GLA Response to HM Treasury consultation on an Online Sales Tax

May 2022

Introductory remarks

The Greater London Authority (GLA) supports the introduction of an Online Sales Tax (OST) designed to help level the playing field for physical retail. It is clear that physical retail businesses and destinations are disadvantaged in competition with online-only retail by the current tax system.

The principle of using receipts to offset business rate reductions or discounts is a welcome one, but any such approach must be implemented in a way which protects local government funding and at its core maintains the devolution settlement.

The form of introduction of the tax should protect London's role as a global technology hub by ensuring it minimises distortionary impacts in the way it is implemented.

The GLA also welcomes that the Government has decided to open up the principle and design of the tax to public consultation. We would welcome such an approach with other parts of the tax and welfare system. The consultation raises some broader issues to which we would like the Government to give some consideration. An OST will not address the inadequacies of the business rates system nor is it clear what it means for the devolution settlement. It will not address other issues for which the structure of the retail sector matters such as the future of the high street, or the protection of digital creativity.

The GLA believes that the business rate setting process is unfair. It introduces rates several years after their valuation. One adverse consequence is that they may bear no relation to current business conditions. The current 2017 valuation used rates set in 2015 when the online retail sector was in its nascency, and has since placed the physical retail sector at a major disadvantage[1]. Further, the mechanism to re-balance reduction of business rates outside London, and increases in London takes years to complete, and is also unfair. This can only be remedied by devolving the business rate setting process.

Over 70% of funds for the Mayor of London's activities come from business rates retention[2]. The consultation document proposes an easing of the burden of business rates offset by income raised from an OST. The introduction of an OST should not jeopardise the income of the GLA or other devolved authorities, and as a matter of urgency this is an issue which should be addressed. Further clarity and discussion would be welcome on how the OST would affect local authority funding, and how revenues might reduce business rate bills for the retail sector.

While an OST will help to level the playing field in the retail sector it only goes some way to address the wider issue of the future of the high street. In this context, the GLA response

[1] GLA Economics (2021). 'The retail sector in London and the impact of coronavirus on trends'
[2] GLA (2022). 'The Greater London Authority Consolidated Budget and Component Budgets for 2022-23'

favours a broadly based OST to cover services as well as goods. It should not, though, be extended to services delivered in person, or be a tax on cultural events.

Nor would this tax help with the protection of digital creativity. At present, British creators and performers are disadvantaged in comparison to their counterparts abroad. This is because the UK has no mechanism in place to fairly pay creators and performers when the content they have made is shared and copied on devices like smartphones and laptops and is in breach of their copyright.

As outlined in the Design and Artists Copyright Society (DACS) Smartfund report[3], in 45 other countries, this issue is solved by statutory government levies through the collection and distribution of earnings via technology manufacturers. Many countries also use funds raised through the levy to invest in cultural programmes that benefit local communities with regenerative and imaginative programmes. It is important to address this to support the creative sector in the UK.

The remainder of this note provides the consultation questions, and draft responses.

About you

Your name

The Greater London Authority (GLA) is the strategic authority for London and supports the Mayor and the London Assembly in delivering their respective responsibilities and functions. The GLA's five functional bodies are its principal delivery arms: the Mayor's Office for Policing and Crime (MOPAC), overseeing the work of the Metropolitan Police Service (MPS); the London Fire Commissioner (LFC); Transport for London (TfL); the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC).

More on what the GLA does is available on its website, and in the statement of its budget.

Your email address

glaeconomics@london.gov.uk

Please provide the name of the organisation/business you represent (if applicable)

Greater London Authority

Which of the options below describe the nature of the organisation/business you represent?

☐ Business representative organisation/trade body
☐ Delivery Services
☐ Professional Services

[3] DACS (2021). 'The Smart Fund – Tech Enabling Creativity'

☐ Online marketplace
☐ Offline Retailer
☐ Omnichannel Retailer
☐ Online Retailer
☐ Think Tank
☒ Local government
☐ Community group
☐ Non-governmental organisation
☐ Charity or social enterprise
☐ Consultancy
☐ Academic or research
☐ Individual
☐ Other

If you answered 'Other' above, please provide details

Click or tap here to enter text.

If you are in business, where is your business established?

☐ England
☐ Scotland
☐ Northern Ireland
☐ Wales
☐ Other - please state: Click or tap here to enter text.

If you are a retailer, how many staff does your business employ across the UK?

☐ 0
☐ 1 - 10
☐ 10 - 49
☐ 50 - 249
☐ More than 249
☐Prefer not to say

Please provide any further information about your organisation or business activities that you think might help us put your answers in context (e.g. number of stores/warehouses your business operates, which UK regions your business trades in etc.).

Click or tap here to enter text.

