Dear Ms Hillier,

Online VAT Fraud

Thank you for your letter of 2 October setting out your findings on online VAT fraud following the Public Accounts Committee hearing on 5 September.

I am pleased that you recognise the progress HMRC has made in tackling this issue (including an additional unprompted £150m VAT declared by overseas online retailers since March 2016 up to 31 June 2018 and £160m of assessments raised as a result of operational activity). We will continue to give it high priority, monitoring the impact of both the 2016 and 2017 measures and the online marketplaces’ actions. In addition we would also expect ongoing operational activity carrying out inland pre-clearance checks of imports, including goods destined for fulfilment houses, to have a further impact in reducing tax losses.

I will provide you with a further update in March 2019 in line with the recommendations in your October 2017 report. This will include progress with the Fulfilment House Due Diligence Scheme and the latest position on discussions with the Ministry of Justice to determine whether or not any further legislative measures are necessary to enable the seizing of stock held in third party warehouses.

On a specific point, you raise a concern about phoenix accounts. I can assure you that HMRC is aware of the risk of sellers re-emerging once they have been blocked by an online marketplace. We monitor new VAT registrations on a monthly basis for this risk. Our joint and several liability notices are issued in respect of the legal entity so if the same legal entity attempts to open a new account the online marketplace will still be jointly liable. This provides an incentive for the online marketplaces to monitor this themselves and take action to block new accounts in these circumstances.

You also make a point about the impact on “British business” following evidence from previous sessions some years ago about the impact from overseas. In the recent hearing
Jim Harra, the Deputy Chief Executive and Tax Assurance Commissioner gave the Committee an update on the tax gap and that we now have clear evidence that 40% of the tax gap estimate arises from UK based businesses, and 60% from overseas. Therefore our approach to on-line marketplaces needs to take this into account when applying the joint and several liability measures and obtaining access to data from the marketplaces concerned.

Kind regards

JON THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY