



30 Monck Street  
London  
SW1P 2AP

T: 020 7340 0551  
E: [info@att.org.uk](mailto:info@att.org.uk)  
W: [www.att.org.uk](http://www.att.org.uk)

# ONLINE SALES TAX

## Response by Association of Taxation Technicians

### 1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HM Treasury consultation 'Online sales tax: assessing an option to help rebalance taxation of the retail sector' ('the Consultation') issued on 25 February 2022<sup>1</sup>.
- 1.2 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.
- 1.3 From the Consultation, it appears that the main policy aim behind an online sales tax (OST) is to 'level the playing field' between online and more traditional physical retailers. To achieve this, the revenues from any OST would be used to reduce business rates for retailers.
- 1.4 Overall we do not consider the introduction of an OST to be the best way to achieve this aim. Trying to reduce an existing tax (business rates) by introducing an entirely new, potentially highly complex tax is not appropriate. It is an overly complex solution to an issue which arguably just reflects changes in customer preferences and technology development over time.
- 1.5 As set out below, we consider that the design of any OST would necessarily end up being complex due to issues with scope and boundary definitions. These complexities would only increase over time as technology and retail models evolve. It will not be possible to make the OST a simple tax.
- 1.6 Paragraph 1.14 of the Consultation states that:

*"Tax policy should be: sustainable in view of long-term trends; efficient by incentivising economic growth and minimising distortionary impacts on markets; applied fairly, reflecting the ability to pay; simple, with costs of compliance and collection kept to a minimum; and predictable, allowing businesses and individuals to plan for the future in a stable policy environment."*

---

<sup>1</sup> [Online Sales Tax: Policy Consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/online-sales-tax)

Arguably the OST does not meet any of these requirements – as discussed further below it is likely to have a distortionary impact; it would not be simple, and it is questionable that it would be sustainable given that necessity to adapt to future changes in shopping patterns and technology.

- 1.7 We therefore recommend that the Government consider other options for addressing any perceived unfairness in the current business rates rules.
- 1.8 If an OST is to be introduced, we strongly recommend that a high threshold is set so that smaller retailers would be excluded from scope of the tax, and the extra costs and administrative burdens it is likely to bring.
- 1.9 We would be pleased to discuss any aspect of this submission further. Relevant contact details can be found in Section 5.

## 2 Scope

### **Q1. Would you favour a tax for all 'remote' sales or just a subset of 'online' sales?**

- 2.1 Covering all 'remote' sales would be the simplest solution in terms of defining transactions in scope of an OST. The OECD definition of e-commerce set out in paragraph 2.10 of the Consultation could be followed, such that any sale or purchase conducted over a computer network is brought into scope. This would remove the need to consider issues such as the level of human interaction, how and when sales are completed etc. It would also make it easier to apply an OST, and potentially reduce the potential for manipulation.
- 2.2 However, this wide scope could result in some unusual outcomes. For example, a business with a physical store which sells by click and collect would be subject to the OST, but then also presumably benefit from a business rates discount. It seems strange to tax with one hand whilst giving back with the other in this way. In addition, if the aim of the OST is to level the playing field between traditional and online retailers, then making physical retailers pay OST just because a customer orders online seems counterintuitive.
- 2.3 From a policy perspective alone, it may therefore be sensible to only bring purely 'online' sales into scope – i.e. those where the customer places an order and pays online and receives their goods without entering a physical business premises. 'Click and collect' models would thus be excluded. However, this would need to be carefully defined given the various ways in which customers can place and receive orders, and could result in extra complexity and uncertainty.

### **Q2. How should taxable sales be defined and what would the practical implications be?**

- 2.4 It would be sensible to extend the definition of taxable sales to include orders via website, app, email, social media and instant messaging.
- 2.5 We can see an argument for purely mail order or telephone sales being excluded from this definition, though this may be hard to achieve in practice. Excluding such routes from the scope of an OST could also distort retailer and consumer behaviour. For example, customers could be more inclined to call and place an order instead of completing that order online (especially for larger purchases). A further area of complication is how to treat automated payment lines. These typically require the customer to simply type in their card details using their phone's keypad, with no human involvement on the part of the retailer. It is difficult to see why such orders should be treated differently to those placed online.

