

## UK Government Considers Case for New Online Sales Tax

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The UK government has launched a consultation on a potential new online sales tax (OST). As a novel and potentially complex tax on the digital economy, an OST presents a number of challenges in terms of scoping and design, which may be difficult for the government to overcome.

### Background

The government raises significant revenue via “business rates” (a tax borne by UK businesses and set at levels linked to the value of a business’ premises). It has been suggested that high-street retailers disproportionately bear the burden of these rates, as compared with their online competitors – a situation made worse by the COVID-19 pandemic. Following a review, the government has reaffirmed its commitment to supporting “bricks and mortar” high-street retailers, including through short-term cuts to their business rates bills. To help fund any longer-term solutions and further to rebalance the taxation of the retail sector, the government is testing the case for an OST.

### Scope and design

An OST would be an entirely new tax on online sales for which the government acknowledges there is “little existing precedent” in other jurisdictions. The consultation sets out several fundamental and potentially complex questions, which the government will need to address in order make an OST workable whilst raising sufficient revenue. Key questions include the following:

- **Definition of “online sale”.** Should this definition comprise all remote sales – including via email, telephone and mail-order – or should it instead focus on online, internet-mediated sales? How do click and collect orders fit in? Will a narrow scope give rise to opportunities for avoidance?
- **Just goods, or goods and services?** It seems clear that an OST should apply to online sales of goods – but what about services, and bundled goods and services like mobile phone contracts? What about online purchases which do not fit easily within these categories, such as takeaway orders, or items that can be bought either physically or electronically, like e-books?
- **Exemptions.** Should certain goods like food and medicines be exempt for policy reasons?
- **Who will collect and account for OST?** Vendors are within scope, but what about online marketplaces? The consultation suggests that an OST could borrow from VAT principles by making online marketplaces responsible for the tax where the vendor is outside the UK.
- **Calculation.** Two options are being weighed up: a revenue model (possibly 1–2% of revenue generated by online sales) and a flat-fee model based on the number of online sales made.

There are some options that the government seems already to have chosen or discounted. First, as indicated above, an OST would be UK-wide and apply to all vendors (with no exemption for online sales by vendors outside the UK). Second, it appears the government wants to exclude all B2B online sales from the scope of an OST, having discounted the alternative idea of a VAT-style input tax recovery system for businesses.

## OST and international tax reform

Tax authorities around the world have been grappling with finding new ways to tax the digital economy. The government is keen to position an OST as a long-term, targeted intervention distinct from other, similar forms of taxation like the UK's own digital services tax (which taxes revenues generated by social media, search engines and online marketplaces). Under an international agreement on tax reform the UK has committed to repeal its digital services tax (once the OECD's "Pillar One" solution has been implemented) and not to introduce any "relevant similar measures". It remains to be seen how an OST could be reconciled with this commitment.

### Is an OST the right answer? Jury still out.

The government will need to determine whether the revenue forecast to be raised through an OST (£1 billion per annum, based on a 1% rate and a number of assumptions) will be enough to justify the introduction of a complex new form of taxation. Economic theory suggests that an OST might not even achieve its objective if, for example, a reduction in business rates leads to increased rents.

### Next steps

Views are sought before 10am on 20 May 2022. Further details (including the consultation document) can be found on [the UK government's website](#).

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