difficulty in adding sterilising equipment to the list, and the revenue cost should be small.

The other possible concession - which again would tie in with the emphasis in recent years on charities' attracting their own voluntary funds - is advertising. The present relief for charities covers non-classified advertising in a newspaper, journal or periodical for fundraising or educational purposes; the CVTRG proposal is to extend this to classified advertising and to advertising in concert programmes and annuals and on posters. A relief here might provoke some complaints from newspapers and others about the administrative difficulties of operating a different rate of tax for different advertisers, but we doubt if these would be serious. The revenue cost again would be small.

### Reliefs for the Handicapped

There is one other minor measure which could also be included in any charities/disabled package. The installation of a lift in a private residence of a handicapped person or in a



charity home or day centre is zero-rated under Group 14, but repairs or maintenance are not. Repairs to most other eligible supplies in the Group are relieved, and the revenue cost of an extension to lifts would be small.

One other measure which you may wish to consider concerns remote control devices to open garage and other doors. You may recall recent correspondence with Mr John Butterfill about the artificiality of our borderlines in this area (the fitting of a remote control device for a handicapped person can be zero rated if the door is removed from its hinges, because that is an adaptation to goods and covered by the law, but not if the door remains in situ, because that is an alteration to a building and not covered in the legislation). It would be relatively easy to add remote control opening devices to the list of other goods and services designed to improve disabled people's mobility in their own home, and the revenue cost would probably not be expensive (suppliers who want to avoid the tax know how to do it already). There would, however, be some risk of abuse in that these devices are also widely used for convenience by able-bodied people, and it is also likely to open up pressures for further relief for other types of alteration to the home for disabled people, for example adaptations to kitchens, or ground-floor bedrooms. On the whole we would recommend against this extension of relief.

### Gravestones

You asked us (Mr Westhead's note of 6 July) to review the case for an exemption for gravestones in the run-up to this year's Budget. Basic burial and cremation services are exempt from VAT, but the relief does not extend to gravestones or to other inessential items such as flowers, entries in books of remembrance and so on.

I am afraid we must recommend against any concession here. To extend the exemption for funerals would be contrary to EC VAT law. Our exemption for basic funeral services is permissible only under a derogation from the EC Sixth Directive, which envisages that in the long term all member states will tax funeral services; the ending of the derogation was in fact proposed by the Commission when the draft 18th Directive was first published in 1984 (although this particular proposal appears to have been dropped from the latest draft). The tax on gravestones has been a feature of VAT since its inception, and successive governments have stood firm against demands for relief; there seems no special reason to concede now.



Lifeboats

Finally you asked us (again a note from Mr Westhead on 6 July) to review the case for a relief for lifeboats. At present the zero-rate covers the supply, repair or maintenance of any vessel, whatever the tonnage, used by the RNLI but makes no provision for any other charity.

The case which prompted your request concerned an inshore rescue boat being purchased by a local charity. Local inshore rescue organisations tend to use small unspecialised vessels, often unconverted inflatables with outboard motors, and we continue to see genuine dangers in any extension of VAT relief to them. Not only is there a risk the boats might be diverted (some or all of the time) to recreational use, but it would also exacerbate pressures for further reliefs for other general purpose equipment; the mountain rescue lobby for example complain because their relief for specialist equipment does not extend to essential but general purpose items like ropes and crampons.

There is one case which has only just come to our attention which further complicates the issue here: that is the Caister lifeboat (on which you have already seen some MP correspondence). We understand that when the RNLI withdrew its station from Caister local volunteers took over the service; in the past they have operated with second-hand lifeboats supplied by the RNLI, but they have now launched a public appeal for a sophisticated new vessel. We are still collecting information on the Caister case, but one option we shall have to consider is an individual extra-statutory concession on grounds of equity, since the circumstances appear to be directly comparable with those of the RNLI. However it would be difficult to legislate to cover the Caister case (which seems to be a one-off one) without covering also the inshore rescue charities. We continue to recommend against any general relief for charities' purchases of lifeboats.

Conclusions

The VAT concessions that can be offered to charities are not tremendously impressive, but a small but worthwhile package could if necessary be constructed at a cost of under £5m. While this is unlikely in financial terms to match the additional costs to charities entailed by the ECJ measures, it could be useful in damping down the pressures for further reliefs on new construction and the option to tax rents, though this is difficult to gauge. We would recommend that, whatever the decision on the desirability of a charities package or the individual components, some measure of relief is introduced for fundraising events conducted by charities and the other bodies covered by Article 13A1(o) of the 6th Directive.



P G WILMOTT



R E S T R I C T E D



67. 20/1/89  
(for meeting plan)

FROM: ECONOMIC SECRETARY  
DATE: 17 January 1989

**CHANCELLOR**

cc: PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Wicks  
Mr Anson  
Mr Scholar  
Mr Phillips  
Mr Culpin  
Mrs Lomax  
Mr D J L Moore  
Mr Gieve  
Mr Dyer  
Mr Richardson  
Mr M L Williams *Mr Meyrick*  
Mr Bent  
Mr Gilhooly  
Mr Michie  
Mr Call  
  
PS/C&E  
Mr Jefferson-Smith - C&E  
Mr Wilmott - C&E  
  
Mr Jenkins - Parly Counsel

**ECJ RULING : EXPOSURE OF DRAFT LEGISLATION**

We need to decide how to present and subsequently handle the draft legislation on the ECJ ruling that we will be exposing at the beginning of February.

