Dear Ms Hillier

First PAC Report of session 2017-19: Tackling online VAT Fraud and Error

I am writing to update the Committee on progress with the recommendations made in the above report and the subsequent Treasury Minute response of 8th December, 2017.

Recommendation 1
The Committee recommended that HMRC should produce an update on its estimate of the scale and impact of the online fraud tax gap by March 2018. This is to include the impacts on legitimate businesses and the wider impact on the economy.

The Government agreed with this recommendation.

We have updated our estimate of tax lost from VAT fraud and error using a revised methodology that takes into account newly available data. Our last estimate was that the tax loss from VAT fraud and error on online marketplaces was between £1 billion and £1.5 billion in 2016-17. We now estimate that overseas sellers contributed to approximately 60% (or £600 million to £900 million) of the VAT loss, with the rest attributed to UK-based sellers. More detail about the background and methodology can be found at Annex A.

We have also considered the potential impacts on legitimate business and the wider economy. We explain that, whilst online VAT fraud and error may have some effect on the profitability of legitimate businesses, there are many other important factors that affect their ability to compete. Our analysis can be found at Annex B.
Recommendation 2
The Committee recommended that more urgency should be injected into tackling online fraud and error by HMRC making more use of existing powers, speeding up the introduction of new powers and exploring new measures such as the split payment method and measures that are particularly focussed on online marketplaces.

The Government agreed with this recommendation.

We have continued to increase the level of resource deployed to tackle online fraud and error which now stands at 171 dedicated staff to work on online marketplace compliance. We have also deployed 44 permanent staff plus 22 flexibly deployed staff to form our Import Fraud frontline taskforce.

We have now opened about 2,100 investigations into non-compliant overseas businesses selling via online marketplaces in the period since Royal Assent of the joint and several liability (JSL) measures in September 2016 up to 31st January 2018. This has resulted in us issuing around 1,300 JSL notices to online marketplaces by 31st January.

At Autumn Budget 2017, the Government announced extensions to the existing joint and several liability rules to make online marketplaces more accountable. The rules are being extended to include the future unpaid VAT of UK online businesses that we identify on their platforms as not complying with UK VAT obligations. In addition, the existing rules are being extended to cover unpaid VAT on sales where the marketplace ‘knew or should have known’ that an overseas online business should have been UK VAT-registered but was not. Online marketplaces will also be required to display a valid VAT number for businesses on their platform, when they are provided with one.

Since the Government’s response to your report, a consultation was launched at the Spring Statement 2018 on a split payment model. You may recall this was debated in the Committee hearing. This followed a Call for Evidence at Spring Budget 2016 and the publication of those responses at Autumn Budget 2017. The consultation sets out how we think a split payment mechanism could work, how it could be enforced and considers a number of options for how the VAT could be accounted for. It gives businesses an opportunity to have input into the design process.

Recommendation 3
The Committee recommended that an agreement should be put in place by March 2018 that sets out ways in which HMRC and all online marketplaces will work together. This is to include details of co-operation and data sharing, how non-compliance will be dealt with promptly and a requirement for online marketplaces to ensure that non-EU sellers’ VAT numbers are valid and displayed.

The Government agreed with this recommendation.
We have worked with a number of online marketplaces to produce an agreement. Its purpose is to foster a collaborative relationship between HMRC and online marketplaces to promote tax compliance by users of online marketplaces which is underpinned by a set of legal obligations on the marketplaces and a set of legal powers that HMRC has. A copy of the agreement can be found at Annex C.

HMRC will publish this agreement in April 2018 and invite online marketplaces to become signatories to it. A list of those who have signed will also be published and updated at regular intervals.

**Recommendation 4**
The Committee recommended that HMRC should assess the effectiveness of its response to tackling online VAT fraud and error by March 2018. This is to include setting long and short term targets for reducing the VAT lost and telling the Committee how much VAT has been collected from newly registered traders.

The Government agreed with this recommendation.

