

TREASURY SELECT COMMITTEE: VAT INQUIRY RESPONSE FROM THE PUBLISHERS ASSOCIATION

Introduction

The Publishers Association is delighted to have this opportunity to respond to the committee's inquiry into VAT.

UK readers and learners have long suffered from an unnecessary complexity in the applied VAT regime, with print publications being zero-rated while ebooks and ejournals are standard rated at the behest of European legislation.

We believe this tax on knowledge to be socially and economically counterproductive. A book is a book however you read it and people using digital products should not be discriminated against by legislation that has not kept pace with societal change.

Removing the tax on epublications would assist the dissemination of knowledge and support readers and learners of all ages and kinds. Children are embracing digital technology more and more and ebooks and elearning materials have increasing importance in developing nationwide child literacy. And it is not just the young who are impacted, research tells us that a third of ebook consumers in 2017 were over 55 years old, an age-group that benefits particularly from the increased accessibility options and enlarged fonts available in digital formats.¹

Students, universities and academic libraries are also at a current disadvantage when they buy eresources, as unlike schools and colleges, they cannot recoup VAT. This is a tax burden on learning which significantly impacts an already fiscally-strained higher education system. Additionally the current tax goes against the stated aims of the open access agenda, namely to make the findings of academic research as open and accessible to the public as possible. Applying VAT to electronic journals, which make up 90% of the total journal market, instead adds to the cost of research outputs.

The tax also creates associated bureaucracy and complexity for businesses, who need to run parallel systems for selling digital and print products. We support the government's aim to make the UK 'the best place to start and grow a digital business'² and would urge the committee to consider whether disproportionately taxing paid-for digital content is consistent with this goal.

Successive UK governments have committed to avoiding a tax on learning and education by refusing to apply VAT to print books and journals, as was the case at the outset when VAT replaced the purchase tax in 1973. This is entirely right and the unique status of these products as an educational good has been recognised for 80 years. The general principle of avoiding a tax on knowledge and of

¹ Nielsen consumer tracker data 2017

² Government's Digital Strategy 2017

making information accessible to all levels of society is even longer established, having taken hold in the 19th century.

The Publishers Association urges the committee to recommend that this long-standing principle is upheld and brought into the digital age. Such a move would significantly benefit the roughly 15m ebook readers in the UK, as well as the millions more who access ejournals, elearning materials and emagazines/enewspapers that sit behind a pay wall. We will continue to make the case to government that the UK should cut the ebook tax and we very much hope that the committee can consider this measure in its analysis of how the government should structure its VAT regime after the UK withdraws from the European Union.

Stephen Lotinga
CEO, Publishers Association

Responses to the specific questions raised by the scope of the inquiry

The Publishers Association is the leading trade organisation serving book, journal, audio and electronic publishers in the UK, spanning fiction and non-fiction, academic and educational publishing. Therefore whilst the removal of VAT on epublications would benefit readers of enewspapers and emagazines, this submission specifically focuses on the ebook and ejournal market. However we fully support the Professional Publishers Association's submission to this inquiry.

VAT and Brexit

What opportunities and challenges for the UK VAT regime are presented by the UK's exit from the European Union?

This committee inquiry could not be being conducted at a more important time for the publishing industry. In the coming months UK policymakers are being presented with the opportunity to put right the long-overdue tax discrimination against digital paid-for content and in doing so to promote the competitiveness of UK digital businesses and to benefit the UK reading public.

EU law currently prevents Member States from applying a zero or reduced rate of VAT to electronic publications.

European legislation is currently being passed in Brussels which would allow Member States flexibility in setting VAT rates for ebooks and epublications. This was almost unanimously voted through in the European Parliament, by 590 votes to 8, and is at present being considered by the Economic and Financial Affairs Council (ECOFIN). In all likelihood this legislation will pass ahead of the UK's withdrawal from the European Union and, even in the unlikely eventuality that it does not, the UK will have autonomy to set the VAT rate as it sees fit upon withdrawal. In either case, UK

policymakers will unavoidably be faced with a decision: to pledge to zero-rate VAT for epublications in the UK or invariably fall-behind European nations as they take steps to do so.

