



Online Sales Tax - Consultation Paper

The Consultation Process

This consultation paper will involve a substantial amount of research and consultation, ultimately producing an in-depth and lengthy document. A three-stage consultation process is therefore envisaged:

- Full consultation paper – This will propose policy ideas and options to address the identified issues and those highlighted in the pre-consultation process. Throughout this process, it is also envisaged that there will be direct engagement with some of those who are currently working in this field, and visits to some best practice examples.
- In parallel with the consultation paper, there will be considerable internal consultation with elected representatives on relevant committees and those with a specialism in some of the areas outlined.
- Final policy document – Following the consultation process a final policy paper will be adopted that will inform future DUP manifestos.

As part of the preparation of the full consultation paper an internal engagement group has been identified. This paper will be circulated to them for comment and input before final publication.

Nothing contained within the consultation papers constitute DUP party policy.

Background

The growth of online retailing has been identified as one of the main factors in the decline of many town and city centres. It is not the sole factor but clearly more and more businesses recognise the benefits of trading online, while to the up-and-coming generations online buying and selling is increasingly their preferred option. This new model means online retailers do not have the high burden of costs faced by high street retailers, in particular business rates. There is a perception that this can help them benefit from an unfair competitive advantage, one which is worth further exploration.

This is an issue raised regularly with DUP representatives, the unfairness of the business rate system and how online sales have an unfair advantage. However, we recognise that it is much more complicated with far reaching implications should it be implemented.

Government Proposals

The UK Government says the main policy aim behind an online sales tax proposals would be to 'rebalance taxation of the retail sector' between online and more traditional physical retailers such as those in high streets. To achieve this, the revenues from any online sales tax would be used to reduce business rates for 'bricks and mortar' retailers. The early thinking is that funds raised by any new tax would be ringfenced to subsidise Business Rates for some businesses, rather than as an alternative to Business Rates or as a general revenue-raising measure.

The Consultation Foreword sets out the policy context: Over the last two years the retail industry has – under the most difficult circumstances – provided an essential service to the public and kept households and businesses supplied with the goods they needed. But the pandemic took a toll on our high streets, with a rapid decline in footfall. The government responded, safeguarding businesses and jobs with a wide range of economic support through the pandemic to date. This includes exceptional tax relief for retail, hospitality, and leisure businesses. Longer term challenges do, however, remain.

The pandemic accelerated trends already underway, including a rapid growth in the proportion of shopping carried out online. Some have suggested that the tax system exacerbates the challenges faced by the in-store retail sector. The government recently completed a Review of Business Rates which led to £7 billion of support to reduce the burden of rates over the next five years and brought about reforms which will make the system fairer. The review concluded that the business rates system should not be ripped up, as rates fund vital local services and there is no alternative with widespread support that would raise sufficient revenue to replace them.

Some stakeholders have called for an online sales tax (OST) that could be used to

rebalance the tax system, funding business rates relief for the retail sector. Given the significant changes in the retail market and shift online, it is right that the government reassesses the taxation of this sector. The government would like to consider further the case for and against implementing such a tax, including the role it could play in addressing challenges identified by stakeholders. It will be important to assess the effects on consumers and businesses before deciding whether to proceed with an OST.

If an OST were adopted, its design would not be straightforward. Distinguishing between online and offline activity presents a growing challenge. The government would like to hear from businesses on several central questions including which transactions would be taxable; the different forms an OST could take; and how to define an online sale reflecting the range of transaction, delivery, and collection options.

The government recognises that an array of business models operates in UK retail – a mark of the vibrant and innovative sector – and this will lead to a diverse range of opinions. Some retailers with a stronger bricks and mortar presence consider that their sector is overburdened by business rates relative to online competitors. Others view the growing market share of online retail as a signal of consumer choice and innovation which should not be subject to an increased tax burden. Many businesses operate both in-store and online. The government wants to review the evidence in the round.

Technological change, innovative business models, and evolving consumer choice have for generations changed the face of our towns and cities, transforming the way we live. The government recognises the value of vibrant high streets and town centres to local communities as places to live, work, and visit. Town centres have evolved continuously, and the government does not intend to disrupt innovative businesses; however, it is important to remain responsive. Through this consultation the government is considering one proposal that is attracting increasing attention and we look forward to receiving your input.

It is important to note that in the call for evidence, it suggests *'that the tax could raise around £1bn a year, rather than the £25bn currently raised through Business Rates. Clearly, many will ask whether creating a new tax with new administrative burdens for businesses is justified simply to attempt to balance out the costs/profitability between 'clicks and bricks' business models'*

Business Rates

The idea for an Online Sales Tax arose from a past consultation on Business Rates reform: broadly, online retailers pay less business rates than those on the high street, so respondents suggested that a new tax on online sales could help level the financial playing field – by raising revenue that could be used to subsidise Business Rate costs for some 'bricks and mortar' retailers.

There have been many reviews of business rates over the years but whilst there is a general recognition of the need for change, viable alternatives have been thin in coming forward given the scale of funding it brings in and therefore its importance to public finances.

