



23 July 2012
Hamish MacLeod
Chair, PhonepayPlus Industry Liaison Panel
c./o. hm@mobilebroadbandgroup.com

Dear Hamish,

I have previously advised the ILP that PhonepayPlus' VAT status has been under review by HMRC. That review has now concluded and I am writing to inform you, the ILP and the wider industry of the outcome and what it will mean for premium rate providers, both in this financial year and in subsequent years.

After a detailed review process, HMRC have informed us that some of our revenue streams should be treated as outside the scope of UK VAT. While Registration Scheme revenue remains within the scope of UK VAT, all other income including the levy is, from 1 June 2012, no longer within scope.

What this means in practice is that as of 1 June 2012, the following apply:

- For the Registration Scheme, we are continuing to charge VAT on the registration fee and we can continue to recover VAT on the input costs associated with the Scheme
- For the levy and other income we can no longer charge VAT on these fees and nor can we recover VAT on the input costs associated with them

The net effect of these changes is that on the bulk of its operating costs (excepting those associated with the Registration Scheme), PhonepayPlus will now have to incur the added costs of VAT. This has now been estimated for a full year, as £250,000, based on the current VAT rate of 20%.

In this financial year, we are meeting these additional costs through drawing on our reserves and the levy rate for industry will remain unaffected in 2012/13.

However, in the next financial year we will need to ensure that the additional costs brought about by HMRC's decision about our VAT status are covered by the levy. This will inevitably have an impact on the levy rate we will need to set. We will be able to provide more details about the extra costs we expect to incur as a result of this decision and what it means for the



levy when we present our consultation on the 2013/14 budget and business plan later in the year.

As previously stated, our change in VAT status does not affect the Registration Scheme and subsequently the registration fee will not be affected by this change, either in this financial year or in subsequent years.

Please do let me know if you have any questions about the change in our VAT status and the effect this will have on the levy for 2013/14.

Yours sincerely

Paul Whiteing

Paul Whiteing
Chief Executive
PhonepayPlus