The benefits of zero-rating epublications are wide-ranging and would impact readers of all kinds. The way people are reading is changing: physical books still make up the majority of sales, but ebooks now total 14% of total books sold and in 2016 41% of UK adults bought, downloaded, borrowed or received ebooks as gifts. This represents a considerable proportion of society. Meanwhile 90% of the journal market is now digital.

From parents buying ebooks for their children, through to vulnerable groups such as the blind or hard of hearing (whose access to reading is often substantially dependent on digital products) many sub-sets of society are forced to pay more for access.

The UK's exit from the European Union is an opportunity for the UK government to pre-announce that the UK will zero-rate VAT for epublications upon its withdrawal. It is a challenge in that the progress of EU legislation may mean that other Member States are able to do so first.

VAT and business

What aspects of VAT (either process or design) cause the biggest problems for businesses? How might they be improved?

The differential tax regime between print and digital publications places an unnecessary administrative burden on publishers and makes compliance costly. This is particularly complex for publishers when digital and physical products are bundled together in one package, or “blended product”. Particularly it creates complexity around apportioning value between physical and digital sales, dealing with HMRC, overseas importing and exporting, declarations and invoicing and royalties. This is a cost which disproportionately impacts small businesses less able to subsume accounting costs.

It also discourages new and innovative methods of product delivery from being established in the UK, undermining the government's Digital Strategy goal of ‘helping every British business become a digital business’.

VAT and good tax policy

How does VAT measure up against the principles that tax policy should be fair?

The tax distinction between print and digital products is a result of an anomaly in the system that has only occurred through the legal system not keeping pace with societal change. It is illogical and manifestly unfair.

Digital and physical books and journals are seen by both readers and publishers as essentially the same product and are read and enjoyed in the same way. The similarity between digital and print publications was demonstrated by a recent ruling by the First-Tier Tribunal on a case between HMRC and News Corp UK³ over whether the digital editions of the Times, the Sunday Times and the Sun should be zero-rated. Whilst the tribunal found that indeed under the UK's current laws the digital editions were not entitled to a zero-rating on VAT, it agreed that the digital editions of the publications had similar characteristics to the print editions and that the two editions were similar "from the point of view of the consumer". Therefore, in practice there is no reason why these products should be treated differently by the tax system.

Not only is the distinction between the two formats arbitrary, but the differential VAT treatment is particularly unfair to certain groups of readers. Among these are readers with print disabilities (those who cannot effectively read print because of a disability), older people and those who are reluctant readers.

Ebooks are commonly used by readers with print disabilities, as well as those with mobility, dexterity and concentration difficulties, who can struggle to handle the printed page or read for long periods of time. This is because ebooks can allow for magnification of text size, contrast changes, text to speech support and digitised page turning, all of which make ebooks accessible to a wide range of users. A report published in 2014 on ebooks and accessibility said due to the ability to break down barriers for readers with print disabilities, digital text should be seen as one of the "most important catalysts for cultural change".⁴

Data from Nielsen meanwhile shows that a higher proportion of ebook buyers are in older age groups, with readers aged 65-84 making up 17% of digital book buyers, compared to 11% of physical book buyers.⁵ Ebooks particularly appeal to older age groups as the ability to increase the print size and the increased contrast between the text and background, make them easier for older people to read. Research from Johannes Gutenberg University found that digital reading devices allow older readers to read the same text more quickly and with less effort than printed pages.⁶

Figures collected by Nielsen also show that the proportion of buyers who are female is higher for ebooks than physical books, with women making up 64% of ebook readers compared to 56% of physical book readers, suggesting that women are particularly adversely affected by the 20% VAT on epublications.

The differential tax treatment also negatively effects those children who are reluctant readers. A report by the National Literacy Trust showed that boys who did not enjoy reading were more likely to report more frequent reading and increased reading time outside school after being offered the

³ News Corp UK & Ireland Limited v HMRC [2018] UKFTT 0129)

⁴ *eBooks, Accessibility and the Catalysts for Culture Change*, E. A. Draffan, Alistair McNaught, Abi James (2014)

⁵ *Nielsen consumer tracker* (2017)

⁶ *JGU Media Convergence Research Unit* (2011)

chance to read using an ebook platform. The report concluded that access to ebooks could be considered as one of the interventions to help address gaps between less keen or able readers and their peers.⁷

Meanwhile audiobooks, as well as providing access to books for those who are blind or visually impaired, can also boost reading enjoyment amongst struggling readers, by providing access to literature genres they may have found inaccessible through written text alone⁸.