There is considerable evidence that the measures have been effective in tackling online VAT fraud and error. This includes about 27,550 applications to register for VAT from overseas online retail businesses since the measures were announced in March 2016 up to 31st January 2018. This compares with about 1,650 for 2015. The unprompted VAT liability declared on returns from this type of business during the same period is about £100m. The majority of these registrations, and the tax subsequently declared, are likely to have been prompted by the introduction of the measures announced at Budget 2016; and the tax subsequently declared compares well against the expected yield from the measure.

In addition, our compliance activity covering online overseas sellers has comprised about 2,100 cases, resulting in about 1,300 JSL notices being issued and £120m in compliance yield being identified and assessed. £45m of this is from businesses who are now engaging with HMRC to comply with their obligations and pay their outstanding VAT debt without the need to issue a JSL notice.

There will also be additional VAT paid from displaced sales from non-compliant sellers removed from the marketplace to compliant sellers. This is not currently quantifiable.

We have updated our plan setting out the types of activity we are undertaking to tackle this problem and the expected outcomes.

**Recommendation 5**
The Committee recommended that HMRC should assess the scale of the fulfilment house industry ahead of the implementation of the Fulfilment House Due Diligence Scheme and how it intends to ensure that the registration process will work efficiently and effectively.
The Government agreed with this recommendation.

We have a high level of confidence in the number of conventional fulfilment businesses, of up to 800. We continue to analyse data held on other fulfilment businesses to provide a definitive assessment of the scale of the fulfilment industry (those that handle goods for overseas sellers) prior to implementation of the scheme. We are engaging with relevant businesses and organisations to confirm their eligibility and scope within the scheme.

More detail on our communications plan can be found at Annex D.

**Recommendation 6**
The Committee recommended that HMRC updates it on how it is preparing for the UK exiting the EU at future appearances.

The Government agreed with this recommendation and HMRC will continue to provide updates at future appearances before the Committee.

Yours sincerely

JON THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY
VAT Fraud and Error on Online Marketplaces

Updated Estimate for 2016-17

1. Based on a revised methodology taking into account newly available data, HMRC estimates that the tax loss from VAT fraud and error on online marketplaces was between £1 billion and £1.5 billion in 2016-17. We estimate that overseas sellers contributed to approximately 60% (£600 million to £900 million) of the VAT loss, with the rest attributed to UK-based sellers.

2. The total VAT loss corresponds to between £5 billion and £8 billion of non-compliant sales on the online marketplaces.

Background and Methodology

3. In 2016, HMRC estimated that between £1 billion and £1.5 billion was lost in tax revenue from online VAT fraud and error in 2015-16. The estimates of the resulting policy changes announced in Budget 2016 drew on the £1-1.5 billion figure and were certified by the independent OBR as being reasonable and central. The methodology was also assessed by the National Audit Office\(^1\) who noted that it was subject to a high level of uncertainty.

4. The methodology used a “top-down” estimate of the tax loss. The estimate was derived from UK import data, supplemented with operational and other intelligence to identify high risk imports, the proportion of goods undervalued, and the extent of the undervaluation.

5. This tax loss was attributed to overseas sellers and as a result, legislation was introduced in Budget 2016 aimed at tackling non-compliance from this population. In particular, online marketplaces could be held joint and severally liable for unpaid

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VAT from overseas sellers on their marketplaces; additionally, fulfilment houses containing the goods from overseas sellers had to register with HMRC and carry out due diligence checks.

6. As set out in the NAO’s report ‘Investigation into overseas sellers failing to charge VAT on online sales’, HMRC said that we would review the estimate of the losses where we believe there is sufficient new evidence to do so. Since the original estimate was made, HMRC has received a significant quantity of new data that was not available to us at the time of the original estimate. We have therefore produced an estimate for 2016-17, using a new improved methodology. The methodology uses a “bottom-up” estimate based on individual trader data on online marketplaces.

