

- VAT and sales taxes: the introduction of a sales tax (including an online sales tax) or an increase in the standard rate of VAT, which is already at 20%, would have significant impacts on consumers, inflation and the wider economy. Changes to VAT would apply UK wide, while any changes made to business rates would be in England only. The introduction of a sales tax would also need to be very carefully considered as EU law and international agreements prohibit the introduction of sales taxes that are too close in design to VAT, or that are distortive of trade.
- Green taxes: introducing new taxes on deliveries would require consideration of operational burdens on business, and the ability of HMRC and potential taxpayers to identify the new tax liability, especially given the wide range of goods that are delivered both from online and physical retailers. It is likely costs would feed through to consumers and detract from the benefits of deliveries. In addition, we would have to consider the overall incentives and impact on pollution and congestion. The Government has already launched a consultation on a new tax on the production and import of plastic packaging which does not contain at least 30% recycled plastic, from 2022. Together with the planned reform by Department for Environment, Food and Rural Affairs to the Packaging Producer Responsibility System, this will transform the economic incentives for businesses to use more sustainable packaging.

15. ***We recommend that the Government explores how an online sales tax could be designed, including undertaking the full legal and factual analysis needed, to ensure compliance with State Aid rules. Whatever tax solution is found, it is imperative that it is implemented at speed to provide fast relief to high street retailers. (Paragraph 77)***

Response:

As the Committee suggests, the potential merit and impacts of an online sales tax (OST) would have to be carefully considered. The main challenge is that the burden of an OST is likely to fall on the consumers of goods bought online. The appropriate scope of the tax, and consequential business impacts, are also highly uncertain.

It is not clear that an OST would be of benefit to high street retailers through significantly altering consumer behaviour, as in practice there is no clear distinction between bricks and mortar and online retailers. Notably, many physical retailers are increasing their offer of online services, including click and collect, an innovation the Government would not want to deter through tax, and which the report recognises as a benefit to high streets. A number of retailers giving evidence to the Committee also noted the detrimental impact of burdening their online activity with a new tax.

Most of the reforms suggested by the Committee go beyond the current business rates system. They would require significant time to consider, consult, legislate,