2. Publishing the actual draft clauses poses few problems. The easiest way, I suggest, is for Customs to put them out under cover of a news release. The more difficult question is what, if anything, we should do to draw attention to the exposure draft and to prepare the ground for the ensuing public debate.

3. The first option is to do nothing. Allowing Customs' news release, which by its nature will be purely factual, to drop with a

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CX  
17 JAN



R E S T R I C T E D

thud on an expectant world's doormat would have the merit of keeping our profile very low. But the drawback, which in my view is considerable, is that we do nothing to put the clauses into context or to underline the bull points. We should, in effect, be handing the initiative entirely to the other side.

4. Our second option would be to attach to the draft clauses some statement of Government policy. A minimalist approach would be to do this in the news release itself, but we would risk being overlooked by all but the specialist press. We could achieve a higher profile by inspiring a written question in the House, which could equally be drawn on for quotes to accompany the draft legislation. This would at least enable us to get in a few shots before the sniping started, and would give us a better peg on which to hang any "hearts and minds" exercise that we wanted to set up (e.g. with our own backbenchers).

5. A third course would be to engineer an oral statement in the House to coincide with publication which would give us a head start in shaping the ensuing public discussion.

6. There is an obvious constitutional awkwardness with anything other than the simple release of a text. It is already unusual enough for Government proposals for Finance Bill legislation to be floated during the Budget purdah period. Choosing to make a Government statement, in one form or another, would highlight the departure from normal custom and practice (Customs have failed to turn up a precisely parallel precedent in recent years\*).

7. But this set of proposals has all along been marked by unique features. First, the Government is not the prime mover - we are responding to an unwelcome ruling from Europe. Second, we have gone out of our way to be open in our response so far, with a statement to the House on the very day that the Judgement was released and a comprehensive consultation exercise. Both aspects

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\* Customs' Keith exposure drafts were announced by written PQ, but outside the period of purdah. The Inland Revenue do not appear to have precedents to offer.



R E S T R I C T E D

of our response have been very well received, and the openness with which we have discussed options has helped to dispel misconceptions and shape opinion in a satisfactory way. Third, my statement on 21 June committed us to exposing some legislation this month, and there is likely to be an expectation (to put it no higher) that the draft will be accompanied by a further statement of the Government's position.

8. I conclude that it is not in our best interests to adopt too low a profile. People will be expecting something from us, and if we do not provide it we can expect the House and others to attempt to drag statements from us. Our usual Budget Purdah line is unlikely to wash, especially as the way in which we have treated these proposals so far suggests clearly that we do not see them as traditional Budget material. There is no shortage of critics ready to pick holes in what we propose (Mr Bradman and the Charities lobby, to name but two) and it is hard to see why we should leave them a clear field in which to operate. I am therefore in favour of making a statement.

9. The choice narrows to an inspired PQ or an oral statement. Either way, we could get across our bull points, and the written PQ could be backed up, if required, by a press briefing. But there is an important difference. With a written PQ the House will have no opportunity to discuss the measures that we are proposing. In a sense that is proper, in that the legislation will form part of the Finance Bill and therefore fall to be debated under the usual Finance Bill procedures. But the whole purpose of publishing draft clauses is to invite discussion in advance of publication of the Finance Bill. If there is neither a debate nor even an oral statement there would be accusations that we were seeking to choke off Parliamentary discussion. An oral statement on the lines of the 21 June occasion could meet the House on this point and give MPs the feeling that they had a reasonable crack of the whip without obliging us to go so far as to concede a full-blooded debate at this stage. And if we want to pre-empt some of the more predictable criticisms that lobby groups and others can be expected to make - and thus contain the number of lobby groups it will be



**R E S T R I C T E D**

necessary for us to see - an oral statement may just give us the edge in presentational terms.

10. For these reasons I favour an oral statement. I would welcome your views and it might be useful at this stage to discuss our handling of the ECJ package.

A handwritten signature in black ink, appearing to be 'PL', with a long, sweeping horizontal line extending to the right.

**PETER LILLEY**





FROM: J M G TAYLOR  
DATE: 18 January 1989

67. 25/1

PS/ECONOMIC SECRETARY

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mr Michie  
Mr Tyrie  
Mr Call  
  
Mr Unwin - C&E  
Mr Jefferson Smith - C&E  
Mr Wilmott - C&E  
Mr P R H Allen - C&E  
PS/C&E

VAT: CHARITIES AND THE HANDICAPPED: BUDGET 1989

The Chancellor has seen Mr Wilmott's note of 17 January.

2. He has commented that the fund raising concession seems well worth making. The only drawback is that it helps the big charities, whereas the small charities are hardest hit by the ECJ judgement. Is there anything we can do for the small charities?

A handwritten signature in black ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

JMGT  
TO  
PS/EST  
18 JAN



RESTRICTED



67 20/11  
for reading  
Mott  
Board Room  
H M Customs and Excise  
New King's Beam House  
22 Upper Ground  
London SE1 9PJ  
Telephone: 01-620 1313

FROM: P G WILMOTT

DATE: 18 January 1989

ECONOMIC SECRETARY

**ECJ ZERO RATES JUDGEMENT : PROGRESS REPORT**

Introduction

1. I promised an update on our preparations. This note explains where we have got to with the draft clauses, suggests a target date for publication, explains our thinking on the material to be published, asks for guidance on a couple of points of substance, and touches on EC briefing.