7. The ONS estimate that the total value of online retail sales in 2016 was £52 billion², of which £26 billion was from non-store retailing. Online retail sales have been growing in recent years, in absolute terms and as a proportion of total retail sales. Figure 1 below shows annual retail and internet retail sales.

8. Based on market research from Mintel of the online retail sector³, we estimate that total sales for the online marketplace sector was £16 billion in 2016.

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² https://www.ons.gov.uk/businessindustryandtrade/retailindustry
9. HMRC has received several datasets from online marketplaces containing snapshots of information about sellers on their platforms. We use this to partition the online marketplace sector into sales from UK-based sellers and sales from overseas sellers.

10. After combining the datasets with HMRC data on VAT registrations and compliance, we use the information to base our assumptions on the level of fraud and error amongst UK and overseas sellers. For example, we assume that a larger proportion of overseas sellers are non-compliant compared to UK-based sellers, as proportionally fewer of them are registered for VAT.

11. We take into account the different VAT rules for UK-based and overseas sellers when considering the tax loss. Information provided to the PAC from the online marketplaces on the number of overseas and UK-based sellers allows us to sense-check our estimates.

12. As the new estimate is based on actual sales data by sellers on online marketplaces, rather than using imports as a proxy, it provides a more accurate picture of the VAT loss than our previous estimate. This information was not available to HMRC when we produced our original estimate.
13. However, there is still uncertainty attached to the new estimate and so we continue to present the loss figure as a range, rather than a point estimate. The data we have does not contain the full picture on online marketplace sales and there are challenges linking this to information held within HMRC, which introduces the uncertainty. We expect that the tax loss falls within the range presented and this is based on a judgement of the scale of uncertainty, rather than a statistical analysis.

14. HMRC is restricted by the Commissioners for Revenue and Customs Act (CRCA) 2005\(^4\) from releasing information to the public that directly or indirectly can be linked to an identifiable person, whether that person is an individual or a business. By restricting the release of information, we also adhere to the principles set out in the Code of Practice for Official Statistics\(^5\).

15. A large proportion of the new methodology is based on business information given to HMRC by online marketplaces. More details of the methodology than those provided above would indirectly reveal business information not currently in the public domain, such as the amount of sales certain online marketplaces generate from overseas. Disclosure of commercially sensitive information is a particular issue in this sector due to the dominance of a small number of large online marketplaces. As a result of the restrictions placed on us by CRCA 2005, we cannot release more information on the methodology in this report.

16. After updating our estimate of this tax loss, the Government introduced legislation in Autumn Statement 2017. This extended the 2016 legislation of joint and several liability for online marketplaces to liabilities of UK-based sellers, as well as strengthening the compliance measures for overseas sellers.

17. Whilst we have evidence that the measures introduced in Budget 2016 are having the intended effect of reducing non-compliance, it is not possible to directly estimate the amount of yield raised or compare it to the VAT loss estimate. This is because the measures introduced were mainly designed to drive behavioural change. Non-compliant sellers are either expected to become compliant or be removed from the marketplaces, in which case their sales shift to compliant sellers. It is not possible to distinguish an increase in VAT due to online sales moving to

\(^4\) http://www.legislation.gov.uk/ukpga/2005/11/section/18
\(^5\) https://www.statisticsauthority.gov.uk/osr/code-of-practice/
compliant sellers because these relatively small increases cannot be separated from changes due to external market effects.

18. The data provided by online marketplaces only provides a snapshot of seller activity for a certain time period. Consequently, determining the effect of changes in legislation or updating the VAT loss estimate using the new methodology will require marketplaces to provide updated information in the future.

19. We are aware that there are other, higher, estimates of VAT losses from online sales. We have concerns about the other methodologies that have been used, and believe they are not credible when set in a wider context. The entire VAT gap is £12.4bn for 2016-17⁶, and the high estimates produced by some commentators would lead us to conclude that online sales fraud makes up more than half of the VAT tax gap. Given that in 2016 only 15% of retail spending was online, this is not realistic.

