



HM Revenue  
& Customs

# Alternative method of VAT collection – split payment

## **Consultation document**

Publication date: 13 March 2018

Closing date for comments: 29 June 2018

# Contents

1	Introduction	4
2	How split payment could work	6
3	Amount to be split	10
4	Other key considerations	14
5	Development and implementation	17
6	Summary of consultation questions	18
7	The consultation process: how to respond	19
Annex A	Diagrams of the possible split payment model	21

**On request, this document can be produced in Welsh and alternate formats including large print, audio and Braille.**

# Foreword

As the global and UK economy evolves, it is important that the tax system moves with it so that markets work effectively and vital public services can be funded sustainably.

We will ensure our tax system does that by:

- supporting businesses to take advantage of new technologies and maintaining the UK's position as one of the best places in the world to set up and grow a business
- ensuring that our tax framework is fit for purpose for the digital age and that it adapts to both the challenges and opportunities of this new economy
- working internationally to create a global tax framework for the digital economy

The result will be a system that ensures businesses and individuals contribute their fair share to our public services but also creates a level playing field and enterprise-friendly environment in which those businesses and individuals can thrive.

Over the past two decades, the UK has seen the benefits of technological innovation. The digital economy provides UK consumers with access to an unprecedented variety of goods and services, many of which can be purchased from sellers across the world with a simple click or tap of a button. It has also provided significant new opportunities for small- and medium-sized UK businesses to win customers worldwide in markets previously inaccessible to all but large corporations. This expansion is welcome and is to be encouraged.

However, the expansion of e-commerce has posed a significant challenge to the UK VAT system. Certain businesses fail to charge VAT when they are supposed to on sales of goods to UK consumers. This non-compliance not only deprives the Exchequer of monies needed to fund public services (estimated at £1-1.5 billion in 2015-16) but also undercuts the honest majority of businesses.

This government has taken swift action to address the issue, leading the way internationally. The UK was the first country to introduce joint and several liability rules to hold online marketplaces responsible for the unpaid VAT of sellers on their platforms. Measures announced at Budget 2016 and Autumn Budget 2017 are together expected to secure just under £1 billion by 2023.

But the government wants to go further in combatting online VAT fraud, by harnessing new technology. So today we are launching a consultation on VAT split payment. This will utilise payments industry technology to collect VAT on online sales and transfer it directly to HMRC. This would significantly reduce the challenge of enforcing online seller compliance and offer a simplification for businesses.

# 1. Introduction

## Background

- 1.1 There has been a large increase in online shopping in recent years, with many goods sold to UK consumers by overseas sellers using online marketplaces. Internet sales in the month before Christmas 2017 alone were nearly 10% higher than the same month a year before<sup>1</sup>. To satisfy consumer demand for rapid delivery, overseas sellers now routinely store their goods in the UK.
- 1.2 Businesses that are VAT-registered (or that are required to be) must charge VAT on relevant sales to their customers. The businesses collect this VAT and remit it to HM Revenue & Customs (HMRC) at regular intervals, usually quarterly.
- 1.3 When goods are in the UK at the point of sale, overseas sellers must register for VAT regardless of their turnover. Many such sellers may not be registered, or if they are they do not necessarily collect the right amount of VAT. The government is working to ensure a level playing field, by removing any unfair advantage overseas businesses may have over UK businesses.
- 1.4 The growth in online shopping has resulted in significant losses of VAT. It is estimated that between £1 billion and £1.5 billion was lost in 2015-16.

## Actions taken so far

- 1.5 The government introduced packages of measures at both Budget 2016 and Autumn Budget 2017 to tackle the issue of overseas businesses selling goods to UK consumers without paying the correct UK VAT, and already these measures are producing encouraging results. In addition, in March 2017, HMRC published a call for evidence<sup>2</sup>, seeking views on the feasibility of a 'split payment' collection method for VAT as a further step in preventing this type of non-compliance.
- 1.6 The call for evidence primarily focused on how technology within the payments industry could be used to extract VAT in real time and deposit it with HMRC, thus reducing the opportunity for non-payment of the VAT by the overseas merchant. It also set out proposed design principles, and asked what challenges split payment might impose and how these might be overcome.
- 1.7 The majority of responses were positive, whilst acknowledging there are challenges. The overall view was that split payment is technologically possible.

---

<sup>1</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/retailsalesindexinternetsales>

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/601027/Alternative\\_method\\_of\\_VAT\\_collection\\_-\\_Call\\_for\\_evidence.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/601027/Alternative_method_of_VAT_collection_-_Call_for_evidence.pdf)

The Chancellor announced the government's response at Autumn Budget 2017, and HMRC published a summary of responses<sup>3</sup> in December 2017.

- 1.8 In addition to the call for evidence, HMRC has held one-to-one meetings with a number of stakeholders, including banks, technology companies, and representative bodies of the payments industry, to discuss ideas in more detail. These workshops will continue throughout this consultation period.

### **This consultation**

- 1.9 The government is grateful for all the engagement from stakeholders so far. It has carefully considered all feedback, and HMRC has used this to develop its thinking of how a split payment mechanism could work.
- 1.10 The government remains of the view that a feasible split payment mechanism for VAT, which would allow VAT to be extracted from online payments in real time, would help to reduce the VAT gap<sup>4</sup>. Through this consultation, the government is asking for views on potential options for a split payment mechanism whilst also further assessing the overall viability of split payment by seeking the views of a wider range of stakeholders.
- 1.11 This consultation sets out the government's emerging thoughts, based on the engagement with stakeholders so far. It sets out how it thinks the potential mechanism could work, how it could be enforced, and considers a number of options for how the VAT could be accounted for.
- 1.12 HMRC will be running a series of collaborative workshops to test emerging views over the spring and summer and invites all those with an interest to get in contact to make arrangements.

---

<sup>3</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/663989/Alternative\\_method\\_of\\_VAT\\_collection\\_-\\_summary\\_of\\_responses.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/663989/Alternative_method_of_VAT_collection_-_summary_of_responses.pdf)

<sup>4</sup> The VAT gap is the difference between the amount of VAT that should theoretically be collected by HMRC and what is actually collected.

## 2. How split payment could work

### Where should the split take place?

- 2.1 In any online payment, a number of different parties are involved. These may include some or all of the following: the issuing (customer's) bank, a merchant acquirer, a payment service provider (PSP), a card scheme, and the merchant's bank.
- 2.2 One of the key considerations for taking this work forward, and a key objective for this consultation, is to identify which party is best placed to perform the split of the VAT from the gross payment. One of the design principles from the call for evidence was the need for clarity on this point.
- 2.3 One of the factors that enables the non-payment of VAT by overseas sellers is that they are outside the UK's jurisdiction, making enforcement by HMRC difficult. It is therefore important that the party responsible for performing the split is either within the UK's jurisdiction, or that there is another way to enforce compliance with the split payment mechanism.
- 2.4 Another factor to consider is how much information each party holds about the transactions flowing through their systems. In particular, it is important to know both that the supplier is overseas and that the customer is in the UK. The government's understanding from the responses received is that the merchant acquirer is the only party that acquires both of these pieces of data<sup>5</sup>.
- 2.5 Additionally, the merchant acquirer is better placed to obtain information regarding the VAT liability of the transaction, as it has a contractual relationship with the merchant. This is discussed in greater detail in section 3 below.
- 2.6 The government's emerging conclusion, based on the engagement it has had so far, is that the merchant acquirer is likely to be the best party to effect the split.

**Question:** Do you agree that the merchant acquirer is the best placed party to effect the split of VAT from the gross payment? If not, who do you think would be best placed and why?

### Fall-back options

- 2.7 The government has also considered fall-back positions in cases where it may be necessary to deviate from this principle – for example if the merchant acquirer is not in the UK and does not meet the criteria for effecting the split, or does not make the split. The government has considered two potential safeguards.

---

<sup>5</sup> An acquirer will certainly know the location of the merchant, its client. It also knows the country in which the payment card was issued, which for the vast majority of UK consumers will be the UK.

2.8 Firstly, HMRC believes the card schemes could play a role in ensuring merchant acquirers adhere to the requirements of the split payment mechanism. Secondly, HMRC could require the card issuer to effect the split when it cannot be known for certain if the merchant acquirers or PSPs will do so. In the majority<sup>6</sup> of cases, the government's understanding is that the card issuer will be based in the UK and so within the UK's jurisdiction.

### How could the process work in detail?

2.9 The government has considered how a split payment mechanism could work and sets out below the various steps that could be undertaken to allow VAT to be extracted from overseas sellers. The developing thinking, based on the engagement so far, is that there could be three potential stages to the split payment mechanism. For the purposes of this consultation, and to provide some clarity, they are referred to as the 'setup stage', the 'transaction stage', and the 'reconciliation stage' in this document.

2.10 In the setup stage, HMRC could create a list of fit and proper acquirers and PSPs that are known or are trusted to comply with the rules. This could be maintained and updated on a regular basis. Acquirers or PSPs whose clients intend to do business in the UK could apply to be included on the register. This register could then be available for all UK banks and card issuers to look up.

2.11 In the transaction stage, each time the card issuer receives a payment authorisation request, it would first look up the acquirer or PSP on the register. If the transaction is received from an acquirer or PSP not on that list, then the responsibility for making the split defaults to the card issuer. In this case, the issuer could make the split by retaining 1/6<sup>th</sup> of the payment amount<sup>7</sup> and remit this to HMRC. This could be an automated process.