**Q3. Are there transactions that would be particularly difficult to classify as either online or remote? What are these, and how should these be addressed?**

- 2.6 The main difficulties arise with hybrid transactions, where there are both online / remote elements and also interaction with physical premises, for example, ordering online but collecting at the retailer's premises, or from a third party location (e.g. post office or secure locker). As noted above, one idea would be to exclude sales which involve collection in store, but include all others.
- 2.7 However, defining the scope of such an exclusion would be difficult due to the number of ways in which a customer can interact with retail premises. For example, when purchasing a car an individual may initially go to a showroom, then place their order with the manufacturer online (either at the showroom or at home) before having the car delivered to their home. There has been a significant role for the rateable business premises in this sale, but it could still easily fall within the scope of the OST.
- 2.8 Our response to this question, and the preceding ones, illustrate how difficult it will be to define even the basic scope of an OST. The potential requirement for additional exemptions will only increase this difficulty, and the eventual complexity of any such tax.

**Q4. Should click and collect be exempted? If so, should there be a distinction between the examples listed above? How would that distinction be drawn?**

- 2.9 We can see an argument for exempting click and collect from the scope of an OST. As noted in paragraph 2.15 of the Consultation, click and collect orders rely on access to the retail premises, and may generate footfall and additional purchases as a result. For example, a shopper collecting their purchase may see other items whilst in store and make impulse purchases whilst there.
- 2.10 However, defining what is and isn't click and collect is likely to be difficult in practice. One way could be to limit the definition to where goods are collected by the customer from the relevant retail premises. There are some transactions set out in paragraph 2.17 of the Consultation which are arguably 'click and collect' but would not fall to be exempt under this definition – e.g. collection from another third party premises (such as post office, supermarket or locker). These are arguably akin to having goods delivered to the consumer, and do not bring the benefit of footfall and potential 'impulse buys' from collecting customers noted above.

**Q5. Should an OST be applied to all goods? Are any exemptions necessary? If so, what are these and why?**

- 2.11 The simplest approach would be to apply the OST to all goods. As noted in paragraph 2.26 of the Consultation, business rates are paid by all retailers, except the very smallest, regardless of the type of goods they sell. This would also reduce the uncertainty which is often seen in VAT, where the tax tribunals are required to decide whether a specific product falls within a reduced or zero rate.
- 2.12 However, in the current economic climate there are also strong arguments for introducing exemptions for specific essential goods. In particular, fuel and power are deemed to be goods for VAT purposes and are, by definition, delivered remotely. To exempt fuel and power from an OST, a different definition of 'goods' would be needed, or a specific exemption.

**Q6. How would a goods-only approach apply to takeaway food?**

- 2.13 One way to apply a goods-only approach to takeaway food would be to strip out the delivery charge (a service to which an OST would not apply) from the underlying cost of the food (goods to which an OST would apply).

However, this may be difficult to achieve in practice, and could lead to value shifting, with retailers assigning more value to the delivery service and less to the food.

- 2.14 An alternative approach would be to tax the whole cost of the order given that the service element (the delivery) is ancillary to the goods element (the food). In cases where you can't have the service without the goods, and the service is likely to be of significantly lower value than the goods, this approach seems sensible.
- 2.15 Paragraph 2.31 of the Consultation gives a further example of a mixed supply of goods and services – the provision of a broadband service and router. Here the service (broadband) is likely to be worth much more than the goods (router). In addition, you could arguably have the service without the goods, i.e. by purchasing a router separately or using one already owned. If the approach discussed at 2.15 above is taken then the service is not ancillary to the goods, and an OST should not apply to the whole cost of the transaction. However, it would be necessary to define at what point this ceases to be the case, especially in less clear cut cases. For example, a de minimis level could be set such that OST only applies to a whole transaction if more than (say) 50% of the overall cost relates to goods.