20. The external estimate that appears to be closest to ours is that made by Chartered Trading Standards. They estimate that the size of the VAT loss due to online VAT fraud and error on transactions taking place on Amazon’s and eBay’s online platforms could be up to £1 billion a year⁷.

Outline of Previous Methodology

21. HMRC previously estimated that the tax loss from online VAT fraud and error was between £1 billion and £1.5 billion in 2015-16. The estimate was calculated from an assessment of the extent of undervaluation of medium- and high-risk imports from high-risk countries outside the EU. The method used an estimate of import VAT fraud as a proxy for the scale of online VAT fraud and error.

22. This VAT loss was mainly attributed to overseas sellers as the goods were arriving from outside the UK. Since that estimate was produced, several online marketplaces have provided datasets to HMRC that have helped develop our understanding of this type of fraud. In particular, when combining the information with internal HMRC data, it indicated that fraud and error by UK sellers was higher than previously thought.

Comparing the two methodologies

23. The new “bottom-up” methodology and previous “top-down” methodology produce similar results in terms of total VAT loss, which provides support to the estimate. The uncertainty in both methods mean that it is not possible to distinguish a difference between the estimate for 2015-16 and that for 2016-17.
Online VAT Fraud and Error - Response to PAC

Introduction

1. The retail landscape has changed significantly over the past two decades with an increasing proportion of retail occurring online and the emergence of online-only stores that do not have a high street presence\(^1\). The internet has led to more price competition on goods and services, with individuals stating they check prices on multiple online sites\(^2\). Both online and physical retail businesses in the UK contribute a significant amount to the economy. This note will take a look at the functions businesses provide, the key drivers of profitability and how the changing environment has affected profitability. This will outline why we believe that online VAT error and fraud may have some effect on the profitability of legitimate businesses, but there are many other important factors that affect their ability to compete.

How do businesses contribute to the economy?

2. Businesses have many functions which they provide to an economy. These include;

   a. **Job creation.** Businesses need more labour to make and sell their goods and services as they grow. The effect of these jobs is multiplied because those now employed have income they can spend on more goods and services, requiring more people to make and sell them. This effect may be

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\(^1\) https://www.ons.gov.uk/businessindustryandtrade/retailindustry

more prominent in physical retail, where money is more likely to be kept in the local economy and helps to bring consumers into town centres.

b. **Supplying goods and services.** When consumers purchase an item from a business, they are implicitly stating that they place a value on the good of at least as much as it costs. For some people, the value of the good/service to them will be considerably in excess of the cost - they would pay more for this product, but don’t need to. Also, due to specialisation, businesses can make products at a much cheaper price than an individual making it themselves. Businesses are able to reduce costs by manufacturing in quantity creating large efficiency gains, to the gross benefit of consumers and economic growth.

c. **Paying Tax.** The taxes businesses pay fund public services such as the NHS and schools. This large tax revenue can be seen in government receipts, where corporation tax alone had receipts of £49.5 billion in 2016-17.

### What drives business profitability?

3. **Business profit** is made up from the difference between the sales that a business makes and their variable and fixed costs. Sales are made up of the quantity that a business sells and the price that they charge. Fixed and variable costs are dependent on the business. Often, businesses focus on either: a) high turnover and low profit margins or b) low turnover and high profit margins. In most instances, those businesses focussing on high turnover and low profit margins will be most affected by the rise of online retail for reasons later explored.

4. **Businesses** have differing amounts of control over these aspects which determine profitability. For example, in highly competitive markets, a business has less scope to set their prices as they will be influenced by what prices other businesses charge.

5. **Sales** – Sales for an individual business are dependent on a number of factors such as the number of businesses selling substitute goods in the market, the
number of sellers for the same branded good, and the cross-price elasticity of
demand for the businesses products. Cross-price elasticity of demand measures
the change in quantity demanded for a good after a change in price of a different
good. As new entrants selling substitute goods and the same good enter the
market, such as in online retail, the sales and profitability of businesses can be
affected.