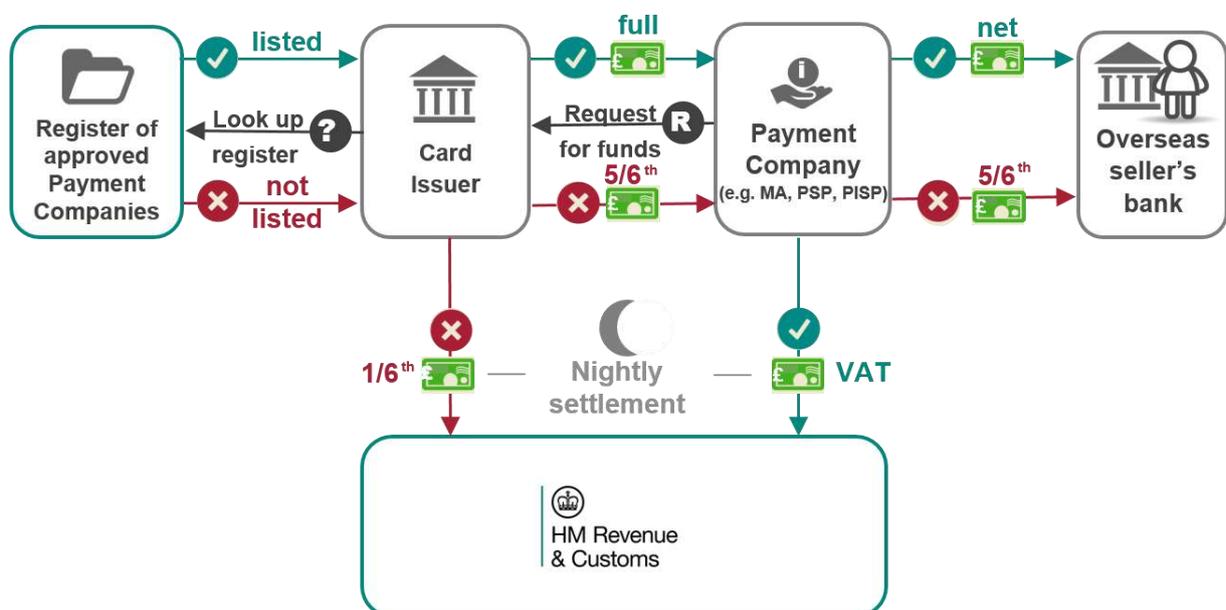
2.12 If the acquirer or PSP is on the register of approved parties, the card issuer could release the full amount of the transaction. At this point it would be expected that the acquirer or PSP would then split the appropriate amount of VAT and remit it to HMRC periodically, potentially on a daily basis in line with usual settlement periods. Depending on the options outlined in section 3 below, this could be less than 1/6<sup>th</sup> if, for example, not all the goods are liable to VAT at the standard rate. The remainder of the payment (minus any fees) would be passed to the merchant as normal. If the card issuer default has been triggered and VAT already extracted, the un-approved acquirer or PSP would simply pass the full amount of the remaining sum (minus its own fees) to the merchant.

---

<sup>6</sup> This assumes that most UK consumers will use a card issued in the UK, rather than overseas, when making purchases online. Also, it assumes that most overseas consumers will not be using cards issued in the UK, but rather cards issued in their own country. Therefore, the location of the card issuer acts as a reliable and accurate proxy for the location of the consumer in most cases.

<sup>7</sup> 1/6<sup>th</sup> relates to the VAT element of a transaction, assuming the entire supply is liable to VAT at the standard rate of 20%. For example, if the price is £100 plus £20 VAT, the VAT element of the total is £20/£120 = 1/6.

- 2.13 The inclusion of the banks in this process provides a fall-back in the event that the acquirer or PSP is non-compliant. In an ideal scenario the banks would not need to effect the split as they could trust this would be done by a different party in the chain. However, HMRC considers that including them in the process acts as an important safeguard that could act as a deterrent and potentially remove any incentive for a merchant and their acquirer or PSP to attempt to circumvent the split payment mechanism.
- 2.14 Additionally, the inclusion of the customer's bank in the mechanism allows for the split to be effected even if there is no other intermediary involved.
- 2.15 The government anticipates that compliance by the acquirers and PSPs could be enforced by the card schemes. Schemes issue licences to acquirers authorising them to operate, and an acquirer's licence may be revoked if it does not adhere to any regulatory requirements. It may be possible to build in adherence to the split payment rules into this process. If this process worked effectively, it could potentially mean that an acquirer that failed to effect the split would be unable to operate in the UK.
- 2.16 In the reconciliation stage, HMRC would credit the merchant's VAT account with the amount received from either the acquirer or PSP, or, as applicable, the card issuer. The merchant would be responsible for informing HMRC of any errors.
- 2.17 A diagram of this potential process can be found below, and in annex A.



**Question:** Do you think the government's emerging thinking on a mechanism for split payment is workable? If not, how would you improve it?

**Question:** Do you think the use of the card issuer as a fall-back option would provide an effective safeguard for the mechanism by creating sufficient

**incentive to encourage merchant acquirers or PSPs to register with the scheme?**

### **Online Marketplaces**

- 2.18 A number of respondents to the call for evidence commented that they did not necessarily believe a 'one-size-fits-all' approach could work, and advocated different options for different scenarios. Others felt that HMRC should aim to keep the solution as simple and as streamlined as possible.
- 2.19 With this in mind, the government believes that the mechanism outlined above could be adapted slightly if the seller uses an online marketplace.
- 2.20 When a marketplace is involved it is more closely associated with the transaction and usually holds sufficient information to be able to identify the actual VAT liability of the goods. The government is aware that online marketplaces operate in different ways and have different business models, and wants to explore whether it would make sense for the online marketplace to effect the split for transactions that go through their marketplaces. For non-marketplace transactions, the process would be as outlined above. Card issuers and acquirers would need to know which transactions are taking place via an online marketplace and which are not.

**Question:** Do you think that marketplaces, when they are involved in a sale, could have a role to play in effecting the split?

## 3. Amount to be split

- 3.1 In exploring potential split payment models for overseas sellers, the government has given much consideration to how much VAT should be split from each transaction. Many respondents to the call for evidence stressed the need for clarity on this crucial point.
- 3.2 In several other countries that operate some form of tax withholding, only a small amount of the tax is withheld at the point of sale, and the merchant is responsible for declaring the remainder to the tax authority.
- 3.3 Some stakeholders have suggested the UK could do the same. Doing so would only guarantee the collection of a small percentage of the tax due, but would serve to quantify the total amount due, and from whom, thus theoretically making it easier to collect the remainder.
- 3.4 HMRC takes the view that withholding only a smaller amount of the tax does not address the fundamental problem, as it still provides non-compliant overseas businesses outside the UK's jurisdiction the opportunity of not paying the correct amount of tax.
- 3.5 Instead, HMRC has developed 3 potential options for collecting as close to the full amount of VAT as possible, although it recognises that it will always be necessary to allow for adjustments to be made.
- 3.6 Many respondents said that, in general, the parties in the payment chain do not know the VAT liability of the goods being sold, and even if one party did, sharing that information between parties would be difficult.
- 3.7 Using current messaging standards HMRC understands it may be possible for the merchant to provide the acquirer or PSP with enough detail to determine the actual VAT liability. In this case, the acquirer or PSP could split the exact VAT amount.
- 3.8 However, this may not be possible in all cases, and even if it were it relies entirely on the merchant being compliant. Although the government agrees with the many respondents that said that ensuring the correct amount of VAT is paid will always involve some degree of human involvement by the seller, HMRC feels that this option is too reliant on the overseas business, and an alternative method would be more suitable.
- 3.9 The options described below do not rely on any party in the payment chain knowing the actual VAT liability of any single transaction. This should make the process less burdensome for all parties involved in processing payments.