**Q7. Do you think that digital products should be included in an OST? How should a “digital product” be defined?**

- 2.16 We can see an argument for excluding digital products from the scope of an OST, especially where no tangible equivalent exists which could be bought from a physical retailer. For example, an e-book could arguably be in the scope of the OST, as the same content could be acquired by buying a physical book from a book shop. However, content which is only available online and not in stores (such as software downloads) could be exempted, as levying an OST on such purchases would not address the issue of rebalancing physical vs online sales.
- 2.17 This approach is however likely to be difficult in practice. For example, a digital newspaper may offer additional content compared to the hard copy equivalent. At what point does this tip the digital version into being a different product, and not merely the equivalent of the physical version?<sup>2</sup> Again, difficulties in defining what we mean by a 'digital product' are likely to introduce complexity into the design of an OST.

**Q8. How can the risk of value shifting from goods to services be reduced, for an OST that has services out of scope?**

- 2.18 As noted in our answer to question 6 above, one way to address this would be to bring services which are ancillary to a supply of goods into the scope of an OST.
- 2.19 An alternative approach would be to address this in a similar way as is being explored for VAT.<sup>3</sup>

**Q9. Are there other ways you could foresee OST being avoided? How could this be defended against?**

- 2.20 One particular area where there is likely to be an increased risk of non-compliance is overseas retailers selling to UK customers. As discussed in our answer to question 20 below, one way to address this could be to make online marketplaces liable for the OST in such circumstances.

---

<sup>2</sup> This issue was considered for VAT purposes in the recent Court of Appeal decision in of News Corp UK and Ireland Ltd –see [Revenue and Customs Brief 3 \(2021\): VAT liability of digital publications – update on litigation in News Corp and Ireland Ltd - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/vat-and-value-shifting)

<sup>3</sup> See consultation outcome at <https://www.gov.uk/government/consultations/vat-and-value-shifting>

**Q10. Do you think some or all categories of services listed above (including any digital services) should be included in the scope of an OST? Would you add any additional services?**

2.21 The simplest approach would be to exclude services from the scope of an OST entirely. Including them would require careful consideration of the different types of service, as set out in paragraphs 2.25 – 2.40 of the Consultation, increasing complexity and making the OST more difficult to apply in practice.

2.22 Looking at the specific categories of service set out in the Consultation:

- We agree that bringing services arranged online but delivered in person into an OST would not be in line with the policy objective of rebalancing tax burdens between physical and online retail. Limiting the OST to the booking fee etc. would be difficult to achieve in practice, and could lead to booking fees merely being rolled into the cost of the service.
- As per our response to question 7 above, we agree that applying an OST to services where there is an in-store alternative would be unnecessarily complicated and would create boundary issues.
- Again, in line with our response to question 7 above, applying an OST to services that are intrinsically online with no physical in person equivalent (e.g. social media and cloud computing) would not address the issue of rebalancing physical vs online sales. It would merely put more tax on sales where there is no physical alternative.

**Q11. To what extent do businesses currently distinguish between their sales of goods and services in business systems? On what basis do they currently make this distinction?**

2.23 In our experience this distinction may be required in some instances for VAT, but is not something that businesses (especially smaller ones) routinely do.

**Q12. Do you agree that an OST should be designed to exclude B2B sales?**

2.24 We agree that any OST should exclude B2B sales. If not, there will be too many layers of charge in a supply chain, with the resulting increase in costs likely to be passed on to the consumer. Including B2B sales could also result in a situation where the end price to the consumer depends on the length of the supply chain, which could distort behaviour.

2.25 The only alternative to excluding B2B sales would be to build in some form of reclaim mechanism (as for input VAT) but this would make an OST much more complicated and expensive to operate for both taxpayers and HMRC. If this route were to be pursued, it would be much simpler to just adjust the existing VAT system.

2.26 Finally, we would note that, as businesses are less likely to shop at physical premises to acquire supplies, there is less of a rebalancing issue in the B2B sector.

**Q13. Do you agree that an approach of removing all B2B transactions from scope would be preferable to applying the tax according to the individual transactions (e.g. according to the use of the item sold)?**

2.27 Yes. We would not support the alternative suggestion in paragraph 2.48 of the Consultation that an OST could be limited to B2B transactions where products sold are consumed by the purchasing business. This would be too difficult to operate from an administrative perspective, and there may also be some instances where goods purchased by a business are partly consumed and partly sold (for example food and drink purchased by a restaurant where some is used in staff meals).

