

Online sales tax:

Consultation Response Form

About you¹

Your name

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Your email address

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

Central London Forward

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

- Business representative organisation/trade body
- Delivery Services
- Professional Services
- 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.

¹ More information on how HM Treasury will use your personal data for the purposes of this consultation is available in Annex B of [the online sales tax consultation document](#)

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.).

Central London Forward (CLF) is a partnership of the 12 central London local authorities. We cover Camden, City of London, Hackney, Haringey Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

We work together with our member authorities and with other stakeholders to support inclusive and sustainable growth in central London; so that our economy thrives, and our residents benefit from the opportunities this creates. CLF supports coordination and collaboration across the sub-region, we conduct research and help shape policy development, and we manage large-scale employment and skills programmes in central London.

The CLF area collects 23% of the national business rates revenue (£5bn) which compares to 4% that Liverpool, Manchester and Birmingham collect combined (£832,000) ([DLUHC, 2022](#)). As an area which collects such a high proportion of the country's rates, central London will be most affected by national policy changes and should play an active role in shaping policy which affects business rates.

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:

Central London local authorities are supportive of a tax which focuses on online sales. As the Online Sales Tax (OST) has been marketed by government to rebalance the tax burden between retailers which operate in person and retailers which operate online, the scope of the tax should be limited to online sales. A wider tax risks making the purpose of the tax less distinct and could create an additional tax burden on in-person retailers.

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

A definition accepted by CLF local authorities would be business to consumer sales which meet the following criteria:

- A good which is sold via a transaction which takes place entirely online, selling to UK consumers, by a vendor.
- The good(s) are sold to the final consumer, comparable to a sales tax, as opposed to a VAT which is collected by sellers in each stage of the supply chain.

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?

There are several transactions which would be difficult to classify as online sales, particularly where there is a varying degree of in-person involvement within the transaction. This includes but is not limited to:

- Online hospitality bookings and reservations e.g. hotels, Airbnb, hostels
- Online bookings for experiences e.g. theme park tickets
- Online payments for in-person hire services e.g. vehicle hire
- Online payment for food and drink takeaways with in-person collection
- Online payment for in-person services e.g. salon bookings

CLF recommends that these types of transactions be exempted from an OST – transactions which involve people visiting the store/pick up location. These transactions mean increased footfall at and around the business which we would like not to be discouraged by introduction of an OST. To keep to the aim of rebalancing the tax burden between online and in person retailers it would not make sense to apply the OST to these transactions.

Inclusion of such transactions risks adding unnecessary complexity to the tax, and diverts the OST away from being a tax levied on online sales only.

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

- Yes
- No
- Don't know

Please explain your answer:

Any sale which includes in person collection from a retailer should be exempted from the OST. Collection of orders by consumers in store continues to generate footfall in central London shops, and we do not want this discouraged by implementation of an OST.

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:

An OST should be linked to rebalancing business rates and to lowering the burden of tax on in-person retailers. As business rates are paid by businesses regardless of the goods being sold, an OST could similarly be designed to include all goods.

However, if all goods are included this may negatively impact certain groups when shopping online for certain goods which would have been excluded from other taxes such as VAT e.g. medication. We would expect a full equality impact assessment to be undertaken prior to an OST being established.

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:

The scope of an OST should exclude involvement of in-person interaction, so any payment for a takeaway to be collected in person should be excluded as this forms part of a wider 'click and collect' transaction.

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:

CLF is supportive in principle of including digital products within the scope of an OST to increase the tax yield and thereby increase the potential business rates relief for the retail sector.

In considering which digital products should be included, to create equity between in person retail and online retail, an OST could be limited to digital products which are comparable to those sold in person e.g. eBooks, and computer software.

However, as explained in the consultation document, increasing the number of products that are excluded from an OST will lead to increased exemptions which creates added complexity to the tax.

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:

CLF members do not have a shared view on this. Inclusion of services within the scope of an OST would increase the revenue collected and therefore fund a higher relief for the retail sector. However, if services are to be included in the scope of an OST, this should be limited to exclude involvement of in-person interaction within the transaction. Like with click and collect, any transactions that would require in person contact should be excluded, as this generated footfall for

high streets and town centres. Inclusion of in-person interactions within an online transaction would be part of a wider click and collect transaction which should be excluded.

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:

In line with the distinction between a sales tax and VAT, business-to-business (B2B) online sales should be made exempt. The scope of an OST should be limited to transactions between a business and consumer. The tax should stay focused on rebalancing the tax burden between online retailers and retailers which operate in person, particularly high street retailers. High street retailers predominantly sell to consumers, whereas business to business sales are usually conducted at wholesale level which is not typically available to consumers, and which are often based outside of high streets and town centres. It may also be difficult to define a B2B sale, to include for example sole traders or individual sellers on marketplaces such as eBay. Inclusion of B2B sales may create unnecessary complexity to the tax and lead to competitive distortion through multiple layers of taxation in distribution and supply chains. This could lead to significantly increased prices between B2B sales which vary across different suppliers depending on the scale and complexity of the supply chain. As there is a likelihood of pass-through to consumers, this would create economic distortion.

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:

B2B sales should be excluded entirely from the scope of an OST. Applying an OST based on individual transactions between businesses would create unnecessary complexity to the tax, inequity and potentially competitive distortion within the market. This may also lead to avoidance by businesses.

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?

As the OST has been designed to rebalance business rates between physical and online retailers, the OST should only apply to retailers which have an online presence. For the purposes of an OST a business should use the definition of a vendor. It must be a business that sells goods or services.

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?

Online sales by charities and public sales should be exempted. The OST should apply to for-profit businesses only. Consumer to consumer transactions should be exempted from an OST as this tax is aimed at businesses operating online. Including consumer to consumer transactions adds complexity and distortion to the tax and its overall aims.

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:

As the OST has been designed to rebalance the tax burden between physical and online retailers, the OST should be levied on vendors which have an online presence.

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?

CLF members do not have a shared view on this. To align to business rates, the OST could be applied to the vendor only. However, if the OST is applied to intermediaries, government would need to carefully consider how this aligns with the Digital Services Tax (DST). The DST is currently levied on marketplaces, search engines, social media services and online marketplaces which derive value from UK users, adding a 2% levy on VAT-exclusive revenues derived from UK users. DST is applied to sales from third-party vendors in marketplaces, but not on sales from direct web-based selling. Implementation of the OST would need to avoid double taxation for these businesses.

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:

An OST could apply to an intermediary where they are also an online retailer in their own right e.g. Amazon marketplace.

Question 21. How would an OST define UK customers?

CLF local authorities support the definition provided within the consultation document from the Consumer Rights Act 2015, *“an individual acting for the purpose that are wholly or mainly outside that individual’s trade, business, craft or profession”*.

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?

A flat fee approach to calculating the amount of OST due is more likely to have a greater distortive impact on consumer behaviour. As the flat fee is to be applied per transaction or delivery, this may lead to changes in approaches to orders, or offsetting the cost of the flat fee through higher delivery costs or other hidden fees. The likelihood of pass through of the tax burden to consumers through higher prices is also more likely.

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:

CLF recommends a revenue-based approach to calculating the amount of OST payable. CLF supports the argument set out in the consultation document that this is a more proportionate method for calculating the amount due. This approach will be more equitable, with the higher tax liability sitting with businesses which have the highest turnover, providing protections for small businesses. A revenue-based approach is likely to be less distortive than a flat fee approach, with the tax rate

relative to the value of the purchase. It is also less likely to create economic distortion and changes to consumer behaviour. A revenue-based OST will also be more progressive than a flat-fee approach.

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?

London is home to approximately 1.4 million SMEs ([Statista, 2021](#)), some of which could be negatively impacted by the introduction of an OST, inhibiting the ability to continue trading and operating online if they were liable to pay an OST. SME's already face significant cost burdens and high operating costs. They should be appropriately protected from an additional tax, to protect business growth and productivity of small businesses within the capital.

CLF supports implementing protections for small businesses. In the same way there are protections for small businesses in the business rates system, protections should be explored for small businesses which are liable to pay an OST.

In doing so, consideration must be given to the complexity of any exemptions introduced and the impact this will have on the overall revenue from an OST and the relief this will fund for business rates.

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?

Inclusion of an allowance would help protect small businesses from cliff edges presented by a threshold. We encourage HMT and DLUHC to consult with local government and business representative groups to explore what protections should be put in place for small businesses to decrease the tax burden whilst still allowing for sufficient generation of revenue from an OST to fund business rates reductions for the retail sector.

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:

The cost burden and administrative burden of operating a business in central London is high, particularly for SMEs. In considering reporting duties and the frequency of reporting, the administrative and resource burden this places on businesses must be considered.

Government must ensure that any reporting duties and administrative requirements placed on businesses in implementing an OST are necessary and unavoidable. Government should continue to engage with business representative groups on the appropriate frequency of reporting.

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?