## Option 1- standard rate split

- 3.10 Option 1 involves assuming every transaction is liable to UK VAT at the standard rate, currently 20%. This is the easiest option for the party performing the split, as the amount of each transaction to be withheld is always the same.
- 3.11 This option does not take into account any input tax<sup>8</sup> an overseas business may incur. It is unlikely overseas businesses will incur large amounts of UK input tax but they will nevertheless wish to deduct the small amount they do. As the output tax<sup>9</sup> will already have been paid, every time they submit a return they will be due a repayment from HMRC.
- 3.12 For overseas businesses that do not sell exclusively standard rated goods this option would work less well. Although it could be argued that businesses in this situation would be no worse off than many UK businesses that sell predominantly zero- or reduced-rated goods, and who incur substantial amounts of input tax which is refunded to them by HMRC at the end of each VAT period, the government thinks it is likely that online businesses that sell goods with different VAT rates would not see this option as being fair and proportionate.
- 3.13 One advantage of this option is that it encourages overseas businesses to register for VAT (as they are currently legally required to do). The only way an overseas seller can ensure it pays the correct amount of VAT is to make accurate declarations on its VAT return; failure to do so results in them paying more to HMRC.

## Option 2 – Flat Rate Scheme

- 3.14 The existing Flat Rate Scheme<sup>10</sup> provides a simplification to small businesses, allowing them to apply a flat rate to all their sales.
- 3.15 A number of different rates exist, and each business choosing to use the scheme is responsible for applying the rate most appropriate to their industry. The rates are calculated based on the average input tax claims within different industries, and act as a proxy for the actual amount of VAT due. They are reviewed periodically by HMRC.
- 3.16 Option 2 involves mandating overseas sellers to use the flat rate scheme, using one of a small number of new flat rates for this purpose. This could also include businesses over the current maximum threshold for eligibility for the existing scheme.

---

<sup>8</sup> ‘Input tax’ is the VAT a business incurs on any purchases it makes, and can usually be deducted from the total amount due to HMRC.

<sup>9</sup> ‘Output tax’ is the VAT a business charges to its customers on every sale it makes, and is later paid to HMRC, after deducting any input tax.

<sup>10</sup> <https://www.gov.uk/vat-flat-rate-scheme>

- 3.17 This option retains simplicity for the party effecting the split, whilst also being more proportionate as it does not withhold in the first instance more tax than is due.
- 3.18 Further, by removing the ability or need to reclaim input tax this option could simplify the process for overseas businesses, and decreases the risk of repayment fraud for HMRC, which could otherwise be an unintended consequence of option 1.
- 3.19 However, this option may not result in a completely level playing field. Any individual business with input tax higher than average for its sector would pay slightly less tax under a flat rate than if it accounted for VAT in the usual manner. This means they may retain an unfair competitive advantage over UK businesses with a turnover above the eligibility threshold and which are therefore ineligible for the scheme.

### **Option 3 – net effective rate**

- 3.20 Option 3 builds on option 2, but does not form part of the existing flat rate scheme. Instead the flat, or 'net effective', rate is specific to each individual overseas business, rather than an average across particular sectors.
- 3.21 It is similar to other existing accounting options, such as annual accounting, whereby a business pays in advance instalments an estimate of the total VAT due in that year, then makes one return at the end of the year to reconcile the actual amount. The estimate is based on the final amount owed in the previous year.
- 3.22 Under this option, each overseas business would be responsible for calculating its own rate by comparing its total output tax and input tax for the previous year, and communicating this to the party responsible for effecting the split, and to HMRC. At the end of the year, the business would submit a return to HMRC in the usual manner, and pay or be refunded any difference. The figures in the return would then be used to calculate the net effective rate for the following year.
- 3.23 The party effecting the split would then apply this rate to all that merchant's sales, and would only have to alter the amount it withheld once per year. This is particularly effective when the merchant acquirer or PSP effects the split, as described in section 2, due to the contractual relationship between two parties.
- 3.24 If the party effecting the split does not receive this information from the business, it would revert to option 1.
- 3.25 This option has the same advantage for HMRC as option 1, in that it is in a business' interest to register and provide accurate information, as that way it can ensure it does not pay more tax than it is obliged to. It also ensures, like option 2, that the party effecting the split is not concerned with the actual VAT liability of each individual transaction.

## Summary of options

3.26 The government's emerging thinking is that option 3 is probably the most suitable and the one to focus on going forward. One of the original design principles, which many respondents agreed with, was that any split payment mechanism should be fair and proportionate, and the government believes this option best meets that test. Combined with the built-in incentive to comply, this option appears to be the most effective.

**Question:** Do you agree with the government's assessment of these options for determining how much should be split from the gross payment?