**Q14. What is your preference from the above or any alternative approaches to exclude B2B sales from an OST while limiting administrative burdens on business?**

2.28 The approaches suggested in the Consultation for excluding B2B sales are:

- Nature of goods or services sold - excluding from an OST goods or services which are of a nature that means they are likely to be sold to businesses.
- Inclusion by online seller - only applying an OST to businesses that make most of their sales to consumers.
- Identifying business customers – the retailer would have to identify, in some way, whether any particular sale is to a consumer or business.

Of these, our preference would be for identifying business customers.

2.29 Exclusion based on the nature of the goods sold would present difficulty in establishing accurate boundaries and tests, as many goods could be sold to either businesses or consumers. This would most likely result in complexity and uncertainty for both businesses and HMRC.

2.30 Inclusion by online seller is potentially a good idea where a business clearly sells to only or mainly businesses or consumers. But again the issue is where to draw the line? What if a business sells 51% to consumers and 49% to businesses? Arguably it is not really fair to apply an OST to all their sales when a slightly change in the ratio would result in no OST being payable. There would also still need some way to identify which sales are to businesses and which to consumers.

2.31 Identifying business customers is therefore likely to be the most sensible approach, though we note this will still bring additional administrative burdens. The easiest way to identify whether a purchase is being made by a business would be to get the customer to self-declare. This brings with it the risk of false declarations being made by consumers. One way to prevent this could be if such a declaration also required the supply of a VAT number, company number etc. which could then be checked by the seller using the existing VAT registration checker or Companies House. However, smaller unincorporated businesses may not be able to supply such an identifier. An alternative could be to make the self-declaration have legal force, such that those who say they are businesses when not can be held liable for the OST not paid and penalties.

**Q15. How do you think a business should be defined for the purposes of an OST?**

2.32 We believe existing definitions of a business for tax purposes (such as the definition for VAT in s94 VATA 1994) should be used for the purposes of an OST. We would not support the introduction of a new definition specifically for the purposes of an OST, as this is likely to cause confusion and increase complexity.

**Q16. Are there other types of entities or transaction types which should be out of scope of an OST e.g. online sales by charities, public bodies or consumer to consumer transactions?**

2.33 Consumer to consumer transactions should be excluded from the scope of an OST. However, in practice, we would imagine the majority of these to fall below any threshold or allowance, and therefore be excluded from scope in that way.

### 3 Design

#### **Q17. Do you agree that an OST would be levied on vendors?**

- 3.1 We agree that an OST should be levied on vendors. This appears to be the only practical approach, as collecting from consumers would be difficult, and not all sales in scope will be made via a marketplace / online platform. Such an approach is also already familiar to businesses who are registered for VAT.
- 3.2 As the policy aim is to level the playing field between physical ‘bricks and mortar’ and online retailers, it also makes sense from a policy perspective to apply an OST at the level of those retailers.

#### **Q18. How should different intermediaries that sell online on behalf of other businesses be treated with respect to an OST i.e. online marketplaces, franchises, auctioneers, agents and commissionaires?**

- 3.3 We agree that, for the purposes of an OST, online marketplace should be looked through to the individual vendor. We also agree that, notwithstanding this, online marketplaces could still play a role in collection and compliance (especially with overseas sellers) in a similar manner to VAT.
- 3.4 The same applies for auctioneers, and other arrangements where the intermediary is merely facilitating a sale between the vendor and customer.
- 3.5 However, for other intermediaries, the position may be more complex and consideration may need to be given to the exact facts and circumstances. For example, are they acting as disclosed or undisclosed agents? Do they take ownership of the goods? This will add inevitable complexity to an OST.

#### **Q19. Are there situations in which it is not possible to distinguish the vendor from the intermediary, or in which the intermediary plays a crucial role in the sale? How should these be treated?**

- 3.6 We understand that in the car industry there is a move towards make traditional high street dealers an agent rather than the principal in any sale. In these circumstances, whilst the retail premises belong to the agent, the sale is actually being made by the manufacturer / importer. Significant business rates are therefore paid by the agent, but as the sale is placed remotely it could also be within the scope of an OST.
- 3.7 It is difficult to see how, in practice, such sales should be treated for the purposes of an OST without introducing additional complexity and uncertainty.

#### **Q20. Are there circumstances in which it would be appropriate for an intermediary to be liable for an OST, rather than the underlying seller? What are these?**

- 3.9 As mentioned in our response to question 9, one particular area where there is likely to be an increased risk of non-compliance is retailers selling to UK customers via online marketplaces, especially where those retailers are overseas. One way to address this may be to make the online marketplace liable for an OST rather than the underlying overseas seller, in a similar manner to VAT.

#### **Q21. How would an OST define UK customers?**

- 3.10 The level of difficulty involved in defining UK customers will depend on the scope of an OST. At one extreme, if this were to apply only to deliveries of tangible goods purchased online, then this could be fairly simple, and based on either the billing or shipping address of the customer.
- 3.11 One area which might cause difficulties is those living close to Northern Ireland border, who could potentially avoid an OST by asking for goods to be shipped to a location just over the border in the Republic of Ireland.

This could be addressed by focusing the definition of UK customer on the billing (and not shipping) address, or making it so that the OST applies when either address is in the UK.

- 3.12 Regardless of the approach taken to defining UK customers, in order to exempt a sale from an OST vendors will need to provide some proof that they have exported goods. This could be based on existing mechanisms for VAT.

**Q22. Should UK-based intermediaries play a role in identifying taxable transactions or be made liable in some cases?**

- 3.13 We believe that online marketplaces should play such a role, especially where overseas vendors are selling to UK customers. As noted elsewhere, this could be based on the existing rules for VAT.

**Q23. Would either a revenue or a flat fee approach have a greater distortive impact on consumer behaviour? What are the scope and design considerations that would lead to distortion caused by both models?**

- 3.14 A revenue based approach would be more proportionate, intuitive and arguably easier to apply. Businesses are already used to VAT working in this manner. The main risk behind such an approach would be that it could increase the risk of value shifting from taxable to non-taxable aspects of a mixed supply. However, as noted in our response to question 8 above, this is already an issue for VAT and could be dealt with in a similar manner.
- 3.15 A flat fee would arguably be more distortive than a revenue based approach, as it would be likely to incentivise bundling of transactions.
- 3.16 We would not support the idea in paragraph 3.22 of the Consultation of placing a cap on the amount of OST which can be charged on a transaction. Although this might mitigate any distortion in terms of discouraging online sales, it could also incentivise bundling of transactions. In any event, any OST will, by its nature, discourage online sales to some extent.
- 3.17 We also would not support the idea in paragraph 3.30 of the Consultation of making an OST progressive, such that the rate increases as the value of orders increases. This would introduce complexity, and create cliff edges leading to price and market distortion.
- 3.18 Paragraph 3.31 of the Consultation notes that basing an OST on revenue, rather than profits, could hit low margin retailers. Whilst this is true, it is already the case for VAT, and if (as expected) the ultimate cost of an OST will be passed onto the consumer, then this should not be too much of a problem in practice. Calculating an OST by reference to profits would be more complex, and would also not address the core policy aim of rebalancing physical vs online retail, as many online retailers could also be low margin.

**Q24. Would either approach be particularly preferable? If so, why? Are there any preferences around scope (i.e. different exclusions or exemptions) which would make one of the approaches more preferable?**

- 3.19 As note in our response to question 23 above, we would favour a revenue based approach. This is simpler and already familiar to businesses and consumers from VAT. It is also arguably more intuitive than a flat fee – why should the same tax apply to a £1 purchase as a £1,000 one?
- 3.20 We do not believe that a flat fee is simpler than a revenue based approach. In particular, we reject the argument in paragraph 3.24 of the Consultation that *“The flat-fee approach would mean an online retailer would not need to keep track of the revenue generated from taxable online sales. The online retailer would instead need to count the number of relevant sales they had made (or another similar metric), which most will*



*already be doing to some extent for commercial purposes.*” Businesses already keep track of their revenue for both tax and commercial purposes, and it should not be significantly more difficult in practice to identify the revenue associated with in scope transactions rather than just the number of them.

- 3.21 We don't believe that exclusions or exemptions should necessarily factor into the decision on approach. Either approach would present the same issues around identifying taxable / non-taxable transactions, whether that is by value or number.

**Q25. Do you have experience to share of overseas' taxes on online sales using either model, or similar approaches not covered above?**

- 3.22 We have no comments in response to this question.

**Q26: What factors should be taken into consideration in setting an allowance? How would this differ for revenue and flat-fee models of an OST?**

- 3.23 We strongly support the inclusion of some form of threshold or allowance to exempt smaller retailers from an OST. This should be simple to apply and, as far as possible, minimise behavioural distortion.
- 3.24 For this reason, we would support the use of a simple monetary threshold – these are commonly used in other taxes and easy to understand. We would not support the idea in paragraph 3.34 of the Consultation of having a threshold solely based on the number of online orders. This would allow those making small numbers of high value sales to be exempt, whereas those making large number of small value sales would be in scope. Whilst we accept that the use of a monetary threshold disadvantages those retailers selling high cost but low margin items, introducing a test based upon both value and number of transactions would be overly complex, and could lead to misunderstanding.
- 3.25 We would also support the use of an allowance (such that the first £x of taxable sales is exempt) rather than a pure threshold. This should reduce some of the cliff edge effects currently seen in VAT, where there is a bunching of businesses just below the registration threshold, and evidence that some restrict their turnover purely to stay under the threshold<sup>4</sup>.

**Q27. What would be a reasonable OST threshold and allowance to set in order to protect small businesses while also making sure the OST generates sufficient tax revenues?**

- 3.26 The suggestion in paragraph 3.33 of the Consultation of £1m - £2m of taxable sales per annum appears appropriate.

**Q28. Do you agree that an OST threshold or allowance should apply once to all businesses under common control?**

- 3.27 We agree that a single OST threshold or allowance should apply to businesses under common control. If this approach is not taken there is a risk that businesses will artificially split sales between different entities in order to avoid coming within the scope of an OST.
- 3.28 Careful consideration needs to be given to the definition of 'common control', especially outside of a corporate group context (for example where spouses or family members operate businesses). The current business splitting rules in VAT are complex and can be difficult to apply in practice. We would therefore recommend

---

<sup>4</sup> The distortive impact of the VAT threshold was explored in the HM Treasury call for evidence in 2018: [VAT registration threshold: call for evidence - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/calls-for-evidence/vat-registration-threshold)

that the approach taken in certain direct taxes (such as the employment allowance and the associated companies rules from April 2023) which focuses on commercial interdependence be adopted for the purposes of defining whether businesses are entitled to their own annual OST allowance / threshold.

**Q29. Do you agree the threshold or allowance would apply to individual businesses when they operate franchises or sell through online marketplaces?**

- 3.29 Yes, otherwise smaller sellers (who frequently use marketplaces) would be unfairly disadvantaged.
- 3.30 One problem area may be overseas sellers, where it may not be clear if there are other connected parties which should share a threshold / allowance. One approach would be to have no threshold for overseas sellers selling into the UK, as we currently have for Non Established Taxable Persons (NETPs) for VAT.

**Q30. Do you consider there to be strong arguments either for or against quarterly or annual reporting? If this hinges on any of the design options laid out in this consultation, please specify which options and why.**

- 3.31 We believe that quarterly reporting is likely to be the most appropriate option. This would tie in with existing VAT compliance obligations for many businesses, and would be in line with the overall trend towards more timely tax payment.
- 3.32 Annual reporting would result in a potentially long time lag between collecting OST from customers and paying it to HMRC. Whilst this could be welcome by some businesses in terms of working capital, it could also increase the risk of non-payment.
- 3.33 Whether any OST would eventually be brought within Making Tax Digital also needs to be considered. If this is the intention, then starting out with quarterly reporting is likely to be the best approach.

**Q31. Can you provide insight into the overall burden to administer all systems and processes required to support an OST? Do systems currently allow you to identify the features listed above; if so, please provide further details on how this distinction can be made.**

- 3.34 It is likely that all businesses within the scope of an OST would have to make some changes to systems, in particular to:
- Identify taxable vs non-taxable sales
  - Split between business and consumer sales.
  - Identify UK consumers

This makes the introduction of a reasonable threshold / allowance highly important, as without this smaller businesses face potentially disproportionate costs associated with administering an OST.

## 4 Impacts

**Q32. On balance, what would the impact be of an OST with business rates reductions on the scale described above, including on retailers that operate both online and offline?**

- 4.1 Overall, we do not believe that an OST and business rates can be linked together as simply as the Consultation envisages. There are likely to be unforeseen outcomes of any attempt to link the two, resulting in unexpected ‘winners’ and ‘losers’.
- 4.2 For those making both online and offline sales, it may seem odd to be paying more tax in the form of an OST only to get some of this back in the form of a business rates reduction. As discussed in paragraph 4.15 of the Consultation, any rates reduction could merely lead to an increase in rents, thereby benefiting landlords rather than retailers. In this situation retailers making both online and offline sales would potentially end up paying out more in the form of rent increases and OST than they receive in the form of a rates reduction.

**Q33. Do the potential revenues from such a tax justify the additional administration that it would require of businesses, as well as the design complexities detailed in the previous sections?**

- 4.3 In our view, no. For the reasons set out in our responses to previous questions, it will not be possible to design an OST so that it is a simple tax. If an issue exists with the business rates system then that should be addressed directly, rather than introduce a new, potentially extremely complex tax that will result in extra expense for consumers, and additional complexity and admin burdens for businesses and HMRC.

**Q34. To what extent do you think an OST would impact innovation, efficiency and productivity?**

- 4.4 An OST which applies to digital sales models, but not their more traditional equivalent, will inevitably impact innovation. Similarly, the introduction of additional costs and administrative burdens for businesses is unlikely to have a positive impact on efficiency and productivity.

**Q35. To what extent do you believe that an OST would impact consumers’ behaviour in favour of in-store retail?**

- 4.5 Depending on its rate and scope, an OST may lead to some consumers moving to in store purchases, especially for more expensive items.
- 4.6 Paragraph 4.3 of the Consultations states that “If introduced, an OST would not be intended to actively encourage customers to shop in-store rather than online”. However, it is difficult to see how this can be achieved with a tax specifically levied on online sales.
- 4.7 The introduction of an OST would arguably distort the changes in the retail sector that should develop naturally according to consumer and retailer needs.

**Q36. How do you expect online retail to evolve in the coming decade and how should an OST take account of these?**

- 4.8 We have no comments in response to this question.

**Q37. What is the evidence for the degree of pass-through of the cost of an OST to consumers? To what extent will this vary depending on the type and value of the goods sold?**

- 4.9 Whilst we are not aware of specific evidence, in our experience VAT and duty increases are often passed on to consumers. It would therefore seem reasonable to assume an OST would also be passed on this way. The one exception may be where goods are commoditised or standardised between retailers and price becomes a key differentiator in the consumer’s choice.

**Q38. Do you have any data which would support the Government in making an assessment of the incidence of the tax or its distributional impacts?**

4.10 We do not have any such data.

**Q39. In your assessment, what would be the distributional impact of an OST? Are there particular groups who are likely to be worse affected than others? How would this change if an OST were applied as a flat-fee per transaction (or some other similar metric) versus a percentage of firms' revenue from online sales?**

4.11 We are concerned that disabled consumers who find it harder, or impossible, to shop in store could be particularly affected by the introduction of an OST. Similarly, those living in remoter areas where it is not practical to shop in store may also be disproportionately affected by an OST. This impact will be felt most severely by those individuals who are on fixed or low incomes.

4.12 The use of a flat fee rather than revenue based approach might mitigate this impact in some instances, but not where individuals are ordering essential goods (such as food, medicines and household consumables) on a regular basis.

**Q40. What environmental impact might an OST have? How would its design affect an OST's environmental impact?**

4.13 The environmental impact of an OST would depend upon its effect on customer behaviours. For example, if customers start to favour in store shopping over online, this could reduce the number of delivery trucks etc. on the nation's roads. However, if those individuals instead travel to store in their cars (as opposed to walking, cycling or public transport) any environmental benefit from this is likely to be negated.

## 5 Contact details

5.1 We would be pleased to join in any discussion relating to this consultation. Should you wish to discuss any aspect of this response, please contact our relevant Technical Officer, Emma Rawson on 07773 087111 or [erawson@att.org.uk](mailto:erawson@att.org.uk).

## The Association of Taxation Technicians

### 6 Note

6.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 9,000 members and Fellows together with over 6,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.