Chapter 2: Scope

Question 1. Would you favour a tax for all 'remote' sales or just a subset of 'online' sales?

☒ 'Remote' Sales
☐ 'Online' Sales
☐ Other

Please explain your answer:

The physical retail and leisure sectors have an important role in supporting communities, and establishing the environment for other areas. The primary reason for visiting an area is often for the shops or for leisure. People go onto engage in other community activities. A broadly based online sales tax would reduce the incentive to shop elsewhere, and support the wider benefits for an area. It would reduce the disparity in taxes paid between physical and online retail. It would also address the disbenefits of online retail of greater vehicle use, more congestion, and more pollution. These are greater in London where there is more regular use of public transport.

Question 2. How should taxable sales be defined and what would the practical implications be?

Click or tap here to enter text.

Question 3. Are there transactions that would be particularly difficult to classify as either online or remote? What are these, and how should these be addressed?

Click or tap here to enter text.

Question 4. Should click and collect be exempted? If so, how?

☐ Yes
☒ No
☐ Don't know

Please explain your answer:

It is important to protect physical retail, which argues that there should not be an exemption. There are, though, various forms of click and collect. Collection from a remote location such as a public transport hub still follows an online purchase model, and so should not be exempt. Collection from a store operated by the vendor is more like reserving goods at the shop, and should be exempt from the OST. Otherwise the vendor pays twice which seems unfair.

There is also a distributional issue that larger retail firms, who are not intermediaries, are more likely to have their own click and collect outlets, and so might benefit disproportionately from an exemption.

Question 5. Should an OST be applied to all goods? Are any exemptions necessary? If so, what are these and why?

☒ Yes, OST should be applied to all goods
☐ No, some goods should be exempted (please explain which below)
☐ Don’t know

Please explain your answer:

A broadly based OST will do most to protect physical retail.

Question 6. How would a goods-only approach apply to takeaway food?

☐ OST should include takeaway food
☐ OST should NOT include takeaway food
☐ Don’t know

Please explain your answer:

Click or tap here to enter text.

Question 7. Do you think that digital products should be included in an OST? How should a “digital product” be defined?

☐ Yes
☐ No
☐ Don’t know

Please explain your answer:

Click or tap here to enter text.

Question 8. How can the risk of value shifting from goods to services be reduced, for an OST that has services out of scope?

Click or tap here to enter text.

Question 9. Are there other ways you could foresee OST being avoided? How could this be defended against?

Click or tap here to enter text.

Question 10. 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?

☐ Yes, all
☒ Yes, some (please explain which below)
☐ No, none
☐ Don't know

Please explain your answer:

The OST should not be extended to services delivered in person as this would appear like double taxation, as it is not a substitute for online provision. It would be contrary to the reason for the tax to relieve the burden of business rates.

Specifically, there should not be an OST on cultural events delivered in person. It is worth noting that tickets to performances, films etc may be bought online, but the event is experienced in person and is a key part of the vibrancy of the high street.

There is a strong case to include services which can be delivered online or offline as this is consistent with the reasoning behind the tax.

Question 11. 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?

Click or tap here to enter text.

Question 12. Do you agree that an OST should be designed to exclude B2B sales?

☐ Yes
☐ No
☒ Don't know

Please explain your answer:

This issue is not straightforward. One argument is that this should not be included as it would not be retail activity. There are, though, businesses on high streets which face the same challenges as physical retail, and there are businesses which support both other businesses and consumers.

Question 13. 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)?

☐ Yes
☐ No
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 14. What is your preference from the above or any alternative approaches to exclude B2B sales from an OST while limiting administrative burdens on business?

Click or tap here to enter text.

Question 15. How do you think a business should be defined for the purposes of an OST?

It would be helpful to have some more clarity on whether an OST would apply to a company's registered location, the place they dispatch the good from, or the destination of the sales. This is important if there is a levy on distance travelled which impacts on pollution. It is also important information because it replaces a locally generated taxation.

Question 16. 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?

Click or tap here to enter text.

Chapter 3: Design

Question 17. Do you agree that an OST would be levied on vendors?

☐ Yes
☐ No
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 18. 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?

Click or tap here to enter text.

Question 19. 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?

Click or tap here to enter text.

Question 20. 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?

☐ Yes
☐ No
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 21. How would an OST define UK customers?

Click or tap here to enter text.

Question 22. Should UK-based intermediaries play a role in identifying taxable transactions or be made liable in some cases?

☐ Yes
☐ No
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 23. 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?

Click or tap here to enter text.

Question 24. 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?

☐ A revenue tax would be a preferable approach
☐ A flat fee would be a preferable approach
☐ Don’t know

Please explain your answer:

Click or tap here to enter text.

Question 25. Do you have experience to share of overseas' taxes on online sales using either model, or similar approaches not covered above?