**Question:** Are there any other options you would suggest to further simplify the process of calculating the amount to be split?

## 4. Other key considerations

### Scope of split payment mechanism

- 4.1 Some respondents to the call for evidence suggested that the government should not restrict split payment to overseas sellers, but that it should be extended to cover all online sales. Others suggested it should also cover offline sales in the UK.
- 4.2 Two main reasons were given for this. Firstly, some felt that introducing split payment for domestic transactions poses fewer challenges than doing so for online transactions. They argued that if the government intended to introduce split payment in the more complex case, it would make sense to also do so for the simpler case.
- 4.3 Secondly, several payment operators cited the potential costs to them of developing the technology required to implement split payment, and said it would be more cost efficient to operate split payment in all cases, rather than having to operate two separate systems in parallel.
- 4.4 The context for exploring the viability of split payment in the UK is to help tackle non-compliance by overseas businesses selling goods online to UK consumers. Nevertheless, the mechanism HMRC are consulting on in this document has been designed in such a way that it could be adapted to have broader application in the future if necessary. The government is of the opinion that it is sensible to have a view to the longer term when considering innovative reform ideas such as this.

**Question:** Do you think the scope of split payment should be limited to overseas sellers, or should HMRC expand the scope to include online UK businesses?

### Future-proofing

- 4.5 Many respondents emphasised the importance of ensuring any proposal developed by HMRC now is not made obsolete by future developments in the payment industry.
- 4.6 One of the aims of the European Second Payment Services Directive<sup>11</sup> (PSD2), transposed into UK law on 13 January 2018 by SI2017/751 The Payment Services Regulations 2017, is to make it easier for new businesses to enter the payments market.
- 4.7 In particular, it is expected to increase the prevalence of payment initiation service providers (PISPs), allowing the customer to initiate a payment directly, rather than via their bank. Any model designed now would therefore need to ensure that innovative financial products brought to market by PISPs are

---

<sup>11</sup> [https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366\\_en](https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366_en)

treated in the same manner as, for example, the card issuer from the perspective of legal obligation to participate in the split payment process.

- 4.8 One of the design principles, which was almost unanimously agreed with, was that the party responsible for performing the split should be defined in legislation.
- 4.9 The government believes the legislation could be drafted to make it clear that wherever an entity is responsible for passing the money for a sale either to the merchant or to an unapproved merchant acquirer or unapproved PSP, whether a card issuer, a PISP or other provider of electronic payment products to consumers, then that entity becomes the entity responsible for effecting the split. This way, any future developments in the payments industry should be captured.
- 4.10 The government also recognises the emergence and rapid development of other technologies (such as blockchain or distributed ledger technology), which could be used to not only increase compliance and reduce errors but also improve the administration of the UK VAT system, and believes any future use of this technology should be able to complement any split payment mechanism.

**Question: What changes do you anticipate as a result of PSD2? Will the existing parties, such as merchant acquirers, PSPs, or PISPs, continue to have a role to play in the future?**

### Errors and other adjustments

- 4.11 A number of respondents to the call for evidence suggested that one of the design principles should be that the merchant retains ultimate responsibility for ensuring the correct amount of VAT is paid. Parties within the payments industry do not want to be held accountable for errors caused by the sellers refusing to engage in the process.
- 4.12 Currently, each VAT-registered business (and those that are required to be registered) is responsible for ensuring it pays the correct amount of tax, by submitting regular returns to HMRC declaring the amount they owe, and paying that amount.
- 4.13 HMRC does not intend for the introduction of split payment to replace or remove this requirement. The only difference will be that the payments to HMRC will in effect already have been made when the VAT return is submitted.
- 4.14 Compliant businesses already make any necessary adjustments to previous returns by accounting for them on the next. There are a number of reasons why this might be necessary. For example, goods originally intended to be exported may be sold with zero VAT, but if the goods are not actually removed from the UK, VAT at the usual rate becomes due later. Or a business may have already paid VAT charged to a customer to HMRC, but if that customer should subsequently fail to pay, the business is entitled to reclaim the VAT amount from HMRC.

4.15 In the same way, it is anticipated that businesses subject to the split payment mechanism would still be responsible for making adjustments as required. This would include both correcting any errors where the split may have been performed incorrectly, and also making adjustments inherent to the designs of the options described in section 3 (such as for input tax in the case of option 1, or to the net effective rate in the case of option 3).

## Refunds

4.16 The issue of how refunds from the seller to the customer should be handled has been a common concern among many stakeholders. Specifically, the question of who should refund the VAT element of the price the customer paid.

4.17 In normal circumstances, the business would refund the full amount including the VAT element. When the refund occurs in the same VAT period as the original sale (and so has not yet been included on a return and the VAT has not yet been paid to HMRC) this does not cause any problems.

4.18 The problem that any business subject to a split mechanism would face is that, having never received the VAT element in the first place, refunding the full amount negatively impacts its cash flow until it can make an adjustment on the next VAT return.

4.19 One possibility to resolve this could be to make use of the current settlement process, which takes place daily. This would allow any refunds to be reconciled with each day's sales during each settlement period.

4.20 In this way, the government hopes that consumers' rights will be unaffected and the ease and speed with which refunds can be given will not reduce.

**Question:** Do you agree with the government's thinking regarding how errors, adjustments, and refunds could be handled? Do you think there are better ways of resolving these issues?

## 5. Development and implementation

### Technological development

- 5.1 The government is aware that businesses in the payment cycle will need to make changes to their systems.
- 5.2 HMRC is committed to taking account of business costs and implementation issues in taking this forward.
- 5.3 The government is also aware that the various parties in the payment industry will need time to design and build these systems. The engagement with stakeholders so far suggests this could be between 3 and 5 years.