Circulation:

Chancellor

Sir P Middleton

Mr Culpin

Mr Richardson

Mr Gilhooly

Mr Gieve

Mr Michie

Mr Call

Parly Counsel

Chairman

Mr Jefferson Smith

Mr Nissen

Mr Michael

Mr Walton

Mr Tracey

Ms Barrett

Mr Hewett

Mr Cross-Rudkin

Mr Hammond

Mr Hankins

WILMOTT  
TO  
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18 JAN



The draft clauses

2. So far as land and buildings are concerned, the draft is turning out significantly longer than expected. The latest version runs to fifteen pages; the work which remains to be done is unlikely to make it shorter. A large part of the additional length is attributable to the provision of relief for charity and communal residential buildings, and to the complexities of the chosen method of dealing with the building land problem. Decisions on other matters such as the separate dates for the liability change and the option to tax have not resulted in any counterbalancing reductions in the draft law. We have also had to include more than we expected by way of heading off avoidance. In particular, wiring such a novelty as the option to tax safely into the system has involved Parliamentary Counsel and Customs administrators and solicitors in a struggle worthy of Laocoon. We expect, nevertheless, to resolve most of the remaining points in time to produce a final draft by about the middle of next week (two of the outstanding issues were addressed in Mr Tracey's recent submission). The one exception could be the building land clause, which might take a little longer. We are anxious that the construction legislation, with an appropriate commentary, should in fact be published in the week ending 3 February. Anything later than that would put at risk the large number of seminars arranged by trade and accountancy bodies for dates beginning in mid-February.

3. On fuel and power we are a little further from completion. The way forward on certain important points was not sufficiently clear to allow us to approach Parliamentary Counsel until recently, and the issue of de minimis limits requires further consultations with trade associations. We have circulated initial proposals with a request for replies by 25 January. Minor details can of course be sorted out, if necessary, after publication of the draft legislation, but a major question to be resolved is whether de minimis limits should be specified for gas and electricity as well as other fuels; it may be that with these two fuels the organisational problems and dangers of abuse



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(together with the administrative arrangements we have already agreed for identifying domestic customers) outweigh the benefits. We are pressing for early discussions with British Gas and Electricity Council, but it does not seem possible to resolve matters before late next week at the earliest. This may be awkward, given our aim of finalising the clauses by 3 February. We may have to go public with the relevant provision annotated to show it was still under discussion (this would be preferable, in our view, to dropping the fuel and power clauses altogether, or to delaying the rest of the package).

4. Clauses on water and sewerage, news services, and boots and helmets, have made better progress, and are already in a publishable form.

5. All in all, we propose a target publication date of 2 February (Thursday rather than Friday, if the House and the Press are to get a fair crack of the whip).

## What else to publish

6. I dealt with the main questions concerning the handling of the exposure in my note of 13 January. We have also been giving some thought to the actual material we need to make ready for publication, and suggest that it should include the following elements:

- A News Release, covering the content of the draft clauses in very general terms. It would be helpful to have your guidance on how far we should invite further representations. Technical comments from the relatively expert practitioners and professional bodies might be very useful, but we would not want to encourage a re-opening of the basic issues which were the subject of the earlier exercise.
- The text of the draft clauses: the basic amendments to the zero-rate and exemption schedules, including special provisions for charities and clarifying the



treatment of mixed domestic/non-domestic supplies; new sections covering change of use of residential and charitable buildings, the option to tax, transitional provisions, and building land; and provisions covering effective dates, etc.

- An explanatory commentary. This will be of particular importance for the unavoidably complex passages on buildings and land; in the other areas we hope the draft law will prove to be fairly transparent.

Two points of substance

7. On fuel and power, there are two points in our draft instructions to Parliamentary Counsel on which we would be grateful for your approval.

8. The first concerns penalties for incorrect customer declarations. As you know, our original intention was to make customers jointly and severally liable for tax where a supplier acting in good faith had been misled by an incorrect customer declaration. Our legal advisers, however, have now concluded that there are no vires for this in the EC Sixth Directive. We have therefore asked Parliamentary Counsel to draft for a civil penalty equivalent to the amount of tax underpaid for a customer who has provided an incorrect declaration. The existing criminal penalties in the VAT Act for fraudulent documents are already expressed in broad enough terms to cover false fuel and power customer declarations; we would need to specify that these were an alteration, not an addition, to civil practice.

9. The other point concerns holiday accommodation. My original submission of 31 October (para 16 of Annex 3) recommended a fairly hawkish approach on this. Given the relaxations that are now being introduced, however, this seems less appropriate, and we propose, if you agree, to allow fuel and power relief to extend to all self-catering holiday accommodation (eg holiday chalets and camp-sites for touring caravans).



EC briefing

10. We also need to take up the question of briefing, especially in the wider EC context. We shall provide a draft letter for you to send to Sir Leon Brittan. Commission officials also need to be approached (we have already responded to one enquiry from the Commission about our plans) bearing particularly in mind our requirement for a derogation on building land. Probably the best avenue for helpful briefing in this quarter would be through UKREP, accompanied by an appropriate official. Our derogation application is of course subject to the normal scrutiny requirements for EC legislation, but the relevant explanatory memorandum will need to touch only briefly on the wider context. MEPs are entitled to briefing if they wish it, but you may wish to consider whether this is an occasion on which it should be volunteered. The decision could turn on the way in which the announcement here is played.

Summary

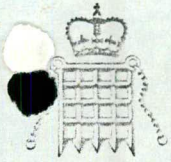
11. We ask for guidance on
- the exposure date (2 February?)
  - the amplitude of the material to be published (covering news release and explanatory material?)
  - two points of substance (civil penalty and some relaxation on self-catering holiday fuel and power)
  - EC briefing (MEPs?)



