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PPS?

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10 DOWNING STREET

THE PRIME MINISTER

14 October 1985

Dear James,

When we met on 30 July to discuss the problems of the operation of Southampton Free Port I undertook to look into the complaints which you raised about the application of customs regulations which are the subject of your Early Day Motion and which you raised in the House with the Financial Secretary. I am sorry I have not written to you before now.

As you know, VAT arrangements in free zones are designed to ensure that, like customs duty, the import VAT charge is suspended for most goods moved into free zones; but that the domestic VAT rules apply to supplies made within them.

VAT on goods imported into free zones is treated as if it were a customs duty, and it is suspended in the same way as customs duty. This reflects the role of free zones in encouraging external trade. However, the Government considers that the VAT treatment of supplies within zones should be consistent with that of supplies in the domestic market. This would not be the case if VAT supplies in the zone could be made between registered traders on a tax free basis. It is also simpler administratively and procedurally for traders that all supplies within the UK, whether of goods or services, are taxed on a similar basis. This is important for traders who have both free zone and non-free zone interests and for firms which trade with them. Normal

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taxation of supplies within free zones minimises any distortion of competition between the zones and the rest of the UK and the Community.

The application of VAT to supplies made within free zones should not rule out commodity trading. The rules allow certain supplies of goods and services made in the course of dealings on recognised commodity or terminal markets to be zero rated - and this includes goods stored in free zones.

You are also concerned because VAT and customs duty are charged on machine tools used exclusively within a free zone. This is a requirement of Community Law. Of course, any VAT paid by a trader registered in the United Kingdom may be reclaimed under the normal rules, so there is no question of tax being paid twice over on subsequent supplies of products manufactured from such goods.

If the free zone regime also applied to goods on which excise duty is payable, there would be a serious risk that these goods would be illegally diverted for sale outside the zone, without duty being paid. However, warehouses may be approved for operators and users under the same criteria which are applied elsewhere in the United Kingdom. These are published in Notice 197D (a copy of which I enclose).

You suggested blanket exemptions for all free zone users as a means of reducing repetitive paperwork on Inward Processing Relief. This is not permitted under Community rules, but for many different types of processing, there are extensive General Authorisations. Some free zone operators may not be fully aware of these: the procedures for authorisation are not as complex or time consuming as they may think.

In general the regulations dealing with VAT and excise duties, which were fully explained in the Treasury Memorandum

inviting applications from potential operators, are the minimum necessary to safeguard the revenue and to meet our European obligations. Operators are able to refer any problems to the Free Zone Steering Committee on which Customs are represented.

Y
Lonsdale

Rayans

James Hill, Esq., M.P.



BF answer?

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 October 1985

Tim Flesher Esq
10 Downing Street
LONDON SW1

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Dear Tim

... Thank you for your letter of 30 September. I enclose a revised draft letter for the Prime Minister to send to Mr James Hill.

Yours ever

Tony Kuczys

A W KUCZYS
Private Secretary

DRAFT LETTER TO JAMES HILL ESQ

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PM: MEETING
WITH J. HILL MP
JULY 25



CONQUEROR