6. **Fixed costs** - Businesses have numerous costs which are constant and not
variant on the amount of goods or services the business produces, for example a
premise they have bought to produce their goods. With high fixed costs,
businesses have to sell more of their product to be able to break even and make
profit. As the amount of products they sell increases, the average fixed costs per
product decreases.

7. In the long run, no costs are fixed as businesses have the ability to change or
remove all costs involved in the production process. For example, businesses can
change their premises, something that may not be possible in the short run.
However, businesses profitability is still affected by differing returns to scale.
Businesses may have increasing returns to scale where as they increase the
amount of inputs, their outputs increase by a higher rate. These returns to scale
affect the scaling decision for businesses.

8. **Variable costs** - Businesses have costs which change depending on the number
of units of their good or services they produce. An example of these are labour
costs, where labour works on assembling the product. As a business increases
their production, the labour costs may have to increase as the business uses more
labour. There are different determinants of the magnitude of these costs such as
the labour market wage rate. Online retailers may spend less than high-street
retailers on labour costs, due to not needing as many employees. When
businesses have increased variable costs this may lead to reduced profit,
assuming all other costs and prices remain the same.

**The rise of online retail**

9. Profitability of businesses varies over time, and is affected by both internal and
external factors. These factors vary by business, for example businesses who
export are affected by the exchange rate. More consumers now have access to
the internet, with household access levels at 90%, up from 61% ten years ago. Furthermore, the increasing prevalence of the internet and globalisation has led to an increased range of products for consumers, sometimes at cheaper prices. All these factors have led to a surge of online shopping, with some of the shopping being diverted away from high-street shopping.

10. This increase in online retail can be seen in official statistics. ONS retail data shows that online retailing sales rose by 16% between 2016 and 2017. The proportion of all retail sales as online shopping has increased rapidly over the past 10 years as can be seen in Figure 1, with online sales making up roughly 5% in 2008 to around 16% in 2017.

11. Due to minimal obstacles and low costs of setting up in online retail and homogenous goods being available, some prices may have fallen and more

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4 https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediusage/bulletins/internetaccesshouseholdsandindividuals/2017
5 https://www.ons.gov.uk/businessindustryandtrade/retailindustry
information is available to compare goods from different sellers. This has led to consumers having more disposable income available to spend on other goods.

Effect on business profit and business response

12. The effects on business profit and response will be assessed through the framework of sales, variable and fixed costs, discussed earlier in the note.

Sales

13. There are numerous ways physical store sales are being affected by online sales with two particularly prominent being:

a. **Homogenous goods sold online.** There are a significant amount of homogenous goods sold online with small differences between products, for example with branded and unbranded charging cables. These markets exhibit low barriers to entry, as sellers are able to use commission-only marketplaces and low-cost websites to sell to a large consumer group. This has led to a large increase in the number of sellers and an increase in competition, which can drive down the price online and physical retail businesses are able to charge. However, the lower prices could lead to increased demand for the goods.

b. **‘Showrooming’.** Some consumers may go into physical retail stores to browse products, and buy the same product at a cheaper price online. The increase in access to the internet may accentuate this problem, with physical stores with higher costs losing revenue to cheaper online stores able to charge lower prices.

14. In the context of online VAT error and fraud, consumers are frequently unaware of the seller’s location and even more so, of whether the seller is paying the correct tax. This may mean that it is hard for consumers to distinguish between legitimate and illegitimate businesses. This may harm the sales of legitimate online and physical retail sellers.

15. There may be numerous responses by businesses to these changes such as:

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a. **Focussing on non-price features.** Businesses may try to provide better customer service or promotions to attract customers.

b. **Shopping centres increasing ‘experience’ stores.** Many millennials are moving from the purchase of product ownership to the purchase of experiences and events\(^8\). This may mean shopping centres increase the number of experience stores such as restaurants, pampering and entertainment complexes.

c. **Online stores extending to physical stores.** There are numerous reasons that some consumers prefer physical stores, such as being able to try on items of clothing before buying. Non-store retailers may try to increase demand with a physical store such as Amazon’s acquisition of Whole Foods Market\(^9\).

