

David Gauke MP
Financial Secretary to the Treasury
HM Treasury
1 Horseguards Road
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21 August 2014

VAT Issues

Dear Mr Gauke

I would like to bring to your attention an issue we are having with HMRC which has now been going on for over two years.

The highly competitive direct mail industry is used greatly by charities and financial services institutions. The advent of VAT on postage in April 2012 significantly increased costs for both, but especially charities using direct mail as a means of raising funds. This placed intense pressure on our supplier members, for example printers and mailing houses to find ways of mitigating these costs.

The general belief in the market place was that if the supply of postage was combined with the supply of printed matter which is zero-rated, then no VAT would be chargeable on the postage element. This practice is generally known as single sourcing. Our members and other organisations tell us they received clearances for doing this from HMRC's written enquiries team.

Our members took this approach to secure the survival of their businesses. Many of our members were competing with direct mail firms who openly advocated and practised the single sourcing approach. They were forced to go along with joining the supply of postage services with the supply of printed matter and zero rating the combined service. If they hadn't done this they would have lost so many orders to other organisations who were single sourcing that they would have gone out of business.

We met with HMRC in June 2012 to discuss these, admittedly complicated, issues concerning the VAT treatment of the supply of printing and direct mail services after which some guidance was promised. No such guidance was received. In the absence of this we wrote to HMRC setting out our issues in February 2013 (letter attached). We received a



response to that letter in July 2014 (attached). The issue has still not been resolved to our satisfaction and we have sent a further letter (also attached) asking for more clarification.

A number of broader issues arise from this. Firstly, we are concerned at the length of time that has been taken to resolve this issue, secondly, the situation has not been resolved and finally, our members, and others, are sitting on a potential VAT 'time bomb'.

We are writing to you to seek your help in getting this situation resolved and, more importantly, your assurance that none of our members, once the guidance is made clear, will face any VAT charges from HMRC on this issue retrospectively.

Yours sincerely



Mike Lordan
Director of External Affairs

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