P G WILMOTT



YAT: CHARITIES  
AND THE  
HANDICAPPED:  
BUDGET 1989



H.M. CUSTOMS AND EXCISE  
NEW KING'S BEAM HOUSE, 22 UPPER GROUND  
LONDON SE1 9PJ  
01-620 1313

FROM: D E BARRETT  
DATE: 19 January 1989

Economic Secretary

**VAT: CHARITIES AND THE HANDICAPPED: BUDGET 1989**

Mr Wilmott's submission of 17 January suggested, as a minor anomaly in the reliefs for the handicapped that might be tidied up, an extension of VAT zero rating to repairs and maintenance to lifts in private houses or charity centres for the handicapped.

In fact this is not necessary. The drafting of these particular provisions of the VAT legislation is obscure, but, on closer scrutiny, we have concluded that repairs and maintenance to lifts are already covered by the general provisions for repairs and maintenance to goods covered by Group 14.

**Distribution:**

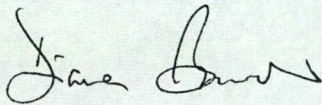
Chancellor	CPS
Chief Secretary	Mr Jefferson Smith
Financial Secretary	Mr Wilmott
Paymaster General	Mr Michael
Sir P Middleton	Mr Holloway
Mr Scholar	Mr Monk
Mr Culpin	Mr Tracey
Mr Gilhooly	
Mr Michie	
Mr Tyrie	
Mr Call	
PS/Inland Revenue	

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EGT  
19 JAN



There has been no public pressure on this point; the problem was one that we (thought we had) identified in our internal pre-Budget review of the reliefs for the handicapped. The absence of public pressure suggests that traders - clearly more adept than we are at interpreting VAT legislation - have been zero rating these supplies anyway. We are checking to ensure that there are no individual instances in which we have given enquirers the wrong advice.

We are very sorry for the confusion over this, and for introducing this red herring into the debate.

A handwritten signature in cursive script, appearing to read 'D E Barrett', written in dark ink.

D E BARRETT



BUDGET CONFIDENTIAL

FROM: ROBERT CULPIN  
DATE: 19 January 1989

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir Peter Middleton  
 Mr Anson  
 Mr Scholar  
 Mr Gieve  
 Mr Gilhooly  
 Mr Matthews  
 Mr Macpherson  
 Mr Michie  
 Miss Simpson  
 Mrs Chaplin  
 Mr Tyrie  
 Mr Call

Mr Unwin )  
 Mr Jefferson Smith ) C&E  
 Mr Wilmott )  
 Mr P R H Allen )

VAT ON NON-DOMESTIC CONSTRUCTION ETC  
MEETING ON MONDAY 23 JANUARY AT 3.00 PM

You have agreed that Customs should publish draft clauses on non-domestic construction and so on around the end of the month. Monday's meeting is to make sure that you are content with the package, and to discuss presentation, timing and handling.

2. The Economic Secretary has done a lot of work with Customs on the detailed implementation of the European Court Judgement, and you had a good look at the issues in November. So there is no need to go over all the ground. Indeed, if we were to reopen decisions, we could miss the target for early publication of clauses.

3. I attach a brief stock-taking note at Annex A, and an annotated agenda at Annex B.

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CX  
19 JAN



4. Other papers are:

Economic Secretary of 17 January:  
Exposure of draft legislation;

Mr Wilmott of 17 January:  
VAT: Charities and the handicapped;

Mr Wilmott of 18 January:  
ECJ: Progress Report

A handwritten signature in black ink, appearing to be 'Rc', located to the right of the typed text.

ROBERT CULPIN



BUDGET CONFIDENTIAL

ANNEX A

**ECJ JUDGEMENT ON ZERO-RATES: RESUME**

The Court found against the UK's zero rating of:

- commercial construction and civil engineering;
- supplies of fuel and power other than to final consumers;
- supplies to industry of water and sewerage services;
- supplies to employers of protective boots and helmets;
- news services other than those supplied direct to the public or for the production of zero-rated products such as newspapers.

**Key decisions already announced**

2. In his statement to the House on 21 June, the Economic Secretary announced certain key decisions on construction. These were:-

- new non-domestic construction and the sale of the new non-domestic buildings to become standard-rated from 1 April 1989;
- building land for non-domestic construction to become standard-rated from 1 April 1989;
- relief for contracts already in force before 21 June 1988, in addition to the normal rules applicable to a change of rate/liability;
- an option to tax the sale of existing non-domestic buildings and for taxing rents, at the landlord's



discretion, of both new and existing non-domestic buildings, the option to be irrevocable and on a building by building basis;

- phasing-in of the option to tax rents in respect of existing buildings (over two years in most cases but five years for charities);
- option to tax to become available on 1 August 1989.

Implementation of the Judgement

3. At your meeting on 14 November, you confirmed implementation dates as follows:

- 1 April 1989 : commercial construction and civil engineering;
- : supplies to employers of protective boots and helmets;
- : news services other than those supplied direct to the public or for the production of zero-rated items such as newspapers.
- 1 August 1989 : option to tax (i) non-domestic rents;  
(ii) existing non-domestic buildings.
- 1 April 1990 : supplies of fuel and power other than to final consumers;
- : supplies to industry of water and sewerage services.