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**Fixed costs**

16. Online businesses have numerous comparative advantages over physical stores due to lower fixed costs and sometimes cheaper marketing costs. Online businesses usually face lower rents and lower associated retail premise overheads as there is less necessity to be in expensive areas with high footfall. Since businesses’ fixed costs need to be covered before they can gain any profit, their profitability can be affected.

17. As the increased competition from online firms decrease the profitability of physical retail businesses, the value and rental prices of commercial property may fall. This may lead to a partial offset of the higher fixed costs for physical stores, at the result of loss to owners of commercial property. However, this effect is likely to happen over a long time period.

18. Physical retail businesses may try to reduce their fixed costs by putting more resources into selling online and potentially closing down retail stores. They may be able to gain new customers and make more sales. Physical retailers with higher fixed costs are more likely to be affected by the shift to online. In the short-run, as sales move online, they may be constrained by capital investments and thus be unable to adjust their business models in a short space of time. They

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\(^9\) [https://www.amazon.co.uk/b?ie=UTF8&node=14091954031](https://www.amazon.co.uk/b?ie=UTF8&node=14091954031)
may try to subsume any reduced profit or continue to operate and strengthen their retail growth.

**Variable costs**

19. Online retailers may be able to be more mobile in their production and thus be able to move to areas where variable costs are lower. Physical retailers by comparison may have to locate in expensive high-footfall areas with high wage rates, for example in the centre of a city. This means that online retailers can be at an advantage and may be able to undercut and take business away from physical retailers.

20. Businesses may try to become more technically efficient by producing the same output whilst minimising their inputs and such their costs. One particular method of reducing variable costs could be through reducing their labour costs and potentially job redundancies. Some physical retailers may be able to complement their physical sales with online retail and take advantage of any reduced variable costs.

**Business closures**

21. These factors lead to a competitive market for physical retail businesses to face. This may lead to a reduction in profitability and sometimes business closures. This theory is supported by evidence with one example from a joint report by the Local Data Company and PwC\(^\text{10}\), who reported that in the first six months of 2017, there were 2,564 closures of multiple retailer units\(^\text{11}\), equivalent to 14 per day. Additionally, there has been a net decrease in multiple retailer units every year since 2010, which can be seen in Figure 2. The report mentions how the magnitude of closures is variable across different sectors and different regions in the UK, and thus the effect on profitability across businesses is not constant.


\(^{11}\) Multiple retailers are defined in the report as retailers that have more than five outlets nationally
22. In general, businesses closures are caused by competition with all firms, including online and physical businesses. Profitability of businesses can be largely affected by structural changes in the economy. As consumer demands and technology changes, businesses may have to adapt and move into other markets to survive or otherwise may be forced to close down. This will mean that we would naturally expect there to be some business closures every year, as seen in the Figure 2. This process is known as creative destruction and leads to more efficient and new businesses succeeding at the cost of other businesses.

Conclusion

23. The information in this note shows that businesses play a crucial part in helping the UK economy, through job creation and tax receipts amongst their many other functions. Businesses have many factors which affect their profitability, including their differing costs and demand schedules which have changed significantly in recent periods with the rapid growth of internet shopping. Although online VAT error and fraud will have some adverse effect on the profitability of compliant
businesses, there are many other important factors that affect businesses ability to compete.
The role of online marketplaces in co-operating with HMRC

Introduction
The growth in online e-commerce is an important part of the UK economy but has also created opportunities for abuse of the VAT system.

Online marketplaces play a vital part in creating the environment in which British businesses can sell to customers throughout the world and UK consumers can buy goods from businesses from all over the world. While they do not have visibility of whether the businesses on their marketplaces render and pay their VAT returns, online marketplaces may, in certain circumstances, be able to identify non-compliance with VAT registration rules and collect data on the trading activities of those businesses. Online marketplaces can be highly effective in educating and informing third party businesses to encourage VAT compliance and in providing HMRC with data and other information to assist their investigations and improve compliance.

There is now a public and parliamentary expectation on online marketplaces “to play a wider role in ensuring their users are compliant with the tax rules” (Policy paper: Autumn Budget 2017). The Public Accounts Committee also recommended putting in place an agreement that sets out collaborative working arrangements between HMRC and online marketplaces.

Purpose
This agreement is intended to foster a collaborative relationship between HMRC and online marketplaces to promote VAT compliance by users of the marketplaces which is underpinned by a set of legal obligations on the online marketplaces and a set of legal powers of HMRC. HMRC has committed to working with online marketplaces to set out a cooperation agreement that would include commitments for collaborative working arrangements, exchanges of data and timeliness of responses to evidence of non-compliance.

This document sets out the commitments between HMRC and the undersigned online marketplaces that have third party businesses (whether UK based or overseas) operating on their marketplace that are liable to pay VAT in the UK. These are separate to the legal obligations placed on such online marketplaces by UK VAT legislation such as sections 77B, 77BA and 77C-77E of the VAT Act 1994.

The commitments made in this paper do not create binding legal obligations.

Commitments by online marketplaces

1) Provision of data
By signing this agreement, all online marketplaces commit to providing HMRC with data about the businesses operating on their marketplaces (selling to UK consumers) both in bulk form and on an individual business basis to assist HMRC with tackling online VAT fraud and error. This provision of data will be on request.
from HMRC and should be provided either voluntarily or in response to the issuing of a legal notice.

HMRC recognises that online marketplaces operate different business models in various jurisdictions and may hold varying types of data and/or require different approaches to the provision of data. By signing up to this agreement, each online marketplace agrees to find a suitable and legally compliant mechanism for providing HMRC with data on a timely basis via one of the above routes.

Whilst the data items available may differ across different online marketplaces, at a minimum the data provided will be sufficient to allow HMRC to:

- Identify individual business sellers
- Calculate the value and volume of UK sales of individual businesses over a prescribed period (e.g., one year)
- Contact the individual business directly

The data requested by HMRC could form part of a one-off request or be for a regular flow of data over a prescribed period of time.

2) Education for sellers
Online marketplaces agree to ensure that sellers have access to information about sellers’ VAT obligations in the UK, including for UK and EU sellers as well as non-EU sellers. Online marketplaces may choose to provide guidance or assistance themselves or to direct sellers to other information, including HMRC’s guidance information on gov.uk.

3) Responding to evidence of non-compliance
Online marketplaces agree to respond expeditiously when notified by HMRC that sellers are using their marketplace in breach of UK VAT legislation obligations. In addition, each online marketplace will have systems to take appropriate action whenever presented with evidence of potential non-compliance with UK VAT registration obligations. For example:

- Include a request for the VAT registration number from the relevant business within the account opening process
- Where evidence of potential non-compliance with registration requirements is presented, contact the seller directly to clarify the position within 30 days
- Where the concern about non-compliance with UK VAT registration obligations persists, to implement appropriate sanctions up to and including restricting the seller from selling on the UK marketplace or removing it

Online marketplaces agree to inform HMRC when it has restricted the seller from selling on the UK marketplace or removed a particular seller from its marketplace for non-compliance with UK VAT legislation obligations within 30 days of that action.

HMRC acknowledges that the 30-day clarification period mentioned above is separate from the statutory periods set out in sections 77BA and 77E of the VAT Act 1994 which carry precedence.
Notifications to HMRC can be sent by email marketplace.notification@hmrc.gsi.gov.uk.

Responsibility of HMRC

Requests for data to online marketplaces by HMRC will be made on a case by case and on a risk basis. In all cases where it receives information about sellers from online marketplaces, HMRC will respect the ‘commercial-in-confidence’ status of information subject always to any overriding legal obligation.

HMRC acknowledges the need to maintain a level playing field between online marketplaces and will ensure that this agreement is made available to all online marketplaces.

