Fulfilment house due diligence scheme

Indirect Tax

01 August 2016

We have responded to HMRC's consultation, which seeks to impose due diligence obligations on UK fulfilment houses in an attempt to tackle the VAT losses arising on sales made by overseas businesses to UK consumers.

The fulfilment house due diligence scheme (FHDDS) intends to set out 'fit and proper' standards that fulfilment houses will need to meet in order to operate from 2018-19.

This consultation forms part of a package of measures announced in Budget 2016 to tackle VAT loss from overseas businesses selling goods to UK customers through online marketplaces.

We highlight that this consultation document was published before the UK's EU referendum in June and that it dealt with financial estimates, industry sectors and supply chains that are likely to be significantly affected by the UK leaving the EU. Our response is based on UK and EU VAT law as it stood in June with the recognition that this is the beginning of a consultation process.

We support HMRC taking action to target abuse and non-compliance in this area and we recognise the resource constraints HMRC faces in the current climate. However, our key concerns are that the proposed FHDDS has unintended consequences:

- it captures too many businesses through the use of non-precise definitions, so many businesses (including small and medium size ones) would be affected unnecessarily; and
- we believe the primary targets should be those who seek to evade the tax, not those legitimate businesses that unwittingly deal with them.

The key question will be how to balance the effectiveness of such measures against the financial and administrative impact on legitimate businesses, particularly small and medium enterprises.

We believe that the FHDDS, as proposed, is excessive and disproportionate.

Read the full text of the CIOT submission on the CIOT website.