

Budget 2010



BN41

22 June 2010

VAT: POSTAL SERVICES

Who is likely to be affected?

1. The only business directly affected by the changes is Royal Mail Holdings PLC, the universal service provider (USP) of public postal services in the UK. Some customers of Royal Mail purchasing the relevant services will also be affected, as they will now have to pay VAT.
2. Social mail, including stamped mail, remains exempt from VAT so private individuals should largely be unaffected.

General description of the measure

3. This measure will apply VAT at the standard rate to certain postal services provided by the USP.
4. The zero-rating for passenger transport services will also be updated to reflect the status of the provider of a passenger transport service made in conjunction with its postal services.
5. The Government will legislate for this measure in a Finance Bill to be introduced as soon as possible after the summer recess.

Operative date

6. The measure will have effect for supplies made on and after 31 January 2011.

Current law and proposed revisions

7. Currently, a VAT exemption applies to the conveyance of postal packets, and services connected to the conveyance of postal packets, by the Post Office company, including any wholly owned subsidiary of the Post Office company. In practice, this means Royal Mail (including Parcelforce).

8. The VAT exemption under Group 3 of Schedule 9 to the VAT Act 1994 (VATA) will be amended to restrict the scope of the exemption to supplies of public postal services and incidental goods made by a USP. The exemption will only apply to supplies of services made under a licence duty, including those where - pursuant to a licence duty - the USP allows private postal operators access to its postal facilities.
9. Supplies of services that a USP is not required to make under a licence duty (such as those made by Parcelforce), and services provided on terms and conditions that have been freely negotiated, will in future be subject to the standard rate of VAT.
10. Zero-rating applies to the transport of passengers by the Post Office company (i.e. Royal Mail), including any wholly owned subsidiary of the Post Office company. The provision has historically only been used for rural bus services - known as the "Postbus" - that Royal Mail provides in conjunction with its postal delivery services, although it also applies to other modes of transport, such as aircraft and ships. Item 4(b) of Group 8 of Schedule 8 to VATA will be amended to zero rate passenger transport provided by a USP. There is no change to the scope of the zero-rating.

Further advice

11. This measure was previously announced at Budget 2010 and a version of this note was published as BN48. This note supersedes that version.
12. Further guidance on the scope of the exemption was published in the Technical Note (VAT – Postal Services) issued on 24 March 2010. VAT Notices 700 *The VAT Guide*, 700/24 *Postage and delivery charges* and 744A *Passenger transport* will be updated to reflect the amendments.
13. If you have any questions about these changes, please contact the VAT Helpline on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk