

# Budget 2005



HM Customs and Excise

CE 01

16 March 2005

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## ALCOHOL DUTY RATES

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### Who is likely to be affected?

1. Manufacturers and importers of alcoholic drinks.

### General description of the measure

2. The excise duty on spirits, cider and sparkling wine is frozen. The duty on beer and still wine is increased by 2.60%, adding 1p (duty and VAT) to a pint of beer and 1p (duty and VAT) to a standard 175ml glass of wine. The new rates of duty are shown on the table overleaf.

### Operative date

3. Midnight on 20 March 2005.

### Current law and proposed revisions

4. The Alcoholic Liquor Duties Act 1979 and the Customs and Excise Tariff will be amended to reflect the changes.

### Further advice

5. If you have any questions about these changes, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

Alcohol duty rates, including the new duty rates for beer and still wine (highlighted), are as follows:

	Rate per litre of pure alcohol
<b>Spirits</b>	£19.56
<b>Spirits-based RTDs</b>	£19.56
<b>Wine and made-wine: Exceeding 22% abv</b>	£19.56
	Rate per hectolitre per cent of alcohol in the beer
<b>Beer</b>	<b>£12.92</b>
	Rate per hectolitre of product
<b>Still cider and perry: Exceeding 1.2% - not exceeding 7.5% abv.</b>	£25.61
<b>Still cider and perry: Exceeding 7.5% - less than 8.5% abv.</b>	£38.43
<b>Sparkling cider and perry: Exceeding 1.2% - not exceeding 5.5% abv.</b>	£25.61
<b>Sparkling cider and perry: Exceeding 5.5% - less than 8.5% abv.</b>	£166.70
<b>Wine and made-wine: Exceeding 1.2% - not exceeding 4% abv.</b>	<b>£51.69</b>
<b>Wine and made-wine: Exceeding 4% - not exceeding 5.5% abv.</b>	<b>£71.07</b>
<b>Still wine and made-wine: Exceeding 5.5% - not exceeding 15% abv.</b>	<b>£167.72</b>
<b>Wine and made-wine: Exceeding 15% - not exceeding 22% abv.</b>	<b>£223.62</b>
<b>Sparkling wine and made-wine: Exceeding 5.5% - less than 8.5% abv.</b>	£166.70
<b>Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.</b>	£220.54

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## TOBACCO PRODUCTS: CHANGES IN DUTY RATES

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### Who is likely to be affected?

1. Manufacturers and importers of tobacco products (i.e. cigarettes, cigars, hand-rolling tobacco, other smoking tobacco and chewing tobacco).

### General description of the measure

2. The rates of duty on tobacco products imported into, or manufactured in, the United Kingdom will be increased by 2.60% in line with inflation. The new duty rates are:

<ul style="list-style-type: none"><li>• Cigarettes</li></ul>	An amount equal to 22 per cent of the retail price plus £102.39 per thousand cigarettes
<ul style="list-style-type: none"><li>• Cigars</li></ul>	£149.12 per kilogram
<ul style="list-style-type: none"><li>• Hand-rolling tobacco</li></ul>	£107.18 per kilogram
<ul style="list-style-type: none"><li>• Other smoking tobacco and chewing tobacco</li></ul>	£65.56 per kilogram

### Operative date

3. The rate changes will come into effect at 6pm on 16 March 2005.

### Current law and proposed revisions

4. Schedule 1 to the Tobacco Products Duty Act 1979, as last substituted by section 1 of the Finance Act 2004 (c.12), will be amended to reflect the new rates.

### Further advice

5. If you have any questions about these changes, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## GAMING DUTY: CHANGES TO DUTY BANDS

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### Who is likely to be affected?

1. Casino operators.

### General description of the measure

2. The Gross Gaming Yield (GGY) threshold for each duty band will be increased in line with inflation.
3. The new duty bands are as shown below:

The first 534,500 of GGY	2.5%
The next 1,186,500 of GGY	12.5%
The next 1,186,500 of GGY	20%
The next 2,078,000 of GGY	30%
The remainder	40%

### Operative date

4. The changes to the duty bands come into effect for accounting periods starting on or after 1 April 2005.

### Current law and proposed revisions

5. Section 11 of the Finance Act 1997 and regulation 5 of the Gaming Duty Regulations 1997 will be amended to reflect these changes.

**Further advice**

6. If you have any questions about these changes, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## HYDROCARBON OILS: DUTY RATES

### Who is likely to be affected?

1. Businesses producing and importing hydrocarbon oils products.

### General description of the measure

2. From 1 September 2005, excise duty rates on main road fuels will be increased by 1.22 pence per litre in line with inflation. All other hydrocarbon oils used for road fuel will also increase in line with inflation. Effective rates of duty (that is, the relevant duty minus the relevant rebate) for non-road fuels will also be increased by 1.22 pence per litre. In order to maintain the current differentials with main road fuels, the duty rates for biodiesel, bioethanol, and natural gas will also be increased by 1.22 pence per litre. In the case of road fuel gas other than natural gas (e.g. liquefied petroleum gas) the duty differential will be narrowed by the equivalent of 1 penny per litre.

3. From 1 September 2005, the effective new rates of duty will be:

Light oils	Effective duty rate per litre (£)
Ultra low sulphur petrol (ULSP)	0.4832
Sulphur-free petrol (SFP)	0.4832
Unleaded petrol that is not ULSP or SFP	0.5149
Aviation gasoline (AVGAS)	0.2883
Light oil delivered to an approved person for use as furnace fuel	0.0604
Other light oil (including leaded petrol)	0.5766

<b>Heavy oils</b>	<b>Effective duty rate per litre (£)</b>
Ultra low sulphur diesel (ULSD)	0.4832
Sulphur-free diesel (SFD)	0.4832
Heavy oil which is not ULSD or SFD (conventional diesel)	0.5465
Marked gas oil and ultra-low sulphur diesel not for road fuel use	0.0644
Fuel oil	0.0604
Kerosene to be used as motor fuel off-road or in an excepted vehicle	0.0644
<b>Biofuels</b>	<b>Effective duty rate per litre (£)</b>
Biodiesel	0.2832
Biodiesel used otherwise than as road fuel	0.0313
Bioethanol	0.2832
<b>Road fuel gases</b>	<b>Effective duty rate per kg (£)</b>
Natural gas (NG)	0.1080
Road fuel gas other than natural gas – e.g. liquefied petroleum gas (LPG)	0.1270

### **Current law**

4. The Hydrocarbon Oil Duties Act 1979, the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2004, the Excise Duties (Road Fuel Gas) (Reliefs) Regulations 2004, and the Excise Duties (Surcharges Or Rebates) (Hydrocarbon Oils etc.) (Amendment) Order 2004 and the Excise Duties (Surcharges Or Rebates) (Bioethanol) Order 2004. Note that these statutory instruments are revoked with effect from the date when the Finance Bill receives Royal Assent.

### **Further advice**

5. If you have any questions about these changes, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: INCREASED TURNOVER LIMITS FOR REGISTRATION AND DEREGISTRATION

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### Who is likely to be affected?

1. All businesses whose taxable turnover is close to the current VAT thresholds for registration and deregistration.

### General description of the measure

2. The measure increases the annual taxable turnover limit which determines whether a person must be registered for VAT from £58,000 to £60,000. This means that a person will have to apply for registration if:

- at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £60,000; or
- at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £60,000.

3. If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £60,000 but Customs are satisfied that it will not exceed £58,000 in the next 12 months, that person will not have to be registered.

4. The taxable turnover limit which determines whether a person may apply for deregistration will be increased from £56,000 to £58,000. The existing conditions for determining entitlement or liability to cancellation remain unchanged.

5. The registration and deregistration limits for acquisitions from other European Union Member States will also be increased from £58,000 to £60,000.

### Operative date

6. The changes will come into effect on 1 April 2005.

## **Current law and proposed revisions**

7. Schedules 1 and 3 to the VAT Act 1994 will be amended to reflect these changes.

## **Further advice**

8. The supplement to notices 700/1 *Should I be registered for VAT*, and 700/11 *Cancelling your registration* will be amended to show the increased limits. This supplement also gives details of the historical registration and deregistration limits. Notices 700/1 and 700/11 respectively give further information on how to register and deregister.

9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: AVOIDANCE SCHEME DISCLOSURE RULES

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### Who is likely to be affected?

1. Businesses that use VAT schemes to obtain a tax advantage.

### General description of the measure

2. The measure closes a gap in the reporting rules by requiring businesses to disclose when they use or are party to schemes that give a tax advantage that does not appear on their VAT returns, for example in relation to VAT that cannot be deducted because it relates to exempt supplies or non-business activity. Currently, a taxpayer is only required to disclose use of a scheme when it has made a difference to the amounts shown on his VAT return.
3. The measure also introduces two new prescribed (or 'listed') schemes. Businesses will be required to disclose when they use schemes that (a) exploit differences between the UK and another member state's treatment of vouchers; or (b) attempt to remove the effect of an election to waive exemption on supplies of land and property.
4. A new 'hallmark' of avoidance is also being introduced to require disclosure of schemes that make use of face value vouchers with low redemption rates.

### Operative date

5. The measures will come into effect after Royal Assent. The precise dates will be set out in an Appointed Day Order, for the new reporting rule, and the relevant Statutory Instrument, for the new listed schemes and hallmark.

### Current law and proposed revisions

6. The changes will be made by amending Schedule 11A to the VAT Act 1994; the VAT (Disclosure of Avoidance Schemes) Regulations 2004 (SI 2004/1929); and the VAT (Disclosure of Avoidance Schemes) (Designations) Order 2004 (SI 2004/1933).

**Further advice**

7. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: PARTIAL EXEMPTION - PACKAGE OF MEASURES

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### Who is likely to be affected?

1. Businesses that use Partial Exemption Methods.

### General description of the measure

2. This package contains four measures. The first measure extends Customs' policy on the use of their existing power to serve a special method override notice. Customs will now serve a notice in any circumstances where they have clear evidence that the current special method is not fair and there is a significant loss of revenue. In line with current policy, Customs will only use this power in cases where they decide that the direction of another special method is not appropriate.
3. The second measure introduces a requirement that, in future, approval or direction of a partial exemption special method must be in writing. This will help give certainty and clarity to businesses and Customs as to how the method operates, and remove the risk of unwritten approval for an inappropriate special method.
4. The third measure removes the possibility of 'gaps' arising in special methods. In future where a special method makes no provision for how to deal with certain types of input tax, that input tax will be recovered to the extent that the goods or services on which the input tax has been incurred are actually used in making taxable supplies.
5. The fourth measure removes the benefit of rounding up in the standard method for large businesses. Rounding will only be available to businesses whose 'residual' input tax is less than £400,000 per month. Customs will no longer approve rounding up in special methods.

### Operative date

6. This measure will come into effect from 1 April 2005.

**Current law and proposed revisions**

7. Regulations 101 and 102 of the VAT Regulations 1995 will be amended to reflect these changes by statutory instrument made under section 26(3) of the VAT Act 1994.

**Further advice**

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: UNJUST ENRICHMENT

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### Who is likely to be affected?

1. Businesses who have incorrectly charged VAT to customers and have accounted for this VAT to Customs.

### General description of the measure

2. A defence of unjust enrichment is available to Customs in most cases when an incorrect VAT charge has been passed on to customers. This means that Customs can refuse to meet claims for repayment where repayment would unjustly enrich the claimant. Previously, this defence applied only to claims where businesses had overpaid VAT. This measure extends the use of the defence by Customs to all claims. It will no longer matter whether a claimant is in a net payment or repayment position on individual VAT returns.

3. In addition, unjust enrichment will no longer be limited to any amount overpaid. It will be considered in respect of the gross amount of the overcharged output tax.

4. As before, claims for input tax and for refunds of, for example, duplicated payments of VAT, will not be subject to the defence of unjust enrichment.

5. There is no change in the procedure for claiming refunds. A three-year limitation period will continue to apply to all claims for a credit of tax. However, the three-years will start to run from:-

- the end of the prescribed accounting period covered by the return, where the error has been made on a return;
- the end of the prescribed accounting period in which a voluntary disclosure is made, where the over-accounted for output tax is on a voluntary disclosure;
- the end of the prescribed accounting period in which the assessment is made, where the output tax error has been accounted for in an assessment; and
- the date of the overpayment where the error arises by way of a duplicate payment.

**Operative date**

6. The measure will come into effect on 23 March 2005 and will apply to all claims for a credit of VAT made on or after that date.

**Current law and proposed revisions**

7. Section 80 of the VAT Act 1994 will be amended to reflect these changes. Consequential amendments will also be required to the VAT Act and to the VAT Regulations 1995 to reflect the new section 80.

**Further advice**

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: PLACE OF SUPPLY

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### Who is likely to be affected?

1. Recipients of supplies of natural gas and electricity who are registered for VAT and whose supplier is established outside the UK.

### General description of the measure

2. Changes to the place of supply rules for natural gas and electricity were introduced from 1 January 2005. As a result, some UK customers who are registered for VAT are now required to account for VAT on supplies they receive from suppliers who are established abroad. This measure establishes the consideration payable to the supplier as the value on which VAT is to be accounted for in these circumstances.

### Operative date

3. The measure will come into effect on 17 March 2005.

### Current law and proposed revisions

4. This will involve an amendment to the Value Added Tax Act 1994, Schedule 6, Paragraph 8 to bring section 9A of the Act within its scope.

### Further advice

5. If you have any questions about these changes, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: AMENDMENT OF LAW GOVERNING SUPPLIES OF GOODS IN CUSTOMS WAREHOUSES

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### Who is likely to be affected?

1. Businesses seeking to exploit a loophole in VAT warehousing law in order to avoid tax.

### General description of the measure

2. Goods are traded VAT-free in UK customs warehouses under an option available to the UK in EU law. One of the key conditions of this EU trade facilitation provision is that the amount of VAT due once the goods leave the warehouse must correspond to the amount of VAT that would have been due had the transactions not been VAT-free. UK VAT warehousing law does not always ensure this result and is now being exploited for tax avoidance purposes.

3. The measure will provide HM Customs and Excise with power to deny VAT free trading in warehouse to those businesses seeking to exploit the existing rules. The supplies in question will become subject to normal UK supply rules and be taxed accordingly.

### Operative date

4 The legislation permitting Customs to make the necessary regulations will come into effect on Royal Assent to the Finance Bill. The regulations will come into effect shortly after.

### Current law and proposed revisions

5 VAT-free trading in goods within customs warehouses is permitted under Section 18(1), VAT Act 1994. The Finance Bill proposal will introduce a new subsection that will allow the introduction of Commissioners' regulations to disapply section 18(1) in cases of abuse.

**Further advice**

6. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: LOCAL AUTHORITIES

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### Who is likely to be affected?

1. Local authorities.

### General description of the measure

2. Local authority provision of certain services, such as childcare and welfare, will be reclassified as non-business rather than exempt activity for VAT purposes. The effect of this measure is to remove the present restriction on VAT refunded to local authorities when they provide these services. The precise scope of the services covered by this measure will be announced shortly, but in general, only services of a social nature where local authorities have a special duty to ensure provision will be affected.

### Operative date

3. 1 April 2005.

### Current law and proposed revisions

4. Implementation will initially be on an administrative basis, but the Government will legislate in due course through a future Finance Bill.

### Further advice

5. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: CHANGES IN FUEL SCALE CHARGES

### Who is likely to be affected?

1. All businesses using cars for business purposes that recover input tax on fuel used for private motoring.

### General description of the measure

2. The measure amends the VAT scales for taxing private use of road fuel to reflect changes in fuel prices. The table below shows the revised scale charges and output tax payable in each accounting period.

Cylinder capacity of vehicle		12 month period				3 month period				1 month period			
		£	£	£	£	£	£	£	£	£	£	£	£
		Scale charge diesel	VAT due per car	Scale charge other	VAT due per car	Scale charge diesel	VAT due per car	Scale charge other	VAT due per car	Scale charge diesel	VAT due per car	Scale charge other	VAT due per car
1400 less	or	945.00	140.74	985.00	146.70	236.00	35.15	246.00	36.64	78.00	11.62	82.00	12.21
1401 to 2000	to	945.00	140.74	1,245.00	185.43	236.00	35.15	311.00	46.32	78.00	11.62	103.00	15.34
2001 more	or	1,200.00	178.72	1,830.00	272.55	300.00	44.68	457.00	68.06	100.00	14.89	152.00	22.64

### Operative date

3. Businesses must use the new scales from the start of their first prescribed accounting period beginning on or after 1 May 2005.