**Question:** If you or your organisation is involved in the development of new payment technology, how long would you estimate it would take to create a system capable of implementing any of the proposals in this consultation? How much do you think it would cost?

**Question:** Is there anything else the government can do to enable the implementation of split payment?

### European Union law

- 5.4 PSD2 stipulates that the full amount of a payment made by a consumer must be transferred to the recipient by a payment provider. Therefore, under existing EU law, it may not be possible to implement a split payment mechanism as is proposed in this consultation. However, the EU is also looking at split payment as a possible VAT reform for the future.
- 5.5 The UK's withdrawal from the EU may also allow the UK to develop a split payment model without being bound by the constraints of EU VAT law, and the government will take this into account in its continuing development of these proposals.

## 6. Summary of consultation questions

1. Do you agree that the merchant acquirer is the best placed party to effect the split of VAT from the gross payment? If not, who do you think would be best placed and why?
2. Do you think the government's emerging thinking on a mechanism for split payment is workable? If not, how would you improve it?
3. Do you think the use of the card issuer as a fall-back option would provide an effective safeguard for the mechanism by creating sufficient incentive to encourage merchant acquirers or PSPs to register with the scheme?
4. Do you think that marketplaces, when they are involved in a sale, could have a role to play in effecting the split?
5. Do you agree with the government's assessment of these options for determining how much should be split from the gross payment?
6. Are there any other options you would suggest to further simplify the process of calculating the amount to be split?
7. Do you think the scope of split payment should be limited to overseas sellers, or should HMRC expand the scope to include online UK businesses?
8. What changes do you anticipate as a result of PSD2? Will the existing parties, such as merchant acquirers, PSPs, or PISPs, continue to have a role to play in the future?
9. Do you agree with the government's thinking regarding how errors, adjustments, and refunds could be handled? Do you think there are better ways of resolving these issues?
10. If you or your organisation is involved in the development of new payment technology, how long would you estimate it would take to create a system capable of implementing any of the proposals in this consultation? How much do you think it would cost?
11. Is there anything else the government can do to enable the implementation of split payment?

Please feel free to include any other information you think is relevant in your response.

## 7. The consultation process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 1 of the process. The purpose of the consultation is to seek views on the policy design and any suitable possible alternatives, before consulting later on a specific proposal for reform.

### How to respond

A summary of the questions in this consultation is included at section 6.

Responses should be sent by 29 June, by email to:

[indirecttax.projectteam@hmrc.gsi.gov.uk](mailto:indirecttax.projectteam@hmrc.gsi.gov.uk)

or by post to:

Dympna Kelly  
HM Revenue & Customs  
Indirect Tax Project Team, Room 3/35  
100 Parliament Street  
London  
SW1A 2BQ

Telephone enquiries: Peter Rowe, 03000 530 933 (from a text phone prefix this number with 18001)

**Please do not send consultation responses to the Consultation Coordinator.**

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC's GOV.UK pages](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

## **Confidentiality**

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act, General Data Protection Regulation (GDPR) and the Environmental Information Regulations 2004

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue & Customs.

## **Consultation Privacy Notice**

This notice sets out how we will use your personal data, and your rights. It is made under Articles 13 and/or 14 of the General Data Protection Regulation (GDPR).

### **Your Data**

We will process the following personal data:

Name / email address / postal address / phone number / job title

### **Purpose**

The purpose(s) for which we are processing your personal data is:

Public consultation on: Alternative Method of VAT collection – Split Payment

### **Legal basis of processing**

The legal basis for processing your personal data is that the process is necessary for the exercise of a function of a Government Department.

### **Recipients**

Your personal data will be shared by us with HM Treasury.

### **Retention**

Your personal data will be kept by us for six years and will then be deleted.

## Your rights

You have the right to request information about how your personal data are processed, and to request a copy of that personal data.

You have the right to request that any inaccuracies in your personal data are rectified without delay.

You have the right to request that any incomplete personal data are completed, including by means of a supplementary statement.

You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.

You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

## Complaints

If you consider that your personal data has been misused or mishandled, you may make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office  
Wycliffe House  
Water Lane  
Wilmslow  
Cheshire  
SK9 5AF  
0303 123 1113  
casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

The data controller for your personal data is HM Revenue & Customs. The contact details for the data controller are:

HMRC  
100 Parliament Street  
Westminster  
London  
SW1A 2BQ

The contact details for the data controller's Data Protection Officer (DPO) are:

DPO HM Revenue & Customs  
9th Floor, 10 South Colonnade  
Canary Wharf  
London E14 4PU

## Consultation principles

This consultation is being run in accordance with the Government's Consultation Principles. It will run until Friday 29 June. To date we have held a number of meetings with stakeholders to discuss and further develop our proposals, and we will continue to hold such meetings throughout the consultation period. If you would like to be involved in such a meeting, please do contact us using the details provided above.

The Consultation Principles are available on the Cabinet Office website: <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

**Please do not send responses to the consultation to this address.**

# Annex A: diagrams of the possible split payment model

On the following pages there are four diagrams explaining how HMRC think split payment could work. These diagrams aim to show our emerging thinking as described in section 2 of this document.

The first is a reproduction of the diagram shown in paragraph 2.17, whilst the second expands on this by including a marketplace. The third and fourth show the individual steps each party would take in our potential model, and in what order.

It should be noted that the first two diagrams are not intending to show different models from the second two. Instead they are simply different visualisations of the same model.