Scope of new taxation

4. Retention of zero-rating to be as wide as possible, consistent with the Judgement and the assessment of the risk of further infraction proceedings:

o construction: zero-rating retained for all domestic property and communal residences such as old people's homes, children's homes, hostels for the homeless, hospices, nursing homes, students' halls of residence, boarding school accommodation, barrack blocks etc. But schools, hospitals and hotels will become standard-rated;

: the legislation to provide safeguards to ensure that tax is charged if builders turn, say, a communal residence into a commercial property;

o fuel and power: the liability for most supplies will depend not on the nature of the product, but on the status of the customer: zero-rating retained for all domestic consumers, but supplies to businesses taxed at standard-rate (it is likely that many small businesses will continue to receive supplies at the zero-rate - e.g. the shop below the flat where there is a combined supply). The liability of coal and oil will be product based, with standard-rating confined to those products used by businesses.

*BME directed  
always to  
clean-cut?*

*(w) what oil is used  
for transport?*







Effects on charities

6. The following decisions have already been taken in order to ameliorate the effects of the Judgement on charities:

- phasing in the option to tax rents in respect of existing buildings over 5 years;
- zero-rating retained for construction of:
  - homes for the disabled and other communal residential establishments;
  - non-domestic buildings such as lifeboat stations, day-centres, churches, research laboratories etc provided they are not used for business purposes.

(But offices, shops and depots will become standard-rated);

- zero-rating retained for fuel and power used for charities' non-business activities.

7. The cost to charities of implementation of the ECJ Judgement is difficult to estimate. Figures collected by the Charities VAT and Tax Reform Group show that the cost to 114 of their members of taxing non-domestic non-business construction would be around £3m (this includes a number of buildings which are now to be relieved) and of taxing rents £0.5m. But CVTRG represents only the largest charities, and the cost to smaller charities of landlords' opting to tax rents could well be disproportionately greater.

*h...?*



BUDGET CONFIDENTIAL

ANNEX B

ANNOTATED AGENDA

1. Presentation

- (i) We are committed to publishing draft clauses: should these be issued under cover of a Customs news release, with copies being placed in the House library?
- (ii) Should the material issued under cover of the news release:
  - o invite further representations from interested bodies; if so, with what deadline;
  - o provide, in addition to the text of the draft clauses, an explanatory commentary?
- (iii) Should publication be in the week beginning 30 January (VAT on private hospitals could clash with NHS White Paper) or week beginning 6 February?
- (iv) Should we publish only those clauses relating to this year's changes, and leave the remainder (water, fuel and power) until publication of Finance Bill; or should we take the opportunity to get the exercise completed now? If the latter, should the clauses on fuel and power annotated to say that they are still under discussion?

*psyn*

*v. simple*

*psyn*

*file then 2  
or file 3  
~~file 1, 2, 3, 4, 5~~*

*W. Johnson?*



(v) Should there be a Government statement at the same time as publication of the clauses? If so, should it be an oral statement to the House by the Economic Secretary?

a) yes  
b) not  
Wilm

(vi) For the EC, do you agree that:

- the Economic Secretary should write to Sir Leon Brittan? *Make statement*
- Commission officials should be approached via UKREP?
- briefing should be volunteered to MEPs?

## 2. Charities

(i) Are we satisfied that we have a reasonable story to tell in relation to charities?: i.e.

- the phasing-in of the landlord's option to tax over five years as opposed to two for everyone else;
- the retention of zero-rating for the construction of charities' non-business buildings;
- retention of zero-rating for fuel and power used for charities' non-business activities?

(ii) At the time of publication of the draft clauses, should we make anything of the improvement in the position of charities arising from the changes to the local authority rating system? (The existing 50% mandatory relief was raised to 80% - a change worth an estimated £50m).

72 Save for Budget 1992

(iii) Which of the lollipops in Mr Wilmott's note of 17 January should be provided:



- exemption, subject to an overall turnover limit (registration limit x 10?), for charity and certain other fund raising events;
  - extension of existing zero-rates to include
    - (i) sterilising equipment;
    - (ii) classified advertising etc?
- (iv) Is it agreed that we should continue to resist zero-rating for:
- building alterations for social welfare charities (on grounds that this would fall foul of EC VAT law);
  - general purpose equipment for medical activities; wireless sets for the bedridden; charities' purchases of lifeboats; or remote control devices to open doors (on grounds that these reliefs carry risks of abuse and are difficult to ring-fence)?
- (v) Is it agreed that we should continue to resist exemption for gravestones (on grounds that this would fall foul of EC VAT law)?
- (vi) Are there any other reliefs which could be targeted at smaller charities (PS/Chancellor's note of 18 January)?
- (vii) Should VAT lollipops be announced as part of Budget package or held in reserve?
- (viii) Should a concession on the construction of shops, offices and warehouses be ready for use if necessary (as agreed at meeting on 14 November)? If so, is it clear what it would be?

### 3. Overall Consistency and Defensibility

The objectives in implementing the judgement are to minimise the risk of further infraction proceedings whilst being seen to implement the judgement in a way which is least damaging to UK



business and charity interests. Are we satisfied that we have produced a package consistent with these objectives? In particular:

*7.12/1985*

- are the transitional arrangements equitable when applied to long-term property developments such as that at Canary Wharf?
- is the package reasonably EC-proof?
- have we succeeded in reducing the compliance burden to something manageable?
- have we adequate safeguards against abuse - e.g. building an old people's home which, when completed, is turned straight into a hotel?

