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**Date** 18 December 2014

**Our ref**

**Your ref**

Dear John

Thank you for your letter of 18 November 2014 and our meeting on 2 December 2014. We found both very helpful.

This reply sets out our policy for the VAT treatment of direct mailing and takes into account the issues raised by the Charities Tax Group (CTG) and the Direct Marketing Association (DMA).

### **Our Policy**

Our policy about the VAT treatment of direct mailing services has not changed and is detailed below.

We acknowledge that our guidance in Public Notice 700/24 'Postage and delivery charges' could be revised to improve understanding and we are aiming to publish this guidance early in the New Year.

### **Retrospection**

We accept that there have been occasions where what is to be treated as a supply of delivered zero-rated printed matter or a standard-rated service has been misunderstood. For this reason we do not intend to take any retrospective action in cases where, prior to 1 April 2015, printed matter mailed to recipients other than the supplier's customer has been treated as zero rated, except where the treatment is seen to be abusive or the arrangements are artificial.

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## **Printed Matter**

The supply of printed matter is one of goods, taxable at the zero rate. Books, booklets, brochures, pamphlets and leaflets are provided for in Item 1, Group 3, Schedule 8 of the VAT Act 1994.

Our view is that the following services are ancillary to the zero rated supply of printed matter:

- The creative design, drafting and preparation of printed matter;
- The printing of direct mail packs using pre-sorted data provided by the customer, so that the mail packs include names, addresses and postcodes;
- The printing of direct mail packs using unsorted data provided by the customer which the supplier sorts and uses to print barcodes onto envelopes;
- The printing of direct mail packs and correction of customer data for address and postcode details only, to ensure Royal Mail address standards are met.

## **Delivered Goods**

Our view of 'delivered goods' in the context of printed matter is as follows

- The supply of printed matter and delivery to the customer for free (or where the delivery cost is built into the printing charge) is one of zero rated printed matter;
- The supply of printed matter and delivery to the customer under contract for a charge is one of zero rated printed matter.

The single supply of printed matter and direct mailing (being delivery to many recipients at the customer's direction) is taxable at the standard rate, as it is a supply of direct mailing services.

There are situations where delivery may be treated as a disbursement when a supply of printed matter takes place - see 'Delivery - treatment as a Disbursement' below.

## **Direct Mailing**

A supply of direct mailing services is taxable at the standard rate. These services typically include:

- The posting of customer mail; such as publicity, advertising material or promotional goods;
- Analysis of customer data to target direct mail; such as based on geography or gender of recipients;
- Analysis of own and customer data to produce reports on campaign results and advice on strategy.

There are situations where delivery may be treated as a disbursement where a supply of direct mailing takes place - see 'Delivery - treatment as a Disbursement' below.

## **Delivery - treatment as a Disbursement**

Whether making a supply of printed matter or of direct mailing services, a supplier may treat mailing charges by operators licenced by Ofcom as a disbursement for VAT purposes provided the following conditions are all met:

- The supplier meets the general disbursement requirements outlined in the section on 'Supplies made by or through agents: other situations' in Notice 700 'The VAT Guide' (reproduced below);
- The supplier's clients tell them who to send the mail to or have access to the mailing list before the mail is sent out;
- The supplier's responsibility for the mail ceases when it is accepted for safe delivery by the Mailing company, and;
- The supplier passes on any discount or rebate from the Mailing company to the supplier's clients in full or, if the supplier obtains the discount or rebate from posting various clients' mail at the same time, the supplier apportions it fairly between them.

The general disbursement requirements detailed in Notice 700 'The VAT Guide' that must be met before delivery charges can be treated as a disbursement are as follows:

- The supplier acts as the agent of their client when the supplier pays the licensed operator;
- The customer actually receives the services provided by the licensed operator (this condition usually prevents the supplier's own costs being treated as disbursements for VAT purposes);
- The customer is responsible for paying the licensed operator;
- The customer has authorised the supplier to make payment on their behalf;
- The customer knows that the services the supplier has paid for will be provided by the licensed operator;
- The supplier's outlay is be separately itemised when the supplier invoices the customer;
- The supplier recovers only the exact amount which the supplier paid to the licensed operator, and;
- The services which the supplier pays for (ie the licensed operator's costs) are clearly additional to the supplies which the supplier makes to their customer on the supplier's account.

## **Downstream Access Arrangements**

We consider that the 'Upstream Access charge' element by Downstream Access Arrangements (DSA) providers is properly taxable at the standard rate; the DSA element by the Royal Mail remains exempt. We do not see that the upstream charge can be treated as part of the exempt supply by the Royal Mail.

I hope this reply provides the clarity that CTG and DMA seek. As I mentioned earlier, we are aiming to issue improved guidance early in the New Year.

Yours Sincerely

Alan Mckay  
**VAT Supply**

cc Peter Jenkins, Charity Tax Group  
Alex Walsh, Direct Marketing Association