



HM Treasury

Treasury Minutes

Government response to the Committee of Public Accounts on the First report from Session 2017-19



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1st Report: Tackling online VAT fraud and error (HMRC)

Presented to Parliament by the Exchequer Secretary to the Treasury by
Command of Her Majesty

Cm 9549

December 2017

TREASURY MINUTES DATED 7 DECEMBER 2017 TO THE COMMITTEE OF PUBLIC
ACCOUNTS ON THE FIRST REPORT FROM SESSION 2017-19

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First Report of Session 2017-19

HM Revenue and Customs

Tackling online VAT fraud and error

Introduction from the Committee

Online sales attract VAT in the same way as goods bought in person. In 2016, 14.5% of all UK retail sales were online, up from 2% in 2006. Just over 50% of these sales were through online marketplaces rather than direct by the seller. Amazon and eBay are two of the best known online marketplaces but there are many others. The VAT rules require that all traders based outside the European Union (EU), selling goods online to customers in the UK, should charge VAT if their goods are already in the UK at the point of sale. But some are not doing so. HM Revenue and Customs is responsible for collecting and enforcing payment of VAT. It has estimated that online VAT fraud and error cost between £1 billion and £1.5 billion in lost tax revenue in 2015–16. This estimate is subject to a high level of uncertainty and HMRC does not have estimates of the amounts lost before 2015–16. The Committee of Public Accounts has raised concerns before; in 2013 and more recently in April 2016, when it reported on tax fraud more widely, highlighting how slow HMRC had been to respond to the growing risk of VAT fraud by online sellers.

Based on a report by the National Audit Office, the Committee took evidence, on 13 September 2017, from HM Revenue and Customs, Amazon, Ebay, RAVAS, and the University of Leeds on the issues of overseas sellers failing to charge VAT on online sales. The Committee published its report on 18 October 2017. This is the Government response to the Committee's report.

Background resources

- NAO report: *Investigation into overseas sellers failing to charge VAT on online sales* - Session 2016-17 (HC 1129)
- PAC report: *Tackling online VAT fraud and error* – Session 2017-19 (HC 312)

1: Committee of Public Accounts conclusion:

HMRC's estimate of the impact of online VAT fraud is out of date and flawed.

Recommendation:

HMRC should, by March 2018, produce an update of its estimate of the scale and impact of the online VAT fraud tax gap, incorporating new evidence and assessments of new risks where applicable. It should also consider the impacts on legitimate business and wider impact on the economy such as job losses when a business is struggling.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

1.2 Although the Department does not agree that its estimate of the impact of online VAT fraud is out of date and flawed, it will update its estimate of the VAT lost to the Exchequer from businesses selling goods online and not complying with UK VAT rules, incorporating any new evidence that is available. Separately, the Department will produce an analysis of the potential wider impacts drawing on economic data and theory.

2: Committee of Public Accounts conclusion:

HMRC has been slow to get to grips with the problem and is not yet doing enough to tackle it.

Recommendation:

HMRC should inject much more urgency to tackling the problem of online VAT fraud by making much stronger and more extensive use of its existing powers, especially third party liability; speeding up the introduction of new measures, such as the split payment method of collecting VAT; and exploring new measures. In particular, HMRC needs to focus on ensuring the marketplace platforms are liable for VAT evasion. One option would be for HMRC to require online marketplaces to withhold VAT when a sale is made and then pass it directly to HMRC.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

2.2 The Department is making more extensive use of the joint and several liability power introduced at Budget 2016 by increasing the compliance resource it is deploying on this activity, whilst also looking for ways to streamline the process to make it as efficient as possible.

2.3 At Autumn Budget 2017 the Government announced that legislation will be introduced in Finance Bill 2017-2018 to further strengthen the Department's powers for tackling online fraud and error. This extends the scope of the existing power to hold online marketplaces jointly and severally liable to cover any future VAT that a UK business selling goods via an online marketplace fails to account for; and any VAT that an overseas business selling goods via an online marketplace fails to account for where that online marketplace knew or should have known that the business should be registered for VAT in the UK. It also requires online marketplaces to ensure that VAT numbers displayed on their websites are valid. They will also be required to display a valid VAT number when they are provided with one.

2.4 Although not currently possible under European VAT law, the Department is continuing to develop a split payment model for the collection of online VAT sales, to a post Brexit timetable. The Department is also engaged in work internationally, including at the OECD and the EU, exploring the role of intermediaries in the collection of tax and developing options for alternative VAT collection mechanisms.

3: Committee of Public Accounts conclusion:

Online marketplaces and HMRC are not doing enough to work together to tackle the problem, and online marketplaces continue to earn their commissions and therefore profit from people who are defrauding the British taxpayer.

Recommendation:

HMRC should, by March 2018, put in place an agreement, applicable across the whole online marketplace, that sets out the collaborative working arrangements between HMRC and the online marketplaces, including details of co-operation, data sharing and expectations of a prompt response to evidence of non-compliance. This should include a requirement for all online marketplaces to ensure that a valid VAT number is showing for any non-EU trader selling goods to customers in the UK, where those goods are already in the UK. In the absence of a legal requirement to do so, the Committee would expect online marketplaces to implement this measure voluntarily.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

3.2 As announced at Autumn Budget 2017, the Government will publish a call for evidence in spring 2018 on what more digital platforms should do to ensure their users are compliant with the tax rules. The Department will develop a document that sets out its expectations of online marketplaces in this area, including collaborative working arrangements, exchanges of data and timeliness of responses to evidence of non-compliance. The Department will discuss this with, and make it available to, all online marketplaces used by UK consumers, with the expectation that the marketplaces will agree to its contents. The Government wants to build on this approach across other tax regimes, and expects digital platforms to play a role in ensuring that their users pay the tax they owe.