Click or tap here to enter text.

Question 26. What factors should be taken into consideration in setting an allowance? How would this differ for revenue and flat-fee models of an OST?

Click or tap here to enter text.

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?

Click or tap here to enter text.

Question 28. Do you agree that an OST threshold or allowance should apply once to all businesses under common control?

☐ Yes
☐ No
☐ Don’t know

Please explain your answer:

Click or tap here to enter text.

Question 29. Do you agree the threshold or allowance would apply to individual businesses when they operate franchises or sell through online marketplaces?

☐ Yes
☐ No
☐ Don’t know

Please explain your answer:

Click or tap here to enter text.

Question 30. 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.

☐ Preference for annual reporting
☐ Preference for quarterly reporting
☐ Other – please specify
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 31. 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.

Click or tap here to enter text.

Chapter 4: Impacts

Question 32. 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?

The consultation paper estimates that – at least initially – an OST would be expected to raise in the region of £1 billion per annum. It then outlines how this revenue might be applied to reduce the business rates liabilities paid by the retail sector by around 11% or - if this was extended to also include ratepayers in the leisure and hospitality sectors - by 9%. It is assumed that this would be achieved by applying a lower NNDR multiplier for those sectors or alternatively via a targeted scheme focusing on lower value properties or SMEs which would facilitate a larger percentage reduction from those benefitting.

As announced by the Chancellor in the 2021 Autumn Budget the Government already has a relief scheme to support the retail, leisure and hospitality sectors in 2022-23 which provides a 50% relief capped at a maximum financial benefit of £110,000 per single business entity. This scheme was estimated to cost around £1.7 billion – although the estimates supplied by London billing authorities in January 2022 suggest that this may exceed £1 billion in the capital alone.

It would be helpful in its response to the consultation if the government could confirm whether the sums raised by the OST would provide additional support to the retail, leisure and hospitality sectors on top of the 2022-23 50% relief scheme or whether it would simply be used to fund this – or a variant of this – in future years. Otherwise, there will be the perception that the revenues raised from the OST will simply be applied to fund existing business rates reliefs already in place for 2022-23 rather than providing additional support for those sectors.

The Government should also consider how its proposals for an OST will affect funding for local authorities through the business rates retention system – given the purpose of that tax is solely to raise funding for local services. It should also consider how any future rates relief scheme funded by the OST will affect revenues from local supplements such as the Crossrail business rate supplement and the City of London's special multiplier given the statutory requirement that reliefs must operate for these local supplements on a parallel basis at the same percentage rate.

The OST is also likely to be rolled out at the same time as or shortly after the 2023 business rates revaluation and the Government will need to ensure resources are provided to smooth the re-distributional impact and offer transitional support to those firms seeing large rises in bills. So it is possible the government may face a multitude of competing calls on the revenues raised from any OST.

It is therefore important that the Government works with the business community – particularly in the retail, leisure and hospitality sectors – and local authorities before determining how the revenues raised from an OST are to be used.

Question 33. 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?

☐ Yes
☐ No
☐ Don't know

Please explain your answer:

Click or tap here to enter text.

Question 34. To what extend do you think an OST would impact innovation, efficiency and productivity?

Click or tap here to enter text.

Question 35. To what extend do you believe that an OST would impact consumers' behaviour in favour of in-store retail?

Click or tap here to enter text.

Question 36. How do you expect online retail to evolve in the coming decade and how should an OST take account of these?

Click or tap here to enter text.

Question 37. 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?

Click or tap here to enter text.

Question 38. Do you have any data which would support the Government in making an assessment of the incidence of the tax or its distributional impacts?

Click or tap here to enter text.

Question 39. 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?

Click or tap here to enter text.

Question 40. What environmental impact might an OST have? How would its design affect an OST's environmental impact?

Click or tap here to enter text.

Any other thoughts

Please feel free to use this section to share with any other thoughts you have on an OST that are not covered by the questions above.

GLA has an established devolution settlement with HM Treasury, which funds the delivery of its services and those of the wider GLA group (including Transport for London) through the business rates retention system. It would not wish that the introduction of an OST should jeopardise the funds expected by the GLA, and which inform the planning of the delivery of those services.

The Government must therefore consider how its proposals for an OST will affect funding for local authorities through the business rates retention system – given the purpose of that tax is solely to raise funding for local services and also on the revenues raised from local supplements such as the Crossrail BRS.

It is also important that the Government provides greater clarity on how it intends to apply the revenues raised from any OST to fund reduced business rates bills for the retail and potentially also the leisure and hospitality sectors. The £1 billion sum forecast to be raised initially from the OST would, for example, barely fund 50% of the costs of the business rates relief scheme which has been put in place for those sectors in 2022-23.