Business rates are a major outgoing cost for central London businesses. The temporary business rates relief provided during the pandemic provided a much-needed lifeline for many businesses, but this is due to end in 2023.

Reducing the burden of business rates on these businesses and balancing the tax burden between high street and online retailers would be welcome. This could help to drive the economic recovery and growth of high streets and town centres in central London and across the UK. As online retail sales grow as a portion of total retail sales, an OST would increase funding for high streets and town centres to adapt to a digital world. An OST could therefore help create a 'fairer' system of tax obligation between brick-and-mortar retailers and those who sell mainly online.

However, care must be taken to ensure that businesses which operate both online and in person are not unfairly hit. Without sufficient consideration and protections for businesses, this risks them paying an additional tax to reduce another with no net gain but with increased administrative costs.

Consideration must also be given to the design of the OST to minimise pass through to consumers at a time when there are significant pressures on the cost of living. The median pass-through rate for the retail sector is 72% ([Oxford Economics, 2020](#)). Adequate protections must be put in place to protect the consumer.

To deliver maximum impact, CLF recommends using revenue raised from an OST to fund a reduction in the business rates multiplier. This would provide meaningful relief for high street retailers without introducing additional complexity and fragmentation in the business rates system via additional grants or reliefs.

Introduction of an OST, whilst beneficial in rebalancing the tax burden, would not effectively resolve the systemic challenges in the business rates system, only funding a small relief for the retail sector. It is important that central government builds on this to deliver fundamental reform to the business rates system alongside introducing an OST. This reform should focus on creating a fairer system for businesses, provide stability and certainty for local authorities, incentivise growth and reduce complexity in the system.

In addition to the policy changes outlined in the [Fundamental Review of Business Rates final report](#) government should pursue reform to the rateable value of warehouses, annual revaluations, address avoidance schemes, and further streamline the appeals process to create a modern, progressive tax system.

Further, consideration must be given to the impact on local government finance. As grant funding for local government has reduced, local authorities have become increasingly reliant on local taxation as the primary source of revenue. Revenue raised through an OST could be an important part of supporting sustainability of local government finance and diversifying income streams, as well as recognising our role as local place-makers. Our preferred model would be to include some form of local retention from the OST. Local authorities are well placed to effectively spend a proportion of an OST.

However, if revenue raised from an OST were collected and retained centrally and used to fund a reduction in business rates this would represent a significant risk to local authorities in central London. Local government must not lose out financially from implementation of an OST.

Without local retention, local government must be compensated for any lost income from business rates. Without this compensation, a reduction in funding from business rates will mean that there will be less support for businesses, high streets and local regeneration which is essential for economic recovery and levelling up in central London.

Recommendation: Use revenue raised from an OST to fund business rates reductions for the retail sector through a reduction in the multiplier.

Recommendation: If an OST is implemented, this should be alongside further fundamental reform to business rates, developed in partnership with local authorities and businesses.

Recommendation: Local government should not lose out financially in the short or long term through the implementation of an OST and any subsequent reduction in business rates for the retail sector.

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:

Introducing an OST offers the opportunity to rebalance the burden of taxation between bricks and mortar businesses and support the recovery and sustainability of high streets and town centres. While central London local authorities are supportive of introducing an OST, implementing an additional tax must be equitable, proportionate and benefit the economy. The design and administration of an OST must also meet the intended aim of raising sufficient revenue to fund a reduction in business rates for the bricks-and-mortar retail sector. In considering implementation of an OST, the administrative burden and additional duties this places on businesses must be kept to a minimum. Government must also consider how an OST aligns with existing taxes on businesses including corporation tax, VAT and the digital services tax. Reporting and administrative requirements for an OST should be aligned as much as possible with existing taxes, and attempt to use the same, if not similar reporting mechanisms, systems and requirements. Alongside this, if implemented government should be as transparent as possible with businesses, engaging early on to notify businesses of changes in reporting and any additional duties.

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

The outcome and impact of a potential OST is difficult to determine given the broad scope of this consultation and the number of variables to consider in the design and scope of an OST. However,

the introduction of any new tax will have some impact on innovation, productivity and efficiency, given that there is new regulation being placed on online businesses. It is the design and scope of the tax that will determine the extent of this impact, and the measures put in place to mitigate this.

The retail sector is an important part of London's economy, accounting for 7.4% of jobs in the capital in 2019 (GLA, 2021). Retail shops are a central feature of the Central Activities Zone (CAZ), town centres and high streets across the capital. However, the sector faces significant challenges, brought about by increased demand for use of land for residential purposes, increased online sales, rising costs of employment, and changes from business rates revaluations. The pandemic, greater hybrid working and a reduction in international tourism has accelerated and exacerbated these challenges.