*See also Wilmott's ~~supplement~~  
2 pts of substance*



BUDGET CONFIDENTIAL

*A file folder for  
Monday's meeting*FROM: ROBERT CULPIN  
DATE: 19 January 1989 *RC*

CHANCELLOR

cc

Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Scholar  
Mr Gieve  
Mr Gilhooly  
Mr Matthews  
Mr Macpherson  
Mr Michie  
Miss Simpson  
Mrs Chaplin  
Mr Tyrie  
Mr CallMr Unwin )  
Mr Jefferson Smith ) C&E  
Mr Wilmott )  
Mr P R H Allen )**VAT ON NON-DOMESTIC CONSTRUCTION ETC  
MEETING ON MONDAY 23 JANUARY AT 3.00 PM**

You have agreed that Customs should publish draft clauses on non-domestic construction and so on around the end of the month. Monday's meeting is to make sure that you are content with the package, and to discuss presentation, timing and handling.

2. The Economic Secretary has done a lot of work with Customs on the detailed implementation of the European Court Judgement, and you had a good look at the issues in November. So there is no need to go over all the ground. Indeed, if we were to reopen decisions, we could miss the target for early publication of clauses.

3. I attach a brief stock-taking note at Annex A, and an annotated agenda at Annex B.

722/88



4. Other papers are:

Economic Secretary of 17 January:  
Exposure of draft legislation;

Mr Wilmott of 17 January:  
VAT: Charities and the handicapped;

Mr Wilmott of 18 January:  
ECJ: Progress Report

A handwritten signature in dark ink, appearing to be 'Rc', written in a cursive style.

**ROBERT CULPIN**



**ECJ JUDGEMENT ON ZERO-RATES: RESUME**

The Court found against the UK's zero rating of:

- commercial construction and civil engineering;
- supplies of fuel and power other than to final consumers;
- supplies to industry of water and sewerage services;
- supplies to employers of protective boots and helmets;
- news services other than those supplied direct to the public or for the production of zero-rated products such as newspapers.

**Key decisions already announced**

2. In his statement to the House on 21 June, the Economic Secretary announced certain key decisions on construction. These were:-

- new non-domestic construction and the sale of the new non-domestic buildings to become standard-rated from 1 April 1989;
- building land for non-domestic construction to become standard-rated from 1 April 1989;
- relief for contracts already in force before 21 June 1988, in addition to the normal rules applicable to a change of rate/liability;
- an option to tax the sale of existing non-domestic buildings and for taxing rents, at the landlord's







Scope of new taxation

4. Retention of zero-rating to be as wide as possible, consistent with the Judgement and the assessment of the risk of further infraction proceedings:

- construction: zero-rating retained for all domestic property and communal residences such as old people's homes, children's homes, hostels for the homeless, hospices, nursing homes, students' halls of residence, boarding school accommodation, barrack blocks etc. But schools, hospitals and hotels will become standard-rated;
- : the legislation to provide safeguards to ensure that tax is charged if builders turn, say, a communal residence into a commercial property;
- fuel and power: the liability for most supplies will depend not on the nature of the product, but on the status of the customer: zero-rating retained for all domestic consumers, but supplies to businesses taxed at standard-rate (it is likely that many small businesses will continue to receive supplies at the zero-rate - e.g. the shop below the flat where there is a combined supply). The liability of coal and oil will be product based, with standard-rating confined to those products used by businesses.



- water and sewerage: the wording of the Judgement allows us to provide for a very narrow definition of 'business users': supplies to manufacturing industry only to be taxed (they should be able to reclaim the VAT from Customs);
- protective boots and helmets: supplies to employers only to be taxed (provided goods are used for business purposes, likely that VAT can be reclaimed from Customs);
- news services: all supplies to be standard-rated (but once again, it is likely that, in most cases, VAT can be reclaimed from Customs);
- charities: supplies of construction, and fuel and power for non-business purposes to be zero-rated; all supplies of water to be zero-rated.

Problem areas still outstanding after meeting on 14 November 1988

5. Identification of 'business' users of fuel and power, and water: this difficulty now seems to have been largely resolved. Enquiries made by Customs suggest that the existing records of suppliers of fuel and power, and water, can be used to identify most business customers. Customs intend that the numbers of customers from whom declarations would be sought (to determine whether or not they are in business) should be relatively small. Suppliers of water and fuel and power will need early notification of the proposed new regime so that they can make the necessary administrative arrangements.



Effects on charities

6. The following decisions have already been taken in order to ameliorate the effects of the Judgement on charities:

- phasing in the option to tax rents in respect of existing buildings over 5 years;
- zero-rating retained for construction of:
  - homes for the disabled and other communal residential establishments;
  - non-domestic buildings such as lifeboat stations, day-centres, churches, research laboratories etc provided they are not used for business purposes.

(But offices, shops and depots will become standard-rated);

- zero-rating retained for fuel and power used for charities' non-business activities.

7. The cost to charities of implementation of the ECJ Judgement is difficult to estimate. Figures collected by the Charities VAT and Tax Reform Group show that the cost to 114 of their members of taxing non-domestic non-business construction would be around £3m (this includes a number of buildings which are now to be relieved) and of taxing rents £0.5m. But CVTRG represents only the largest charities, and the cost to smaller charities of landlords' opting to tax rents could well be disproportionately greater.



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- (v) Should there be a Government statement at the same time as publication of the clauses? If so, should it be an oral statement to the House by the Economic Secretary?
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  - the retention of zero-rating for the construction of charities' non-business buildings;
  - retention of zero-rating for fuel and power used for charities' non-business activities?
- (ii) At the time of publication of the draft clauses, should we make anything of the improvement in the position of charities arising from the changes to the local authority rating system? (The existing 50% mandatory relief was raised to 80% - a change worth an estimated £50m).
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business and charity interests. Are we satisfied that we have produced a package consistent with these objectives? In particular:

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- have we adequate safeguards against abuse - e.g. building an old people's home which, when completed, is turned straight into a hotel?





**NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM  
HM TREASURY AT 2.30PM ON MONDAY 23 JANUARY 1989**

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Gieve  
Mr Gilhooly  
Mr Michie  
Mrs Chaplin  
Mr Tyrie  
Mr Call

Mr Jefferson Smith C&E  
Mr Tracey C&E  
Mr Cross-Rudkin C&E

.....

**ECJ JUDGEMENT ON VAT ON NON-DOMESTIC CONSTRUCTION**

Papers: Mr Culpin's note of 19 January; Mr Wilmott's minute of 18 January (ECJ progress report); Mr Wilmott's note of 17 January (VAT: Charities and the handicapped); Economic Secretary's note of 17 January (exposure of draft legislation).

The Chancellor, opening the discussion, said he was most grateful to the Economic Secretary and Treasury and Customs officials for the work they had undertaken. In a brief preliminary exchange, it was noted that (i) the liability of oil and coal products would be determined by the size and quantity of delivery, and occasionally by the status of the end-user; (ii) that the supply of water and sewerage would be taxed not only to manufacturing industry, but to





the construction and extractive industries. Those industries would, however, be able to reclaim the VAT from Customs. The Economic Secretary noted that this sort of definition was both consistent with the wording of the ECJ judgment for these goods and services and in practice the only way in which hospitals and schools could be kept out of charge.

The Chancellor invited the meeting to consider the questions set out in the annotated agenda (Annex B of Mr Culpin's note of 19 January).

#### Presentation

(i) It was agreed that draft clauses should be issued under cover of a Customs' News Release, with copies being placed in the House Library.

(ii) The Chancellor invited Customs to submit drafts of the new material. He would prefer that the material contained no deadline, though it should be made clear that it was issued in relation to the forthcoming Budget. Mr Jefferson Smith should, however, alert interested bodies to make their representations before the end of February. It should be emphasised that technical representations only were sought. It was agreed that an explanatory commentary should be provided in addition to the text of the draft clauses.

(iii) It was agreed that publication should take place on 2 January.

(iv) It was agreed that all clauses should be published at this stage, though it should be made clear that implementation would be staggered.





(v) It was agreed that there should be a Government statement at the same time as publication of the clauses. There was some discussion of whether this should be an oral statement to the House by the Economic Secretary. Such a statement would have the advantage that the Government would be seen to take the initiative, and would be able to scotch any ill-informed criticism. On the other hand, an oral statement might run the risk of whipping up interest in the issue. Moreover, the Economic Secretary had already made a statement to Parliament on the principle of the matter; and a statement at this stage, in relation to the Budget, might set an unwelcome precedent. It was agreed, therefore, that the announcement should be by written answer.

(vi) It was agreed that: the Economic Secretary should write to Sir Leon Brittan (on a private and personal basis); that Commission officials should be approached via UKREP; and that briefing should be provided to MEPs (identical to that which will be prepared for backbenchers).

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(iii) It was agreed that (i) exemption for charity and certain other fund-raising events; and (ii) extension of existing zero rates to include both sterilising equipment and classified advertising should be provided. The Chancellor invited Customs to consider whether the overall turnover limit for exemptions for charities could be removed. It was noted that removal would cost little in terms of revenue foregone, because of the current "voluntary donations" loophole.

(iv) It was agreed to resist zero rating for building alterations for social welfare charities, general purpose equipment for medical activities, wireless sets for the bedridden, charities' purchases of lifeboats, and remote controlled devices to open doors.

(v) It was agreed that we should continue to resist exemption for gravestones.

(vi) It was confirmed that there were no other reliefs which could be targeted at smaller charities. The Chancellor noted that smaller charities would be the hardest hit; Ministers should look sympathetically at suggestions made during debate.

(vii) It was agreed that VAT lollipops should be announced as part of the Budget package.

(viii) The Economic Secretary was invited to consider further whether a concession on the construction of shops, offices and warehouses should be ready for use if necessary. An alternative possibility would be to include any relaxations in the draft clauses. The Chancellor was inclined to follow this latter course. Since the legislation was being





presented as being forced on the UK, it would be reasonable to go as far as possible at the outset to mitigate its effects. Making concessions later would imply that the Government had tried to go further than the ECJ judgment required.

Overall consistency and defensibility

The Chancellor said he was satisfied that the overall package was equitable. He would like to be able to say that the Government had gone as far as it could, consistent with the law, to meet the wishes of those affected by the judgment. (This sort of argument could, incidentally, be used against eg Mr Bradman.) It was agreed that the package was reasonably EC-proof; that the compliance burden was reduced to something manageable; and that adequate safeguards were built in against abuse.

The Chancellor noted that the problem in relation to the penalty for incorrect customer declarations had now been resolved. It was also agreed to extend relief to holiday accommodation.

The Chancellor invited Mr Jefferson Smith to submit drafts of the statements and related material to Ministers by the end of the week.