Diagram 1, showing the two potential scenarios. In one, the payment company is on the register, and in the other it is not

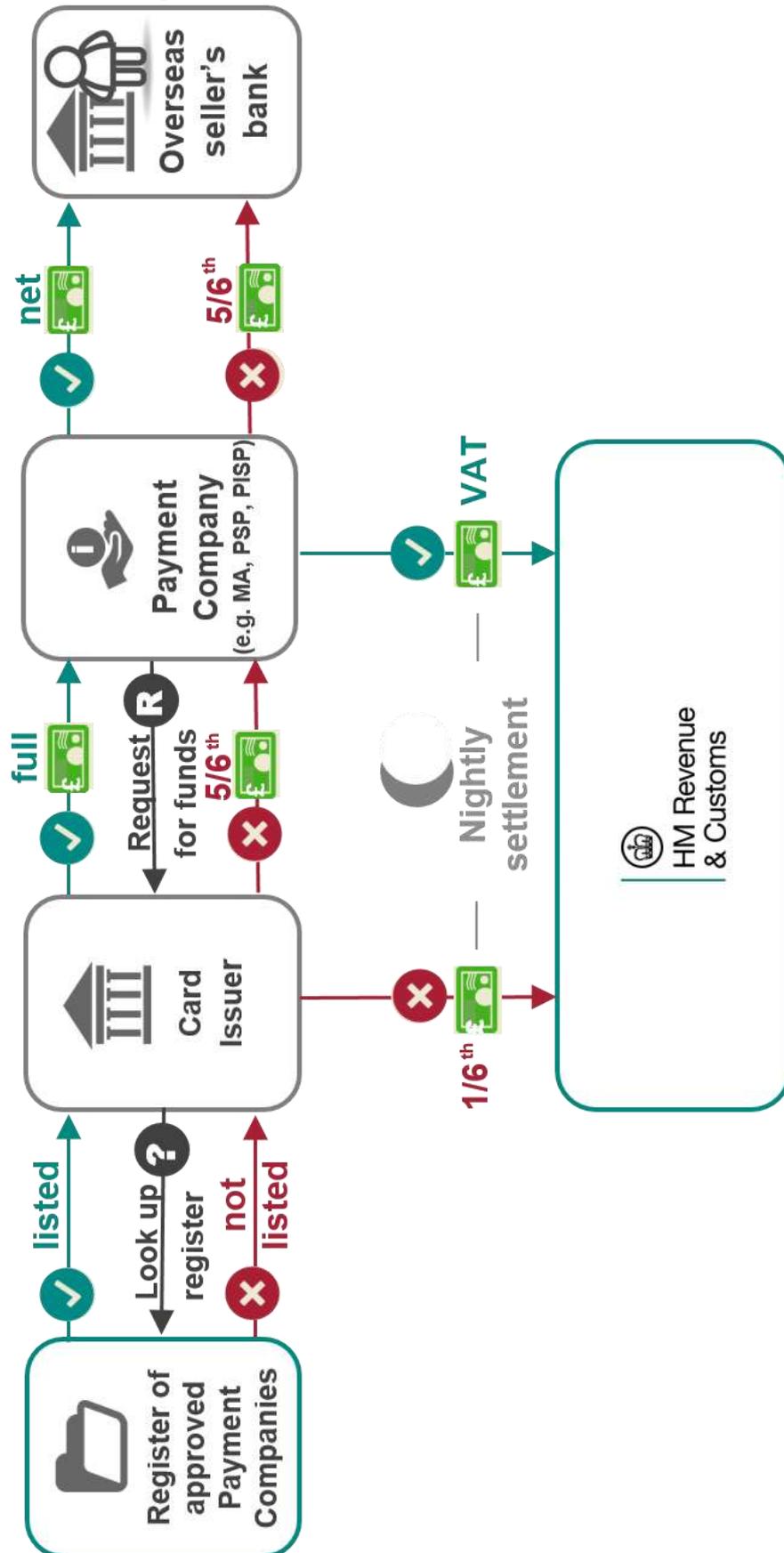


Diagram 2, adapting diagram 1 for circumstances when a marketplace is also involved

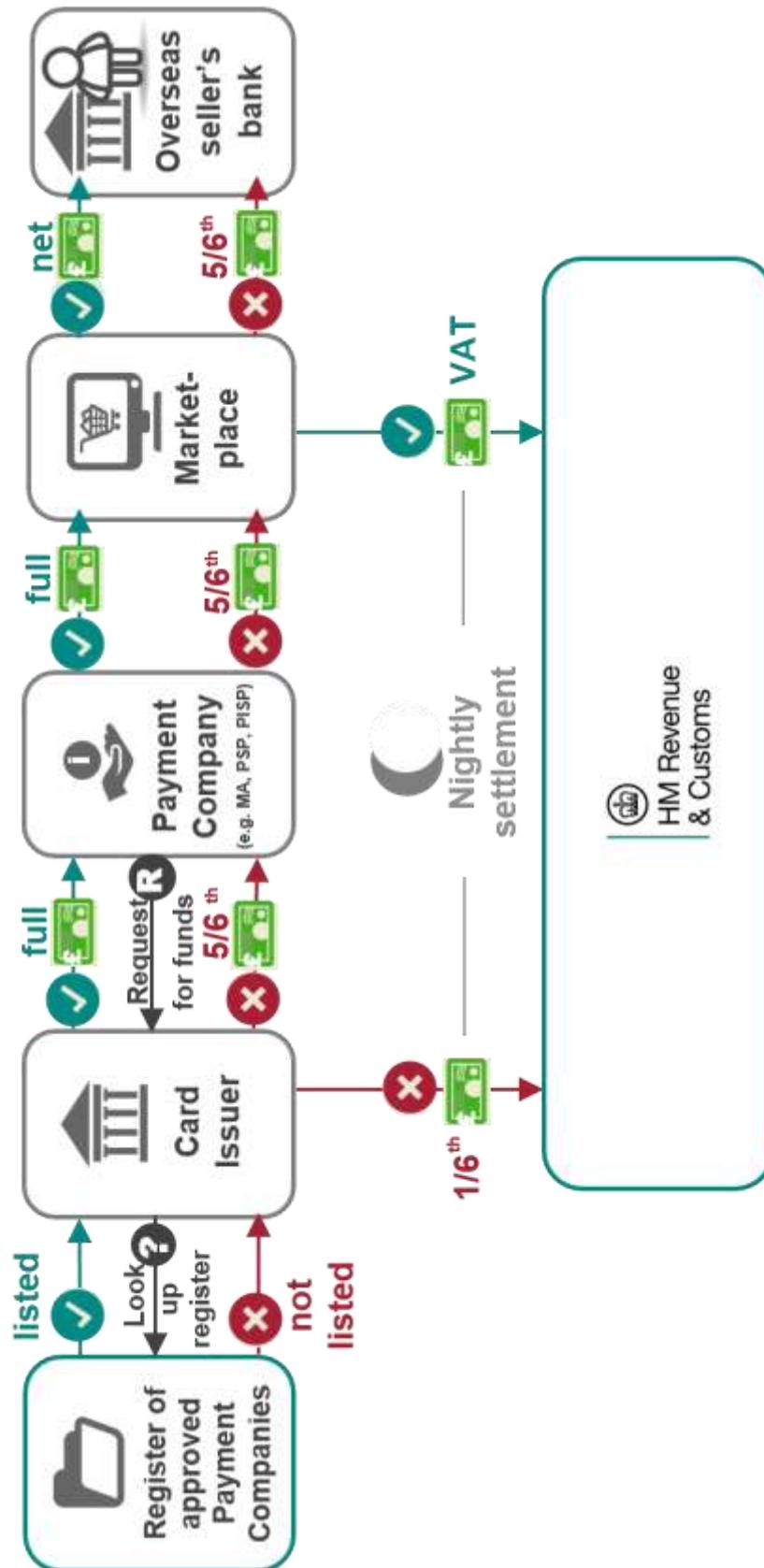


Diagram 3, showing step-by-step the actions each party would take

## Customer purchase | Online

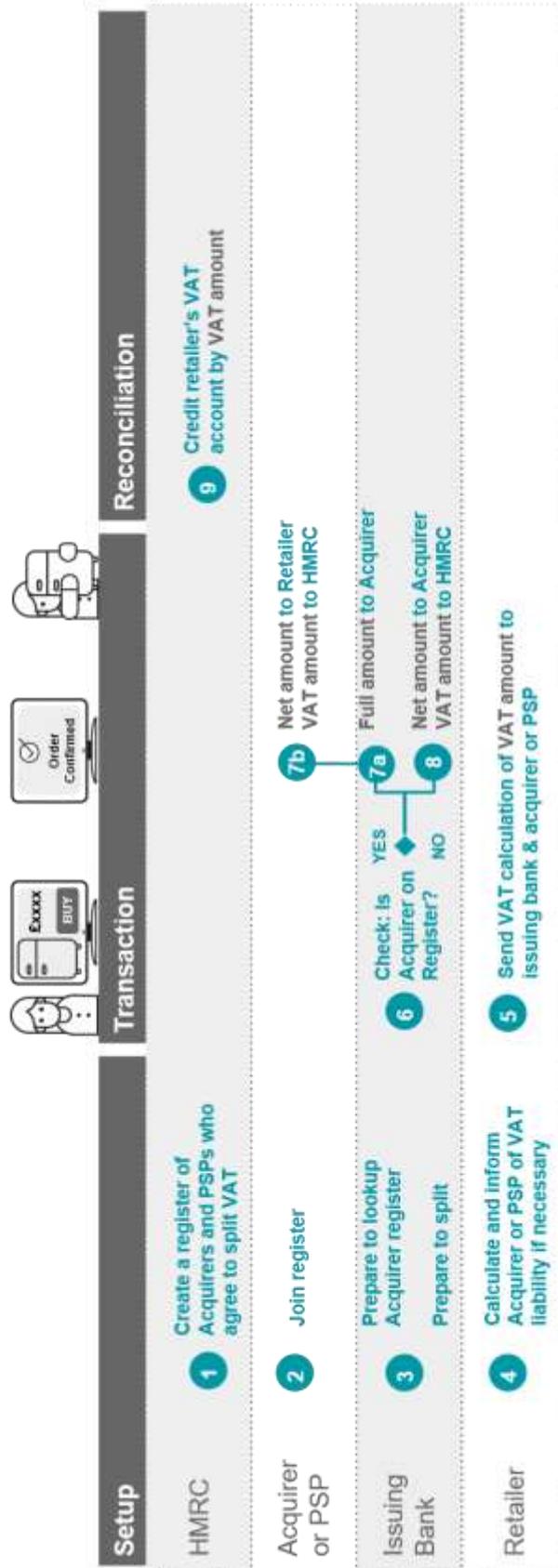


Diagram 4, adapting diagram 3 for circumstances when a marketplace is also involved

## Customer purchase | Online Marketplace