HMRC will publish the list of all online marketplaces that sign up to this agreement. In the event that a signatory does not comply with this agreement HMRC will remove them from the list. This includes failing to identify a legally compliant way of providing data to HMRC when requested.
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There is now a public and parliamentary expectation on online marketplaces “to play a wider role in ensuring their users are compliant with the tax rules” (Policy paper: Autumn Budget 2017). The Public Accounts Committee also recommended putting in place an agreement that sets out collaborative working arrangements between HMRC and online marketplaces.

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from HMRC and should be provided either voluntarily or in response to the issuing of a legal notice.

HMRC recognises that online marketplaces operate different business models in various jurisdictions and may hold varying types of data and/or require different approaches to the provision of data. By signing up to this agreement, each online marketplace agrees to find a suitable and legally compliant mechanism for providing HMRC with data on a timely basis via one of the above routes.

Whilst the data items available may differ across different online marketplaces, at a minimum the data provided will be sufficient to allow HMRC to:

- Identify individual business sellers
- Calculate the value and volume of UK sales of individual businesses over a prescribed period (eg, one year)
- Contact the individual business directly

The data requested by HMRC could form part of a one off request or be for a regular flow of data over a prescribed period of time.

2) Education for sellers
Online marketplaces agree to ensure that sellers have access to information about sellers’ VAT obligations in the UK, including for UK and EU sellers as well as non-EU sellers. Online marketplaces may choose to provide guidance or assistance themselves or to direct sellers to other information, including HMRC’s guidance information on gov.uk.

3) Responding to evidence of non-compliance
Online marketplaces agree to respond expeditiously when notified by HMRC that sellers are using their marketplace in breach of UK VAT legislation obligations. In addition, each online marketplace will have systems to take appropriate action whenever presented with evidence of potential non-compliance with UK VAT registration obligations. For example:

- Include a request for the VAT registration number from the relevant business within the account opening process
- Where evidence of potential non-compliance with registration requirements is presented, contact the seller directly to clarify the position within 30 days
- Where the concern about non-compliance with UK VAT registration obligations persists, to implement appropriate sanctions up to and including restricting the seller from selling on the UK marketplace or removing it

Online marketplaces agree to inform HMRC when it has restricted the seller from selling on the UK marketplace or removed a particular seller from its marketplace for non-compliance with UK VAT legislation obligations within 30 days of that action.

HMRC acknowledges that the 30-day clarification period mentioned above is separate from the statutory periods set out in sections 77BA and 77E of the VAT Act 1994 which carry precedence.
Notifications to HMRC can be sent by email
marketplace.notification@hmrc.gsi.gov.uk.

Responsibility of HMRC

Requests for data to online marketplaces by HMRC will be made on a case by case and on a risk basis. In all cases where it receives information about sellers from online marketplaces, HMRC will respect the ‘commercial-in-confidence’ status of information subject always to any overriding legal obligation.

HMRC acknowledges the need to maintain a level playing field between online marketplaces and will ensure that this agreement is made available to all online marketplaces.

HMRC will publish the list of all online marketplaces that sign up to this agreement. In the event that a signatory does not comply with this agreement HMRC will remove them from the list. This includes failing to identify a legally compliant way of providing data to HMRC when requested.
**Fulfilment House Due Diligence Scheme (FHDDS)**

The stakeholder engagement and communications plan has been developed to ensure that relevant HMRC customers and external stakeholders are aware of the scheme. This plan includes:

- GOV.UK guidance, which was initially published on 7 November 2017 and will be updated with further information in due course
- a leaflet distributed by Online Marketplaces Compliance and Import Fraud teams. This is being shared electronically to sellers during correspondence to raise awareness, and with fulfilment businesses
- an alert sent to around 70,000 agents and professional bodies. This was picked up by several accountancy and tax websites
- notes about the scheme included with all paper VAT returns
- a secure online application process that provides guidance on completing the registration
- HMRC using overseas sellers to identify UK fulfilment houses.