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J M G TAYLOR





Copies to:

Those present

PS/Financial Secretary

Mr Anson

Mr Wilmott - C&E

Mr P R H Allen - C&E





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J M G TAYLOR

24/1





Copies to:

Those present

PS/Financial Secretary

Mr Anson

Mr Wilmott - C&E

Mr P R H Allen - C&E



M CUSTOMS & EXCISE  
VAT ADMINISTRATION DIRECTORATE  
NEW KING'S BEAM HOUSE  
22 UPPER GROUND  
LONDON SE1 9JP

01-620 1313 x 5369

From: P G Wilmott  
Date: 24 January 1989

ECONOMIC SECRETARY

VAT ON NON DOMESTIC CONSTRUCTION: SCOPE OF CONTINUED  
ZERO RATING FOR CHARITIES: OFFICES SHOPS AND  
WAREHOUSES

1. At yesterday's meeting the Chancellor suggested that it was better to decide now how far the relief for charities' buildings should go rather than proceed, as had already been agreed, to exclude offices shops and warehouses with the possibility of making a concession being held in reserve. The Chancellor asked you to decide the point in the light of further advice from officials on the technicalities involved.

---

Circulation:

Chancellor

Mr Culpin

Mr Gilhooly

Mr Michie

Mr Call

CPS

Mr Jefferson Smith

Mr Nissen

Mr Michael

Ms Barrett

Mr Tracey



2. On the basis of the interpretation of the construction part of the ECJ judgment which has been adopted, it would be lawful to retain zero rating for the construction of any new building for occupation by a charity for a non-business purpose. The decision to exclude offices, shops and warehouses whether occupied for business or non business purposes stemmed from considerations related to the letting of offices, shops and warehouses. In fact charities are far more likely to rent rather than purchase (or have built on their own land) new buildings of this type; this would certainly be true for shops and warehouses possibly less so for offices. As you know, the scheme for dealing with rented property is to allow, and indeed encourage, landlords to exercise their option to tax rents so that VAT on all the construction and ongoing property costs washes through the system; property development and exploitation then becomes a fully taxable activity and the VAT on the accommodation is only borne by the exempt or non-business sectors. The option to tax is to be on a building by building basis with tenants having no locus. Against that background it was agreed that charities could have no permanent protection from the exercise of the landlord's option because otherwise the building basis of the option would be prejudiced in multi-tenanted buildings and there would be increased pressure from banks, building societies, betting shops etc. to be given similar protection from the landlord's option. However it was also agreed that charities could have extra phasing in of the option to tax rents - over five years.

3. Offices, shops and warehouses are the types of commercial property where multi tenanted occupation is most common. As charities were to have no permanent protection from the landlords option, it was decided that a concession on continued zero rating if they purchased their own offices, shops and warehouses would introduce a distortion in favour of owning rather than leasing. That was the primary rationale behind the decision to exclude offices, shops and warehouses from zero rating; but we also doubted whether in practice many charities would be affected.

4. We still think that this is a tenable line. However for offices there is a further possibly more important consideration. Shops and warehouses, certainly the former, will usually be used for business purposes; mixed business/non-business use will be rare. That is not the position with offices; in fact with them mixed business/non-business




use will be common. Therefore if we were to allow continued zero rating for non-business use by charities, and possibly protection from the landlord's option for non-business use as well, we would be introducing a host of extra apportionment problems. What is worse the proportion of business/non business use would fluctuate considerably over time and there would be no means, certainly for unregistered charities, of checking that any extra business use had been declared. We have of course taken power to collect tax when buildings originally used for non-business purposes have a change of user over ten years but in practice it would be very difficult to enforce this for office accommodation where the charity remained in occupation but merely changed the proportion of business/non business use.

5. For offices therefore we continue to recommend that no concession should be made. For shops and warehouses the case is more arguable. In practice, as we have said, virtually all shops used by charities will be used for business purposes and charities will be able to recover VAT on the purchase (unlikely) or rent. For warehouses, the likes of Oxfam would also be able to recover any VAT because the exporting of goods by a charity is treated as a (zero rated) business. Warehouses used to store Christmas cards and other goods for sale would likewise be business but warehouses used for free distribution within the UK would not be. From the point of view of maintaining the integrity of the landlord's option for shopping centres etc, we would on balance prefer to retain the exclusion for shops but we have no objection to warehouses being conceded.

#### Summary

6. The problem of charities' offices shops and warehouses cannot be divorced from considerations relating to the landlord's option for taxation. Because of the mixed business/non business use of most charities' offices, there is a strong case for excluding offices from relief. The mixed use argument does not apply to shops and warehouses. Warehouses could be conceded but we still see some advantage in shops being retained in the excluded category.







FROM: S M A JAMES  
DATE: 26 JANUARY 1989

MR WILMOTT, C & E

cc: PS/Chancellor  
Mr Culpin  
Mr Gilhooly  
Mr Michie  
Mr Call  
PS/C&E  
Mr Jefferson-Smith, C&E  
Mr Tracey, C&E  
Ms Barrett, C&E

**VAT ON NON-DOMESTIC CONSTRUCTION: SCOPE OF CONTINUED ZERO RATING FOR CHARITIES: OFFICES, SHOPS AND WAREHOUSES**

The Economic Secretary was most grateful for your prompt minute of 25 January following the Chancellor's meeting.

2. After careful reflection on this question, the Economic Secretary has decided he does not wish to exclude charities' offices, shops and warehouses from the general relief agreed whereby we would zero rate the construction of any new building for occupation by a charity for non-business purposes. He agrees with you that in practice not many charities would be building new premises and this should help to minimise the administrative difficulties relating to mixed-use buildings.

3. In the interests of minimising administrative burdens, the Economic Secretary would favour an adjustment period for charities' of 5 years (as opposed to the 10 year period envisaged originally), in line with the proposed scheme for implementation of Article 20.2 (Starter 33).

S M A JAMES  
Private Secretary