There is the potential that an OST will assist in the rebalancing of the tax burden between online and in-person retail, allowing for a lower business rates tax burden. London currently collects a significant proportion of the UK's business rates, which may have a cooling effect on small and innovative businesses able to locate in relevant economic clusters. Lower business rates may encourage more start-ups within central London and could lead to greater agglomeration effects in the capital.

Conversely, there is a risk that regulation and tax of online sales is designed to suit a particular business model, preventing the emergence of newer online models better adapted to the development of the internet, for example new, innovative SMEs.

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

At present, the business taxation significantly favours online retailers compared to bricks and mortar retailers. Business rates represent a significant cost for many bricks and mortar retailers and other high street and town centre businesses. This is particularly the case in central London given the high rateable values.

An OST offers the opportunity to level the playing field, reducing costs for city centre retailers, and enabling them to compete with online retailers. This could help support healthier and more sustainable high streets and town centres.

Research suggests there is a direct relationship between taxation of online sales and consumers' shopping behaviour. This is particularly the case among businesses which operate both online and in person. When online tax rates are below or equal to that of offline retail, the additional costs of operating offline retail led to an increased focus on offline retail as a 'showroom' marketing goods that are more frequently purchased online. By contrast, when tax of online goods increases relative to in-person retail, in-store retail stores there is less focus on a 'showroom' and more focus on sales (Zhang and Choi, 2020).

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

The digital sphere has become an integral part of the everyday life, fundamentally altering the way businesses operate, and the way people consume. Rapid advances in digital technology and changes in consumption patterns require policy makers to adapt.

Online retail has seen a steady growth in volume since 2015 with overall revenue from online sales reaching £84bn in 2019, making up 19% of sales in 2019 (ONS, 2020). This steady growth has reflected both an overall growth in retail sales over this period as well as an increased proportion of total retail sales taking place online.

In the coming years, further advances in digital technology are likely to continue to transform the sector. This could include:

- Greater use of virtual reality tools to provide consumers with a more immersive experience;
- Greater use of artificial intelligence tools to market products to consumers;
- Greater use of autonomous vehicles for delivery.

It is crucial therefore that the OST is progressive and can adapt to the fast-paced technological change in the online retail sector. This includes having adequate measures in place to continue to protect against avoidance schemes.

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?

With the potential pass through of the OST to consumers, this could affect consumers which spend a greater proportion of their income on discretionary good and services and those who live further from a high street or shopping centre.

An OST could also impact individuals with reduced mobility. Elderly and disabled people are becoming increasingly reliant on online shopping to purchase essentials. The proportion of disabled people shopping online has increased from 56% in 2015 to 73% in 2019 to 81% in 2020 ([Oxford Economics, 2021](#)).

An OST could potentially have a greater impact on lower income households, at a time when the cost of living has increased significantly. Modelling looking at internet expenditure as a share of total expenditure by discretionary income suggests that households in the lowest income decile would suffer the greatest relative welfare loss ([Oxford Economics, 2021](#)).

A flat-fee approach is potentially more regressive and more likely to lead to pass-through to the consumer, thereby increasing the distributional impact.

We would expect a full equality impact assessment to be undertaken prior to an OST being established.

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

Central London local authorities are committed to achieving net zero and supporting a green recovery.

The growth of online retail has led to a significant increase in the number of delivery vans on the road in London - contributing to localised air pollution, congestion and greenhouse gas emissions. The greenhouse gas emissions of online purchases are 0.18kg CO₂eq/item compared to 0.10 kg CO₂eq/item for traditional retailing. In other words, on a per-item basis, the environmental impact of online purchases was approximately twice as high as traditional retail ([Oxford Economics, 2020](#)).

The carbon footprint of the final stage of a product's journey to a customer's home is up to seven times higher for "drop shipping" (home-delivery by local retailers but where the items are shipped directly from the suppliers) and retailers using parcel companies compared to conventional retail ([Oxford Economics, 2020](#)).

It is difficult to determine how introduction of an OST would further impact on the environment in central London. However, CLF is supportive of exploring introducing a local Green Delivery Levy (GDL) to sit alongside the OST. Similar to the plans explored by the Department for Transport ([Times, 2020](#)), the GDL could be a small charge levied on online deliveries. Zero emissions vehicles could be exempted to encourage the use of sustainable vehicles.

Recommendation: Work with CLF and Central London local authorities to explore the potential of a Green Delivery Levy in central London.

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.

Click or tap here to enter text.