

VAT and E-Books: UK Sellers at Competitive Disadvantage

24 February 2012

To: Rt Hon George Osborne, Chancellor of the Exchequer

We are extremely grateful to you for giving a personal pledge to the country that, during the lifetime of the Coalition Government, printed books will remain at a zero VAT rate. Books are central to the acquisition of literacy, education and knowledge of all kinds: special and general, informal and formal, whether for adults or children, providing the basis of reading skills, inquiry, comprehension and individual enterprise. In order to enable UK PLC to compete in an increasingly competitive global marketplace, we need a literate work force and a literate society. Books are fundamental in underpinning this objective. Even in the darkest days of the Second World War printed books were not taxed, and we hope future Governments in Westminster will continue to support the line you have taken.

A problem has arisen since the beginning of this year which involves two member states of the European Union breaking the agreed European tax rules and putting UK booksellers at a huge competitive disadvantage. We very much hope that HM Treasury will use its best endeavours to ensure the matter is quickly redressed.

E-books now account for around 8% of all book sales in the UK. UK booksellers are investing in the infrastructure in order to sell e-book content and the e-readers. The marketplace is quickly changing, and booksellers recognize that they have to adapt.

Under the European tax rules, e-books throughout the European Union should carry a VAT rate in each member state of 15% or above (e-books are currently not one of the specific products and services listed in Annex 3 of the VAT Directive that can carry a reduced VAT rate, should member states choose to adopt the reduced band). In the UK, e-books are taxed at 20%, and UK sellers of e-books apply this rate when selling to UK consumers.

On 1st January this year, Luxembourg decided unilaterally to reduce the VAT rates on e-books to 3%, thus seemingly breaking the VAT Directive 2006/112/EC whereby member states have to impose a VAT rate of at least 15%.

The online bookseller, Amazon, is registered in Luxembourg and is therefore able to supply e-books at 3% VAT, whereas my members have to supply at 20%. This gives a massive competitive advantage to Amazon. Any e-books sold into the UK from Amazon - or any other Luxembourg retailer - will attract the lower 3% VAT rate, giving their titles a clear price advantage over those sold by British booksellers. For example, a £10 e-book inclusive of 20% VAT will retail for £8.58 if Luxembourg's 3% VAT rate is imposed – giving Luxembourg sellers a price differential of at least 16.5% lower. Internet bookselling enables sellers to cross borders with ease and to provide instant fulfillment – so that this unfair competitive advantage is much more keenly felt by our members than were it the case of different rates applying to bricks and mortar bookshops in our high streets.

Amazon already absolutely dominates the e-book market. The Office of Fair Trading came to the view last autumn that Amazon accounts for between 70% and 80% of all sales in the online bookselling sector. Amazon itself claims to be responsible for over 90% of the e-book market.

France has also decided to reduce VAT on its e-books to 5%, which means that they too are seemingly breaking the VAT Directive, but for British booksellers the Luxembourg situation is much more serious, as Luxembourg is the corporate home of Amazon.

In conclusion, we urge HM Treasury to press the European Commission to take whatever steps are necessary to redress the situation, including, if necessary, the introduction of infraction proceedings –

so that the VAT rates for e-books supplied from Luxembourg and France are brought into line with the rest of the European Union.

Booksellers are facing huge pressures at the moment from so many different areas. We are not asking for 'protection'; we are moving fast to embrace the new digital world and realise that our survival depends on us supplying the changing needs of consumers. But what we can't accept is being put into this position of disadvantage because a couple of member states have deliberately broken the fiscal rules.

You have shown yourself to be a good supporter of the book trade. I hope we can count on you and your colleagues within The Treasury to ensure that any country that breaks the European rules is quickly brought into line and applies what has previously been agreed.

This is an urgent requirement as the longer this goes on, the more difficult it will be for UK based businesses to compete in the longer term.

I would be grateful to hear what steps HM Treasury plans to take to help us in this situation.

I look forward to hearing from you.

With best wishes,
Yours sincerely,

Tim Godfray
Chief Executive