The VAT Album

General Features | Indirect Tax



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Helen Thornley looks at the taxation of recorded music and the introduction of VAT in the UK

Whatever the result of this month's referendum, it is unlikely we will give up that most European of taxes: VAT. Originally a French construct, the imposition of VAT on 1 April 1973 was one of the requirements of joining what was then the European Economic Community. A harmonised, indirect tax system was needed to ensure fair competition for Community exports.

VAT replaced two taxes in the UK: purchase tax and selective employment tax (SET). The former applied to goods; the latter, in a broad sense, was a tax on services. VAT, of course, covers both. Although SET was unpopular and short-lived, purchase tax had a longer pedigree.

Introduced during 1940, purchase tax was intended to raise funds for the war effort, ‘discourage unnecessary spending’ at home and encourage exports. While the exchequer was aware of the turnover and sales taxes developing on the continent, the UK opted for a tax that applied at a fixed point. The trigger was when a wholesaler sold to a retailer. The idea was that wholesalers stood on one side of the fence and retailers on the other. When goods were passed over the fence to the retailer, purchase tax was applied by the wholesaler to the wholesale price. Trading which didn’t cross the fence was not chargeable.

Goods chargeable to purchase tax were split into more than 30 groups. Rates varied according to how luxurious each group was. Recorded and musical instruments sat in Group 19. Starting at 33 1/3%, the rate on this group hit 100% in 1943.

Rates of purchase tax changed regularly. On 22 November 1968, The Beatles release of their eponymous album – also known as the *White Album* – coincided with the Chancellor announcing that purchase tax on records would increase the next day. Most record manufacturers physically embossed the disc with a code corresponding to the relevant rate of purchase tax. Consequently early pressings of the album have the letters ‘KT’ for the old 50% rate as they were manufactured before the change. Any manufactured but not supplied to the retailer needed corrective markings for the new rate. Later pressings have no embossed codes as the practice was phasing out – further proof that my copy is definitely not an earlier, valuable copy of the album!

Purchase tax was never purely a luxury tax though. When ‘the novel tax’ was proposed, the exchequer acknowledged the need for funds meant that it would have to go beyond luxuries. Concerned over how regressive it might be, as soon as it was announced MPs began lobbying for exemptions. Relief on books and children’s clothes were granted early on. Exemptions for dustbins, hula hoops, welsh harps and bicycles were rejected.

That music was subject to purchase tax while books were exempted was always contentious. *Hansard* records many impassioned arguments for the cultural and

educational benefits of removing purchase tax on musical instruments and recordings.

Now, under VAT, there are circumstances where the treatment of books and music is aligned. If we compare music downloads to ebooks, both are subject to standard rates of VAT. Unlike purchase tax where groups could be added to as technology developed – vinyl and tapes were added to group 19 with gramophone records – VAT is much less flexible. Ebooks didn't fit the conditions to qualify for zero-rating as books so fell to be standard rated. As part of the EU we can't unilaterally change the historic exemptions in our system – most of which were inherited from purchase tax.

On the imports front, purchase tax generally applied on entry to the UK market, unless the goods were of such a low value the administration was considered too great. This created an opportunity to escape purchase tax similar to Low Value Consignment Relief (LVCR) for VAT. In the 1950s British nylon stockings could be exported free of purchase tax. Ladies could then order British stockings from overseas suppliers, hoping each separately posted pair would escape Customs. Just as LVCR had to be removed from imports from the Channel Islands to ensure a level playing field for imported music CDs, specific rules had to be brought in to stop cheap nylon imports from Malta and Gibraltar.

Whether in or out, purchase tax or VAT, I'll give the Beatles the last word with 'The Taxman' from their 1966 album *Revolver*. Originally subject to 50% purchase tax on the wholesale price, now downloadable subject to 20% VAT: 'Be thankful I don't take it all cos I'm the taxman, yeah, I'm the taxman.'