3.3 At Autumn Budget 2017, the Government also announced that legislation will be introduced in Finance Bill 2017-18 to require online marketplaces to display a valid VAT number for UK and non-UK online businesses using their website when they are provided with one.

4: Committee of Public Accounts conclusions:

It is not clear how HMRC will assess the effectiveness of its new powers in reducing the level of online VAT fraud or whether it will clawback VAT unpaid in previous years from newly registered traders.

Recommendation:

HMRC should assess the effectiveness of its response to the problem of online VAT fraud and report to the Committee by March 2018, including setting targets, short and long term, for reducing the amount of VAT lost through non-compliant online sales; and telling the Committee how much it has collected from newly registered traders, including amounts of unpaid VAT from previous years.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

4.2 The Department will report back to the Committee by March 2018 with updated performance results about the impact it is having in tackling the issue, including amounts collected from newly registered traders. As part of this assessment, the Department will put in place a plan setting out the type of activity it is undertaking to tackle this problem and the expected outcomes.

5: Committee of Public Accounts conclusion:

HMRC does not know how many fulfilment houses are in the UK and is therefore unable to systematically target the most blatant route for online VAT tax evasion.

Recommendation:

HMRC should, as a pre-requisite to the implementation of the Fulfilment House Due Diligence Scheme, undertake a definitive assessment of the scale of the fulfilment house industry, and how it intends the process of registration for the scheme to work efficiently and effectively.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

5.2 The Department has a high level of confidence in the minimum fulfilment house population of 500. In addition, the Department is continuing to analyse data held on a further potential 2500 fulfilment houses to provide a definitive assessment of the scale of the fulfilment industry (handling goods for overseas sellers) prior to implementation of the scheme. The Department already asks overseas online sellers which fulfilment houses they use as part of its compliance work and is widening this approach to all known overseas sellers where possible. The Department is also developing a broader implementation and communications plan to ensure that the Fulfilment House Due Diligence Scheme application process, opening in April 2018, operates effectively.

6: Committee of Public Accounts conclusion:

Online VAT tax evasion is already a complicated issue, and we are concerned about HMRC's ability to deal with new challenges to the problem which may be posed by the UK's exit from the EU.

Recommendation:

The Committee intends to regularly monitor HMRC's progress in preparing for the UK exiting the EU and expects HMRC to be in a position to update us at future appearances.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Department notes the Committee's intention to monitor its progress in preparing for the UK exiting the EU and will be able to provide updates at future appearances, as it has done over a series of recent hearings.

Treasury Minutes 2015-20¹

Treasury Minutes are the Government's response to reports from the Committee of Public Accounts. Treasury Minutes are Command Papers laid in Parliament.

Session 2017-19

Committee Recommendations: 6
 Recommendations agreed: 6 (100%)
 Recommendations disagreed: 0 (0%)

Publication Date	PAC Reports	Ref Number
December 2017	Government response to PAC report 1	Cm 9549
January 2018	Government responses to PAC reports 2 and 3	Cm
February 2018	Government responses to PAC reports	

Session 2016-17

Committee Recommendations: 393
 Recommendations agreed: 356 (91%)
 Recommendations disagreed: 37 (9%)

Publication Date	PAC Reports	Ref Number
November 2016	Government responses to PAC reports 1 to 13	Cm 9351
December 2016	Government responses to PAC reports 14 to 21	Cm 9389
February 2017	Government responses to PAC reports 22-25 and 28	Cm 9413
March 2017	Government responses to PAC reports 26-27 and 29-34 ²	Cm 9429
March 2017	Government responses to PAC reports 35-41	Cm 9433
October 2017	Government responses to PAC reports 42-44 and 46-64	Cm 9505

Session 2015-16

Committee Recommendations: 262
 Recommendations agreed: 225 (86%)
 Recommendations disagreed: 37 (14%)

Publication Date	PAC Reports	Ref Number
December 2015	Government responses to PAC reports 1 to 3	Cm 9170
January 2016	Government responses to PAC reports 4 to 8	Cm 9190
March 2016	Government responses to PAC reports 9 to 14	Cm 9220
March 2016	Government responses to PAC reports 15-20	Cm 9237
April 2016	Government responses to PAC reports 21-26	Cm 9260
May 2016	Government responses to PAC reports 27-33	Cm 9270
July 2016	Government responses to PAC reports 34-36; 38; and 40-42	Cm 9323
November 2016	Government responses to PAC reports 37 and 39	Cm 9351
December 2016	Government response to PAC report 39 (part 2)	Cm 9389

¹ List of Treasury Minute responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52

² Report 32 contains 6 conclusions only.

Treasury Minutes Progress Reports Archive

Treasury Minutes Progress Reports are the Government's response on the implementation of recommendations from the Committee of Public Accounts. Treasury Minutes Progress Reports are Command Papers laid in Parliament.

Publication Date	PAC Reports	Ref Number
January 2012	Session 2010-12: updates on 13 PAC reports	Cm 8271
July 2012	Session 2010-12: updates on 28 PAC reports	Cm 8387
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2014-15: updates on 27 PAC reports	Cm 9202
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 15 PAC reports Session 2014-15: updates on 22 PAC reports Session 2015-16: updates on 6 PAC reports	Cm 9320
January 2017	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 7 PAC reports Session 2015-16: updates on 18 PAC reports	Cm 9407
October 2017	Session 2010-12: updates on 3 PAC reports Session 2013-14: updates on 7 PAC reports Session 2014-15: updates on 12 PAC reports Session 2015-16: updates on 26 PAC reports Session 2016-17: updates on 39 PAC reports	Cm 9506
January 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 4 PAC reports Session 2015-16: updates on 14 PAC reports Session 2016-17: updates on 52 PAC reports	Cm

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