



## **VAT – An historical background**

The EC is the body principally concerned with VAT. It was set up by the First Treaty of Rome with effect from 1 January 1958 and was entered into initially by Belgium, FR of Germany, France, Italy, Luxembourg and The Netherlands. The UK was not to join until 1973 – the relevant UK legislation is European Communities Act 1972.

The EC Treaty is widely drafted and there is an emphasis on provisions for the free movement of persons, goods, services and capital as well as powers for the implementation of common policies in many areas of economic and social life. It provides for a Council of Ministers which is composed of representatives of the governments of the Member States and effectively has the power to make decisions. The European Commission is the executive constitution of the EEC and also formulates the policy acted upon by the Council. The European Parliament has, primarily, only supervisory and consultative powers. The European Court of Justice (ECJ) is empowered to ensure that in the interpretation and application of the EC Treaty the law is observed. In this connection it is the ultimate court of appeal.

The EC adopted VAT as its major system of indirect taxation with the First and Second Directives of the EC dated 11 April 1967. The Directives committed existing Member States to introducing a common VAT system by 1 January 1972 and new Member States were required to introduce the common system on entry. The UK introduced VAT at the time it joined the EC in 1973 but its system, and those of the existing Member States were not then harmonised. The next significant move towards the aim of harmonisation was the EC Sixth Directive issued on 17 May 1977 which sets out in considerable detail the way in which VAT is to be applied by Member States. The EC Sixth Directive has been supplemented by a number of other Directives and significant amendments were made in December 1991 and December 1992 in order to lay the framework for the completion of the single European market from 1 January 1993. However, the objective of harmonisation has still not been achieved, mainly because of certain derogations granted to individual Member States, generally for administrative and social reasons eg; UK's zero-rating for food, housing, children's clothing etc.

The authority of the EC Sixth Directive is being increasingly recognised by courts and tribunals in the UK which give preference to the provisions of the EC Sixth Directive over UK VAT law wherever the Directive's provisions are mandatory. A significant number of appeals have been referred to the European Court of Justice. VAT was adopted in the UK in 1972 with the passing of the Finance Act for that year which became law on 27 July 1972. The tax came into operation on 1 April 1973 replacing the former Purchase Tax and Selective Employment Tax. The legislation was subsequently consolidated in the Value Added Tax Act 1983, and again in the VATA 1994. A considerable body of subordinate legislation in the

form of Statutory Instruments and certain Public Notices has been made in connection with the operation of the tax.

UK legislation applies to the UK mainland, Northern Ireland, the Scottish offshore islands, and, subject to certain exceptions, to the Isle of Man. It does not apply to the Channel Isles.

VAT continues to be a huge revenue raiser and is even more widespread with the recent addition of a large number of new Member States. Case law has built up and the increasingly large library of; Orders, Regulations, explanatory Notices and leaflets, and Business Briefs has moved far beyond the tax which was introduced by the authorities as a tax; “simple to understand and simple to operate” back in 1973.

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