HMRC performance: progress review

This letter follows up your evidence to the Committee on 30 April in relation to online VAT fraud, about which we will, in due course, be publishing a formal report. I am writing to outline some additional concerns of the Committee on online VAT fraud arising from correspondence with Chris Heaton-Harris MP and submissions from RAVAS and VATFraud, which we did not have time to cover in the evidence session. We have published the correspondence and submissions on the Committee website.

Seizure of goods from non-VAT-compliant traders

We are concerned that the extent of HMRC’s powers to seize goods from non-VAT-compliant traders are not clear. HMRC wrote to Chris Heaton-Harris MP on 6 February about its online VAT fraud compliance measures. The letter stated that, while HMRC did seize goods in appropriate circumstances, it did not have specific powers to direct online marketplaces to seize goods following receipt of a joint and several liability notice. A letter from Amazon to Mr Heaton-Harris dated 8 January 2018, regarding various issues concerning online VAT fraud, confirmed this point. In the letter Amazon noted that “... to our knowledge, HMRC has not ever issued a notice to Amazon to seize third party goods belonging to a seller in respect of whom they have issued a joint and several liability notice.” However, in evidence given to the Committee on 30 April, HMRC stated that it did have power to seize goods held in a fulfilment house belonging to a third party, albeit that a warrant would be needed and the evidence requirement for one was stringent (Transcript, Qq 97-99). HMRC also confirmed, though, that it had never issued a notice to Amazon to seize the third-party goods belonging to a seller in respect of whom HMRC had issued a joint and several liability notice. HMRC added that notices to online marketplaces to seize the third-party goods were not part of its compliance method for tackling online VAT fraud because, with its current powers, it was not a practical way of making a meaningful difference. HMRC noted that this was an area to look at further (Transcript, Q 100). In light of this I would be grateful were you to provide the Committee with a fuller explanation of:
• HMRC’s powers to seize goods from non-compliant traders, from their own premises and from others;
• the different circumstances in which seizure powers can be used (whether against non-compliant traders or against online marketplaces);
• the extent to which these powers have been used and with what outcome; and
• plans for increasing seizure powers to better tackle online VAT fraud, including any legal changes that Parliament would need to agree.

Brexit and cross border mail order VAT evasion
Item 9 of the RAVAS and VATFraud written evidence submission discusses the VAT situation in relation to mail order. In particular it alleges that “when VAT is payable on imports into the EU it is entirely dependent on the declaration of the value of the goods. Unfortunately, this is subject to widespread abuse and values are often underdeclared. A study by Ernst and Young showed that only 35% of packages entering the EU had the correct amount of VAT declared and collected. Billions in VAT is lost because sellers outside the EU put a false value on the package to pay less VAT or more commonly to obtain the LVCR [Low Value Consignment Relief] exemption and avoid paying any VAT at all.” RAVAS and VATFraud believe this situation could worsen when the UK leaves the EU. They point out that “If the UK leaves the VAT area, then all goods sent from the EU to the UK will be treated as imports from outside the EU. LVCR, import VAT and import duty will be applicable to all packages entering the UK.” Please could you provide the Committee with information on the scale of this problem, how HMRC is tackling it now and how it is preparing to any handle any risks once the UK leaves the EU.

Differences in VAT processes between the UK and other EU countries
A separate submission from RAVAS and VATFraud, entitled “UK German and French VAT Number Registration info Chinese Article”, suggests that the UK has a less rigorous VAT process than some other EU countries and could be interpreted as an easier route for those business looking to sell in Europe but avoid VAT. Please could you outline why HMRC does not require businesses to supply the greater level of details that are required by France and Germany.

I would be grateful for a reply by 22 June 2018.

We will publish this letter on the Committee’s website, and I am copying it to the Comptroller and Auditor General and the Treasury Officer of Accounts.

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS