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Prime Minister 4

This came up when we discussed

Treasury Chambers, Parliament Street, SW1P 3AG in PESS

01-233 3000

5 August 1980

presentation of our EEC budget contribution.

Tim P Lankester Esq
Private Secretary
No.10 Downing Street

Dear Tim,

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At her meeting with the Chancellor on 11 July, the Prime Minister asked about the differences in yield from a 1% rate applied to the harmonised base used to calculate the Community's VAT own resources and a 1% rate of VAT applied in the UK. I attach a note setting out the information.

I am sending copies of this letter to George Walden, David Wright, and Mike Eland.

Yours,
Richard.

R I TOLKIEN

VALUE ADDED TAX AND VAT OWN RESOURCES

1. VAT own resources are not a separate, identifiable tax; the yield derives from the application of a given percentage rate to the final expenditure on the "harmonised base". The harmonised base is a range of goods and services, the same for all member States, which was agreed in 1977.

2. The range of goods and services included in the harmonised base is very similar to the range making up the UK base for VAT; this is the position in other member States too. Expenditure in the UK on the goods and services included in the harmonised base is approximately one per cent more than the expenditure which makes up the UK VAT base. In 1979, the total expenditure in the UK relating to the two bases was:-

	£ million
Harmonised based	108,600
UK national VAT base	107,500

Applying a one per cent rate to the harmonised base in 1979 would therefore have given, for the UK, VAT own resources of £1,086 million. The equivalent figure for the UK national VAT base would be £1,075 million.

3. In 1979, when the positive rates of VAT were 8 and 12½ per cent for part of the year and 15 per cent for the remainder, the revenue to the Exchequer from each one per cent was on average about £650 million. This was substantially less than one per cent of the UK VAT base (£1,075 million) which includes goods and services (eg food, new construction etc) on which the rate of VAT charged is zero.

Further explanation
Please.

MS.

5 AUG 1980

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