The differential tax treatment between printed and digital publications is illogical on its face and discriminatory in application. It cannot be fair that those who, through age, disability or circumstance, find it more difficult to read face a higher tax burden than those who do not.

How does VAT measure up against the principles that tax policy should support growth and encourage competition?

The current discrepancy in the VAT system is a disincentive to growth and competition in the digital book market. Digital ebooks particularly appeal to price-sensitive customers. A reduction in ebook prices through a cut in VAT would likely see an increase in sales volumes, especially at the lower price points, encouraging more content and innovation.

Estimates in the literature on consumer responses to price changes of ebooks mostly relate to the US market, and to books but not journals. These 'price elasticity' estimates tend to be in the region of -0.4 to -0.8 in the US.⁹ This implies a 10% reduction in prices results in an increase in demand of 4% to 8%. Li (2015) assesses these issues with an analysis of US market data from 2008 to 2012 and finds that 58% of ebook sales over this period are from market expansion, while 42% are from print book sales. This represents a significant overall growth in readership.

Research suggests that the VAT rate of 20% on ebooks likely discourages consumers from buying ebooks. Ofcom research shows that the willingness to pay for a single book download declines as the proposed price increases. The average price that respondents were willing to pay was £3.74. About 42% of people were willing to buy an ebook at £5. Once VAT at 20% was added, increasing the cost to £6, the proportion of consumers willing to buy a book fell dramatically to 28%.¹⁰

Therefore reducing VAT could help make ebooks cheaper for consumers to buy, encouraging more people to buy books, which is one of the most effective ways of improving literacy and reading for pleasure.

⁷ National Literacy Trust, *The Impact of ebooks on the Reading Motivation and Reading Skills of Children and Young People* (2015)

⁸ Serafini, Frank. "Audiobooks and Literacy: An Educator's Guide to Utilizing Audiobooks in the Classroom." *New York: Listening Library* (2004)

⁹ See for example: Li (2015), *Dynamic Demand and Pricing Strategy in the ebook Market*; and Reimers and Waldfoegel (2014), *Throwing the books at them: Amazon's puzzling long run pricing strategy*

¹⁰ Ofsted, *Online Copyright Infringement Tracker Annex 1 – Individual content types Wave 4 (Covering period March – May 2013)* (2013)

According to one of the Publishers Association's members, the 20% VAT on ebooks can be a significant factor in restricting the growth of consumer sales and can be particularly difficult in the education market where publishing is transitioning from print to digital and students expect ebook prices to be lower. Additionally, zero-rating of VAT could encourage more publishers to invest in audio books, which are currently more expensive for publishers to produce.

An increase in sales volumes for ebooks would not just benefit readers but would also benefit authors. Unlike with other commodities, a tax cut in this area would directly benefit the creator as authors receive royalties on every additional book bought. Therefore, a reduction of VAT on ebooks would represent an investment in our creators. As books are the foundation of much of the rest of the creative industries, inspiring films, TV, games and plays, this in turn would be beneficial to the wider creative industries.

The VAT on epublications is also a burden on scientific and academic research as libraries are forced to pay a 20% tax on the digital editions of research journals. Given that 90% percent of journal publishing is now in digital format, this is a major cost for libraries and centres of higher education. Reducing the VAT burden on ejournals was one of the recommendations made in the review by Dame Janet Finch *Accessibility, sustainability, excellence: how to expand access to research publications* (2012), which noted that VAT represents a "significant barrier" against moving towards e-only provision, despite the "increases in efficiency that would result, together with the lowering of costs for both publishers and libraries".

Eprovision would help libraries save on storage space and offer increased availability of content for most users. The recommendation in the Finch report was rejected by the government at the time due to EU VAT legislation, but with the upcoming change in circumstances, one way or another, this barrier will be removed.

How does VAT measure up against the principles that tax policy should be coherent, with new provisions complementing the existing system rather than conflicting with it?

Currently UK publishers and UK consumers are having to contend with two distinct tax regimes: standard rate for digital and a zero-rate for print. Bringing the digital rate into line with the print rate is coherent with existing system, reducing business complexity and supporting readers. This change would represent a simplification of the tax regime and a reaffirmation of the principle that there should be no tax on knowledge.