

EXPLANATORY NOTE

NEW SCHEDULE 1: CATEGORISATION OF SUPPLIES

SUMMARY

1. This Schedule amends the Value Added Tax Act 1994 ('VATA'). It:
 - amends Groups 1 (food), 6 (protected buildings) and 9 (caravans and houseboats) in Part 2 of Schedule 8 to VATA (zero-rating) to make changes to the scope of the zero rate
 - amends Group 1 (land) in Part 2 of Schedule 9 (exemptions) to clarify current law and narrow the scope of VAT exemption; and
 - introduces a new Group 12 in Part 2 of Schedule 7A (charge at reduced rate) to provide for a reduced rate for holiday caravans.

Part 1

2. Section 30 of VATA provides that supplies described in Schedule 8 to VATA are to be treated as being liable to VAT at the zero rate. The zero-rated supplies are itemised in a number of different groups in Part 2 of Schedule 8 in accordance with their subject matter with an index in Part 1.
3. Paragraph 2 of this Schedule amends Group 1 (food) of Schedule 8 to:
 - insert a new excepted item 4A to make it clear that certain sports drinks (as specified) are not included within the VAT zero rate;
 - amend the definition of a supply in the course of catering (a supply which is not included within the VAT zero rate) by amending Note 3 to Group 1 and inserting new Notes (3A) to (3D) to (i) provide clarification as to the meaning of "premises" and (ii) amend the current definition of "hot food".
4. Paragraph 3 amends Group 6 (protected buildings) of Schedule 8 to:
 - remove the zero rate provided for in items 2 and 3 of Group 6 for services supplied in the course of an approved alteration (and related supplies of building materials) and make consequential changes to Notes (3), (5), and (6) to (11) to Group 6;
 - narrow the definition in Note (4) to Group 6 of "substantial reconstruction" in relation to the zero-rating, by a person substantially reconstructing a protected building, of the first grant of a major interest in it or part of it.

5. Paragraph 4 amends Group 9 (caravans and houseboats) of Schedule 8 to limit the zero rate to the supply of caravans meeting British Standard requirements for residential caravans and makes a number of minor changes to update cross-references in Group 9 to other parts of VATA.

Part 2

6. Section 31 of VATA provides that supplies described in Schedule 9 to VATA are to be treated as exempt from VAT. The exempt supplies are itemised in a number of different groups in Part 2 of that Schedule in accordance with their subject matter with an index in Part 1.
7. Paragraph 5 amends Group 1 (land) of Schedule 9 to:
- remove the exemption for the grant of facilities for the self storage of goods (other than live animals) except where the grant i) is for facilities for the self storage of goods in a structure that is, or forms part of, a capital item for the supplier which is used by a person connected to the supplier or ii) is made to a charity using the structure solely for non business activity;
 - clarify that the grant of facilities within premises to a person supplying hairdressing services is not exempt.

Part 3

8. Section 29A of VATA provides that supplies described in Schedule 7A are to be treated as being liable to VAT at the reduced rate. The reduced rate supplies are itemised in a number of different groups in Part 2 of that Schedule in accordance with their subject matter with an index in Part 1.
9. Paragraph 6 inserts a reference to new Group 12 into the index in Part 1 of Schedule 7A and inserts new Group 12 (Caravans) into Part 2 which describes the supplies of caravans which are now to be liable to VAT at the reduced rate.

Part 4

10. Paragraph 7 sets out the effective dates and transitional provisions for the above changes. Paragraph 7(2) gives the effective date for the changes to the treatment of caravans. Paragraph 7(3) gives the effective date for the changes in the case of supplies subject to transitional provisions. Paragraph 7(1) gives the effective date for all other changes described in this Schedule.
11. Paragraphs 7(4) to (10) describe the transitional provisions for certain supplies affected by the changes to Group 6 of Schedule 8 (Protected Buildings).

12. Paragraph 7(4) describes the circumstances in which “relevant supplies” will continue to be subject to VAT at the zero rate under the transitional provisions. “Relevant supplies” are supplies of:
- services supplied in the course of an approved alteration of a protected building and,
 - building materials supplied in connection with such a supply of services,
- the circumstances are that the supplies must in either case be made pursuant either to a written contract (‘the contract’) entered into prior to 21 March 2012 or to a relevant consent applied for before 21 March 2012.
13. Paragraphs 7(5) to (7) specify additional alternative conditions that will permit continued zero-rating for supplies of the first grant of a major interest in a substantially reconstructed protected building made prior to 1 October 2015 that would otherwise be affected by the changes to Group 6 of Schedule 8.
14. Paragraph 7(8) provides that any works that are an expansion to the scope of the works comprised in the contract or relevant consent will not fall within the definition of “relevant supplies” in paragraph 7(4).
15. Paragraph 7(9) defines services which are excluded from the definition of “relevant supplies” and defines the meaning of “relevant consent”.

BACKGROUND NOTE

16. The UK VAT system contains a number of exemptions and zero rates, many of which have been in place since VAT was introduced in 1973. A number of anomalies have arisen along the borderlines of the VAT exemptions and the VAT zero rates, leading to loss of revenue, uncertainty for business and costs for HMRC.
17. In his Budget Statement of 21 March 2012, the Chancellor announced a number of changes to address some of these anomalies. This Schedule gives effect to those changes, taking into account responses received to an HMRC consultation on the draft legislation.