The DUP will also require clarity on how Northern Ireland would be impacted by the introduction of an online sales tax. Rates in Northern Ireland are devolved to the Northern Ireland Executive. We believe that a new tax would need to be a UK-wide mechanism, therefore we would expect a fair share of that tax collected to be made available to Northern Ireland, as also with Scotland and Wales. The consultation states *'If an OST were implemented, the government would use the revenue to fund business rates relief for retailers with properties in England and fund the block grants of the devolved administrations in the usual way. It is important to note that the extent to which an OST could fund business rates reductions would be highly dependent on two factors, the scope of an OST, how any business rates support was targeted'*.

What should an OST apply to?

There are two proposals for consideration in the consultation put forward in the government consultation:

- ✓ a low tax (1-2%) on the profits of online sales
- ✓ a flat/fixed charge per transaction.

Taking into account, the options above, we are keen to hear views on an appropriate rate for the tax and whether the revenue should be ring fenced for rates reduction similar to what was put in place with the large stores rate increase locally.

There remains much consideration to be given to how such a tax should be applied and what is practical. For example, should it only include sales of goods via the web, or whether sales via app, mobile platforms, remote phone or mail order and even 'click and collect sales' should be within its scope, and if cross-border transactions should be taxed. There is also consideration to be given as to whether sales of services should be included. The government consultation asks there should be any exclusions for example, for food, drink, medicines, VAT zero-rated goods; e-books; e-newspapers, magazines or music downloads, and whether delivery costs should be included.

The DUP are extremely mindful of the current cost-of-living crisis and are concerned that while we recognise the merit in much of the proposals there is the potential for some costs to be passed onto customers at a time when many struggling financially. This would not be acceptable, but we are keen to hear views from the business community as to what they believe the impacts would be on consumers.

We note that independent retailers say they are "open to the possibility" of introducing a tax, but also that there are many diverse opinions amongst large retailers. Independent retailers have long complained that business rates, which are calculated on historic market rents, are an outmoded, cumbersome and outmoded way to raise money. Out-of-town online distribution centres pay far lower business rates per square metre than struggling high-street businesses.

We will listen to a broad range of views before forming a party view, but ultimately it will be based largely around the benefits or otherwise to consumers and its impacts on our efforts to regenerate town and city centres across Northern Ireland.

International Examples

In the United States of America, sales tax is a small percentage of a sale added on to that sale by an online retailer. The sales tax is a “consumption tax,” meaning that consumers only pay sales tax on taxable items they buy at retail. 45 US states and Washington all have a sales tax in place. On top of this, most of those states allow local areas such as cities, counties and other “special taxing districts” to have a sales tax. The American system can be extremely complicated.

The Northern Ireland Protocol makes it unclear whether an OST would be lawful in Northern Ireland, given that in 2019, it was ruled that such a tax would be illegal under EU rules. However, with the UK now outside European jurisdiction the government has moved forward with its own proposals. This is potentially yet another example of how Northern Ireland has been disconnected from the rest of the UK, and will be explored in more detail during the DUP consultation process.

We welcome respondents to include more details on both these cases above, as well as any other international case studies.

High Street Task Force

We note that the High Street Task Force in Northern Ireland, who produced their report in March 2022, made no reference to an online sales tax and instead focused on the need for business rate reform, as set out below:

Recommendation 13: Review of Fiscal Policies 3.28. It is recommended that there is a fundamental review of non-domestic rates. We recognise the need to raise revenue for public services and suggest that the Executive review its fiscal policies as a top priority; this should look holistically at the impact of taxing businesses and households here. We look to the new Fiscal Council to engage with stakeholders in our village, town and city centres as it develops its advice for Ministers.

There are a range of ambitious goals in the HSTF report. We believe that they are achievable with the public and private working together

Questions

- What is your overall view of an online sales tax being introduced?
- If you are a business owner, how do you believe this would impact your business from a sales perspective?
- If you are a business owner, how would a tax impact on your investment decisions?
- Do you believe this is a fair approach to take?
- How has an online presence impacted your business?
- How do you believe this tax should be applied?
- How do you see such a tax impacting on the wider strategy of regenerating towns and cities across the UK?
- How do you believe the tax can be most effectively administered?
- If the objective is to mitigate against business rates, how do you believe this can be most fairly redistributed to businesses in Northern Ireland?
- Should click and collect be exempted?
- Should an OST be applied to all goods? Are any exemptions necessary?
- Do you have any suggested alternatives to OST which could level the playing field between retailers?
- How would an OST define UK customers?
- Are you aware of overseas' taxes on online sales?
- How do you expect online retail to evolve in the coming decade and how should an OST take account of these?
- To what extent do you believe that an OST would impact consumers' behaviour in favour of in-store retail?
- What would the impact be of an OST with business rates reductions, including on retailers that operate both online and offline?
- How could OST be applied so that it would apply equally across the UK and how can it be ensured of its redistribution, as opposed to simply increasing overall tax revenue?
- Do you consider there are any implications for cross border trade?

- how is it collected and enforced, particularly for goods supplied from outside the jurisdiction?

These questions are not exhaustive and we welcome any views and comments you would like to make in relation to the subject in this consultation.

Please submit any comments or meeting requests to George Dorrian at georgedorrian@dup.org.uk