



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mr David Morgan
Chairman of Electronic Communication and Assistive Technology Section
British Healthcare Trades Association
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Dear Mr Morgan,

Thank you for your letter of 25 November to the Chancellor of the Exchequer about VAT and extended warranty contracts on products for disabled people. I have been asked to reply and I am sorry for the delay.

VAT is a broad-based tax on consumer expenditure and reliefs from it have always been strictly limited. VAT is therefore chargeable on the vast majority of goods and services, including many items which people may feel are worthy of relief. However, successive Governments have recognised that disabled people should not have to bear all the extra VAT costs they incur in meeting their needs. Therefore, there are a number of specific VAT reliefs for certain goods and services supplied to disabled people, including, as you know, a zero rate for certain products specifically designed for use by disabled people.

The liability of any warranty or guarantee provided with these products depends on the nature of the warranty and it may be helpful if I explain the general principles. A warranty or extended warranty or guarantee offers indemnity for an uncertain event that may or may not happen, they are not a fixed cost for repairs that may or may not be carried out at a later date. As such, where they are supplied independently from the zero-rated product they cover, or are offered as an optional extra they do not qualify for zero-rating. The premium may be exempt from VAT if the warranty, extended warranty or guarantee qualifies as an insurance product, but in such circumstances it will be liable to Insurance Premium Tax.

However, a warranty may benefit from zero-rating if it is sold as part of a single supply with the product and the purchaser has no option but to buy it, assuming that the product itself satisfies all the conditions for zero-rating.



When repairs are needed and there is no additional charge when goods or services are provided as part of the warranty or guarantee agreement, there will be no supply for VAT purposes. Where additional charges are made to the customer for goods or services provided as part of the agreement to effect repairs, zero-rating may apply, subject to all the relevant conditions being met, otherwise they would be standard-rated.

When the UK joined the European Community in 1973, it meant signing up to the agreements which govern the application of VAT throughout the EC. Under these and subsequent agreements signed by successive Governments, we are allowed to keep our existing zero rates, but are not allowed to extend them or introduce new ones. Therefore, even if the Government should wish to do so, we could not now extend our zero rate to include all warranty products supplied with qualifying zero-rated goods for disabled people.

Thank you for taking the trouble to raise your concerns about this with us.

*Yours sincerely,
Stephen Timms*

STEPHEN TIMMS MP