



29th October 2010

Philip Groves & Rebecca Churchill
Postcomm
Hercules House
6 Hercules Road
LONDON
SE1 7DB

Copied for information to:
Nigel Woods & Natasha Dare
Consumer Focus
4th floor, Artillery House
Artillery Row
LONDON
SW1P 1RT

Mark Waples
Head of Regulation & Compliance
Royal Mail Letters Centre
35-50 Rathbone Place
LONDON
W1T 1HQ
mark.waples@royalmail.com

CONDITION 7 NOTIFICATION:
VAT on Postal Services

Dear Philip,

I am writing to formally notify you, under Condition 7 of Royal Mail's Licence, of Value Added Tax (VAT) related changes that will take effect on 31st January 2011. The Finance No.2 Bill, currently before Parliament will, by law, require Royal Mail to charge VAT on some products and services, and on individually negotiated contracts at the prevailing standard rate. This rate is anticipated to be 20%.

The price of products that are *exempt* from VAT (except International Signed For¹) will not change.

The base prices (excluding VAT) of products liable for VAT (except International Redirections² and International Advice of Delivery¹) will not change. VAT at the prevailing standard rate will be charged on the base prices.

Full details can be found within the accompanying document – 'VAT Status of Postal Services'. This document is due to be published today on [Royal Mail's website](#). This is a full list and therefore includes, for information, some services which do not require notification under Condition 7.

The introduction of VAT leads Royal Mail to make some changes to the availability of some of these products and services through franking machines and other channels. A change is also made to the specific terms. Details are contained in Annexes 1 and 2.

¹ See letter of 29th October 2010 from Mark Waples, Royal Mail to Postcomm – CONDITION 7 NOTIFICATION: Service Enhancement and Price Change to International Signed For, International Signed For Packs & International Advice of Delivery. Notification is being made on the basis that from 31st January 2011 the regulatory status of International Signed For will be such that it will remain exempt from VAT.

² New prices are set out in the accompanying document – 'VAT Status of Postal Services' at page 15 available on [Royal Mail's website](#)

Cont...

A copy of this letter has been sent to Consumer Focus and will be published on Royal Mail's website within four working days. Further information will be posted on the Royal Mail website, www.royalmail.com/vat and some will be sent to customers affected.

Yours sincerely,

A handwritten signature in black ink that reads "M Waples". The signature is written in a cursive style with a large, stylized 'M'.

Mark Waples
Head of Regulation & Compliance



Annex 1 – Products no longer available via standard meters from 31st January 2011

A small number of “add-ons” to mail services will become subject to VAT when posted via the franking payment channel, as will single business collections which can be paid for using a franking impression.

“Standard” franking machines do not record product usage in detail. This means it is not possible to issue an accurate VAT invoice or account for VAT. A VAT invoice must be issued by law to a VAT-registered customer who buys a product subject to VAT. We are therefore notifying that the affected VAT rated products, listed in Annex 2, will not be available to buy using “standard” franking machines.

These services will be available on “smart”³ franking machines, which already account for over 20% of franking machines in the UK.

Customers using “standard” meter machines will continue to have access to the services affected via Post Office branches or can request an upgrade to a “smart” machine. If they meet the minimum entry levels, they could alternatively apply for an account with Royal Mail. Single Business Collections can be paid for over the phone by debit card.

[Special Delivery 9am](#) (all variants)

[Special Delivery Next Day](#), when bought with [Saturday Guarantee](#)

[Special Delivery Next Day](#), when bought with [Consequential Loss](#)

[Single Business Collections](#)

[Airsure](#)

[Standard Parcels](#), only with additional compensation

³ A smart franking machine records individual product usage and enables VAT and the invoicing of VAT. To find out if your current franking machine is smart enabled, please contact your franking supplier.



Annex 2 – Products or services that will cease to be available via other channels from 31st January 2011 & alteration to Bulk Specific Terms

As a result of system and process changes to account for VAT we will make some other changes to the availability of some services.

Airsure (as an add-on to all services, including international standard airmail) will no longer be available using posting cheques (paper docketts): It will be possible for account customers to post these items using OBA.

Special Delivery 9am, Additional Compensation for Standard Parcels and Airsure (all destinations) will not be available using SmartStamp or Royal Mail Online Postage (OLP) and the ability to add a Logo⁴ to items will either no longer be available using OLP or will become a free service⁵. We intend to re-introduce these services to the online channels in June or July 2011 once a technical solution has been built.

Special Delivery 9am, Additional Compensation for Standard Parcels and Airsure (small packets - all destinations) will no longer be available using eBay/PayPal Online Postage. We plan to introduce Social International Signed For, as an alternative to Airsure, to eBay/PayPal Online Postage in Jan 2011.

Customers who post Special Delivery 9am, Special Delivery when bought with Consequential Loss and/or Saturday Guarantee, Standard Parcels when bought with Additional Compensation, and Airsure (all destinations) who require a VAT receipt will need to post items via a Post Office. VAT receipts will not be issued from Mail Centre counters or Enquiry Offices

The following clarifications were made on 19th November 2010.

The following specific terms will be amended to clarify that compensation will be based on spend excluding VAT:

1. The bulk mail specific terms
2. The standard tariff services specific terms
3. The packets specific terms
4. The Response Services specific terms

Single Business Collections: Customers who need a VAT receipt will need to pay by credit or debit card (by phone, available on request) or Smart franking machine. VAT receipts will not be issued for customers who hand other payment methods to Royal Mail drivers (stamps, SmartStamp, or cheques).

⁴ You can add a logo to the indicia you print for 5p. Doing this on SmartStamp is free so will continue to be available.

⁵ A final decision is yet to be taken.