Jon Thompson  
Chief Executive and Permanent Secretary  
HM Revenue & Customs  
HM Treasury  

2 October 2018  

Dear Permanent Secretary  

Online VAT fraud  

Thank you for the evidence that you and your colleagues gave to my Committee on 5 September on HMRC’s performance in 2017-18. We are writing to set out our findings on online VAT fraud.  

As you know, the Committee and I have raised concerns on many occasions about the slow response to online VAT fraud by overseas sellers despite years of warning about the growing threat.  

You told us that as a result of new VAT registrations and liability notices you have collected or assessed additional revenue of £310 million, which is above your expectations. Whilst this is encouraging, it is still only a fraction of the total level of online VAT fraud which you estimate is between £1 billion and £1.5 billion.  

As part of your new powers to tackle online VAT fraud we discussed the new memorandums of understanding (MOU) that have been signed by seven marketplaces. You highlighted the benefit of marketplaces producing data voluntarily and collaborating with HMRC inquiries. You also expect the recent measure that places an obligation on marketplaces to police overseas businesses themselves without waiting for a joint and several liability notice to be highly effective in tackling online VAT fraud. It remains to be seen how HMRC will enforce this.  

Whilst HMRC is positive about the data that marketplaces are producing and on their prompt response to notices of liability, we questioned how you were assuring yourselves that marketplaces are actively working to eradicate this fraud. As this is at an early stage we trust you will be keeping a close eye on how marketplaces are honouring their commitments under the MOU. We also remain concerned about so-called phoenix accounts, where sellers removed from marketplaces simply re-emerge in a new form to continue selling their products. Again this is an area marketplaces are expected to police themselves but, given the information which I know is being supplied to HMRC by campaigners on this practice, we trust you will monitor marketplaces’ actions closely.
In line with the recommendations we made in our October 2017 report, we look forward to receiving a full update on your progress in tackling online VAT fraud in March 2019, including an update on the impact of the fulfilment house due diligence scheme. You said you are having active discussions with the Ministry of Justice regarding increased powers to tackle this fraud including potential stock seizures from warehouses. We also expect you in your update to outline what further measures are necessary, including any legislative powers.

Whilst your department remains focussed on preparations for Brexit, we ask that you do not lose sight of the importance of continuing to tackle online VAT fraud which remains a real threat to British businesses.

I look forward to your response on the above points. I am copying this letter to the Comptroller and Auditor General and the Treasury Officer of Accounts.

Yours sincerely

Meg Hillier MP
Chair of the Committee of Public Accounts