## **Current law and proposed revisions**

4. The scales are set out in Table A in Section 57(3) of the Value Added Tax Act 1994. This measure replaces the current table with a new table to reflect the changes to the scales.
5. As announced in the Pre-Budget Report, Customs are consulting with businesses on a Government proposal to reform the fuel scale charge system. The proposal would change the basis of the charge from the engine size and fuel type to one based on CO<sub>2</sub> emissions. This is to align the Customs' system with that operated by Inland Revenue and, in line with the Government's wider environmental objectives, to provide consistent tax incentives for less polluting cars. It is not a revenue raising measure and will be revenue neutral. This proposal is subject to the UK obtaining a derogation from the European Commission.

## **Further advice**

6. An update to notice 700/64 VAT: *Motoring Expenses* will be available from the National Advice Service. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: REDUCED RATE FOR ENERGY SAVING MATERIALS

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### Who is likely to be affected?

1. Businesses installing air source heat pumps and micro combined heat and power units in all forms of residential accommodation and certain charity buildings and consumers having such systems installed.

### General description of the measure

2. Currently a 5% reduced rate of VAT applies to the installation of a specific list of energy saving materials.

3. The measure extends this list to include air source heat pumps and micro combined heat and power units. This amendment reflects government support for the domestic energy efficiency agenda by encouraging the use of renewable sources of energy.

### Operative date

4. The measure will come into effect on 7 April 2005.

### Current law and proposed revisions

5. Group 2 of Schedule 7A to the Value Added Tax Act 1994 will be amended by Treasury Order.

### Further advice

6. If you have any questions about this change, please contact Customs' National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## LANDFILL TAX

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### Who is likely to be affected?

1. Businesses registered for landfill tax

### General description of the measure

2. The standard rate of landfill tax will be increased from £15 per tonne to £18 per tonne. The lower rate of tax, which applies to inactive wastes disposed at landfill, as listed in the Landfill Tax (Qualifying Material) Order 1996, remains unchanged at £2 per tonne.
3. The maximum credit that landfill site operators may claim against their annual landfill tax liability, for contributions made to bodies with objects concerned with the environment, enrolled under the Landfill Tax Credit Scheme, is to be changed from 6.8 per cent to 6 per cent. Taken together, the changes to the standard rate of landfill tax and to the proportion that can be reclaimed under the Landfill Tax Credit Scheme, result in an increase in the value of the scheme in line with inflation, from £48.3 million in 2004-05 to £49.7 million in 2005-06.
4. The current entitlement to exemptions and tax credit that applies to landfill sites where an environmental licence or resolution is in force will be extended to sites where a permit is in force.

### Operative date

5. The £18 per tonne rate applies to any standard rated disposal of waste made, or treated as made, on or after 1 April 2005.
6. The change to the credit percentage claimable will come into effect at the start of the new landfill tax contribution year, 1 April 2005.
7. The extension of the credit and exemptions provisions will come into effect on 6 April 2005.

### **Current law and proposed revisions**

8. Section 42 of the Finance Act 1996 specifies the rates of landfill tax, and will be amended in the Finance Bill 2005.

9. Regulation 31(3) of the Landfill Tax Regulations 1996 specifies the maximum percentage credit claimable under the Landfill Tax Credit Scheme; the regulation will be amended by statutory instrument laid on Budget day.

10. References to permits are required in sections 43C(3), 44A and 45(3)(a) of the Finance Act 1996 and these will be amended by statutory instrument (Treasury Order) laid on Budget day. References to permits are required in regulations 21(4)(a) and 38(5)(ac) of the Landfill Tax Regulations 1996 and these will be amended by statutory instrument (Commissioners' Regulations) laid on Budget day.

### **Further advice**

11. If you have any questions about these changes, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

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## VAT: RELIEF FOR CERTAIN CHARITIES

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### Who is likely to be affected?

1. Welfare charities and 'state-regulated' welfare providers.

### General description of the measure

2. A reduced rate of VAT (5%) for advice or information connected with or intended to promote the welfare of elderly or disabled people, or children. Examples include child protection videos or expert advice on the welfare of children or the elderly, when provided by charities working in those areas. This reduced rate will only apply where the goods are services are not otherwise exempt from VAT. Therefore the VAT treatment of services of care, treatment or instruction remains unchanged by the introduction of this reduced rate.

### Operative date

3. Subject to Consultation.

### Current law and proposed revisions

4. The legislation will create a new Group to Schedule 7A of the VAT Act 1994.

### Further advice

5. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about all Customs and Excise related Budget measures is available from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk)