

**Online sales tax: Assessing an option to help rebalance taxation of the retail sector
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 The introduction of an online sales tax (OST) will be an additional cost as well as increasing the administration burden on affected businesses. In our view, many small micro businesses will struggle to deal with any further changes on top of a difficult economic environment, the recent introduction of Making Tax Digital for VAT and, for some, the forthcoming Making Tax Digital for Income Tax. Therefore, if an OST is introduced, we strongly agree with the suggestion of having a revenue threshold/allowance of £1-2 million before a business is required to implement any form of OST.
- 1.2 If an amount substantially lower than £1-2 million is being considered, then an allowance may be preferable to a threshold. This would be more helpful to businesses which may have reasonably high turnover at levels at or around the threshold but earn low profits and may not be able to afford additional professional tax advice such as planning on when to implement an OST and ensuring ongoing compliance with a new tax.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

3.1 We welcome the opportunity to respond to this policy consultation on online sales tax. We have limited our response to question 27 regarding a minimum threshold and/or allowance based on our experience with dealing with low profit-making self-employed individuals, partnerships and small companies. Our CIOT colleagues have submitted a more detailed response to the consultation.

4 Question 27: 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?

4.1 If an OST is introduced, we strongly support the suggested revenue threshold/allowance range of £1-2 million¹ as this would ensure a level of protection for small and micro businesses. Although there is a potential danger of distortion of taxpayer's behaviour when reaching the threshold/allowance limit, we consider the problems caused for very small businesses in implementing an entirely new tax are in our view simply too significant to allow priority to this distortion argument. Some of these businesses are already struggling with changes to their tax administrative systems through the introduction of Making Tax Digital for VAT and imminent changes due to basis period reform and Making Tax Digital for Income Tax for unincorporated businesses and the likely introduction of Making Tax Digital for Corporation Tax².

4.2 The OST policy consultation covers many areas of the design of this potential new tax, including: requiring its own administrative framework and payment system; identification of online sales; identification of goods being sold rather than services; click and collect sales; type of customer (business or consumer)³. All these different variables will add implementation and ongoing costs (either financial expenses or an opportunity time cost) which we think some low-profit small businesses may be unable to afford as they often operate with tight margins.

4.3 In addition, there is a risk that low profit-making businesses will decide they have no alternative than to pass on costs relating to an OST (both the administrative costs and the tax charge itself) directly to

¹ Paragraph 3.33 of the Online Sales Tax policy consultation:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057267/OST_condoc.pdf

² Making Tax Digital for Income Tax will be introduced for individuals with self-employed sales of £10,000 or more from April 2024, general partnerships will join from April 2025 and companies from April 2026 (at the earliest – an exact date is to be confirmed).

³ Paragraphs 3.41 and 3.46 of the Online Sales Tax policy consultation detail some of the design elements which may be needed in implementing an OST:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057267/OST_condoc.pdf

their customer¹. This will potentially make the business less competitive especially when competing against larger businesses which tend to have a more established online presence and potentially can absorb costs associated with an OST.

- 4.4 We would expect further research and consultation to be undertaken in relation to any additional threshold/allowance conditions which may be implemented alongside a revenue threshold/allowance. Although additional conditions could be introduced to restrict businesses becoming liable to an OST and so hopefully protect smaller businesses to some degree; the actual process of identifying and recording specific transactions to prove additional conditions are met may prove to be both time-consuming and administratively burdensome, thereby negating their purpose.
- 4.5 If a substantially lower threshold than £1-2 million is chosen, then an allowance may be preferable to a threshold. An allowance would avoid a hard cliff-edge² and provide more flexibility for a smaller business to plan for any OST rather than suddenly becoming liable for an OST on all relevant sales as soon as the threshold is crossed.

LITRG
20 May 2022

¹ Paragraphs 2.43 and 4.19 explains this concern in more detail as it was raised in response to the 2020 Call for Evidence:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057267/OST_condoc.pdf

² Paragraph 3.35 refers to the issue of creating of a hard cliff-edge:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057267/OST_condoc.pdf