Online sales tax: Call for evidence: input requested

Indirect Tax

22 April 2022

In its conclusion to the Business Rates Review consultation in 2020-21, the government committed to exploring whether introducing an online sales tax may be a viable option to address the rebalancing of the business rates system, where the costs of business rates for bricks and mortar high street retailers exceed those for online retailers who are generally less dependent on high value properties.

HM Treasury published 'Online sales tax: Assessing an option to help rebalance taxation of the retail sector' (tinyurl.com/2p8ac7sp) earlier this year to gather evidence and inform government policy on the proposal for a possible online sales tax (OST), though the consultation document stresses that at this early stage there has been no decision taken that an OST will be implemented. The government states that it 'wishes to build its understanding of the issues associated with pursuing an OST and the pros and cons of progressing policy development to a technical phase'.

Following the launch of this consultation, the CIOT's press release (tinyurl.com/tz7n2k2y) stated that the effect of such a tax could be to shift the tax burden away from commercial landlords and onto shoppers, though we welcomed that the government was consulting prior to making a decision on whether to introduce a new OST.

Why is the government consulting on an OST?

Respondents to the call for evidence on the Business Rates Review identified an OST as 'an idea worthy of further examination' (see paragraph 2.2 of the final report at tinyurl.com/5yaeafsp), as the revenues raised from an OST could be used to address (in England) the difference in the business rates burden between high street and online retailers. The commitment to consult on this matter formed part of the

conclusion of the Business Rates Review.

What does the call for evidence ask?

The consultation document looks at a potential OST in quite technical detail, focusing on three main areas: scope, design and impact.

The call for evidence asks technical questions relating to different business models, such as:

- identifying what online sales are, particularly where there is interaction with a bricks and mortar outlet, such as click and collect sales;
- differences between business to business and business to consumer transactions;
- domestic and international sales;
- the effects of intermediaries;
- thresholds and allowances; and
- systems issues.

It also looks at the impact an OST on businesses, consumer behaviour and distributional impact, and any arising impacts for the environment.

What could an OST look like?

Possible models for an OST could be:

1. A transaction based tax

For example:

- a percentage of the price, such as a 1% or 2% OST that varies based on the selling price; and
- a fixed charge on a sale of goods and/or services via an e-commerce transaction, where the charge remains the same irrespective of the overall price to the customer.

2. Profits based taxation

The OST could be calculated by means of a percentage applied to the net profits of the business.

Member feedback

The CIOT and ATT will be responding to the consultation. Volunteers from our technical committees have provided feedback and we have engaged with HM Treasury via a virtual meeting. The call for evidence closes on 20 May 2022 so if members would still like to provide comments, please send them by 10 May 2022 to technical@ciot.org.uk or atttechnical@att.org.uk with ‘online sales tax’ in the title.

Jayne Simpson *jsimpson@ciot.org.uk*