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Social Research Institute

HM Revenue and Customs Research Report 473

Prevalence of individuals shopping online from overseas and handling of VAT

Research for HMRC

September 2017

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1 Key findings

The findings presented below were collected via two strands of research conducted between August 2016 and February 2017; the initial quantitative strand consisted of a face-to-face nationally representative survey with the general public. This was followed by a separate qualitative strand with people who had shopped online which comprised an online discussion group (online community) with 40 people and a further six face-to-face interviews.

Research Objectives

This research sought to provide quantitative information about the extent to which consumers shopped online with overseas sellers, based in the EU and outside the EU; to gather in-depth qualitative information on the online shopping habits of consumers (in particular when purchasing from sellers based overseas); and to qualitatively explore consumer understanding of how VAT and customs duty apply on goods and services purchased from overseas suppliers.

Shopping behaviour

People living in the UK commonly shop online, with three in five (63%) having done so in the last three months. Online shopping was seen to offer access to a wide range of products and enabled consumers to easily browse or search for particular items. The ability to compare products, prices and delivery terms was seen as a clear benefit of shopping online rather than on the high street. Both qualitative and quantitative findings showed that price and convenience were the most important factors in choosing an online seller, followed by delivery time, brand recognition and good customer reviews.

Use of online marketplaces (eBay, Amazon etc.) was embedded in online shopping habits as they met the consumer desire to be able to compare a wide range of products and prices. The strength of the marketplace brand and customer service gave consumers confidence to buy from small third party vendors.

The quantitative research suggests shopping online from non-EU sellers is a minority activity, with only 16 per cent of consumers who have shopped online in the past three months having knowingly purchased goods from sellers outside the EU. However, a further ten per cent reported that they did not know whether they had purchased an item from an overseas seller outside the EU, suggesting that the behaviour could be more widespread than it seems. Supporting this, two in five (43%) consumers who had shopped online in the past three months had not been aware whether they were shopping from overseas sellers at least some of the time.

Qualitative findings further reinforced this point, with consumers sharing experiences of items having arrived with unexpected signs of having come from outside of the UK. Participants used a number of ways to identify that an item had come from outside of the UK, including delivery times that were longer than expected, and foreign writing on packaging. When customers received items they had ordered from an overseas seller (knowingly or unknowingly), they also saw signs of misrepresentation and undervaluation; this included the customs label giving a vague description of the content or describing it as a gift. Consumers were unclear as to why sellers would misrepresent goods in this way.

Attitudes towards overseas sellers

The qualitative research showed that consumer attitudes to overseas sellers were not driven by the item or seller location, but rather by the experience of receiving the item. Regardless of whether they knew where the seller was based at the time of purchase, if the item met consumer expectations they were likely to continue shopping with overseas sellers. The inverse was also true: consumers who were dissatisfied with an item were unlikely to purchase from an overseas seller in the future. This experience motivated particularly dissatisfied consumers to develop strategies to avoid overseas sellers.

Strategies for identifying where sellers are based varied in effectiveness in establishing the true location of the seller. Interpreting the way that sellers presented themselves (for example using a signifier such as an image of a Union Jack in the item listing details as a proxy for the seller's location) was an ineffective approach, which had the potential to mislead consumers. Checking the seller's credentials on their profile or item listing details was a more effective and accurate approach. However, consumers were unaware of the use of fulfilment houses by overseas sellers meaning they were not looking out for signs of these. Fulfilment houses are warehouse operations based in the UK, which overseas sellers send goods to in bulk and who then dispatch items to individual customers on their behalf. Their use poses a problem when sellers ship goods to fulfilment houses without paying the requisite taxes. It was also clear that consumers did not have the skills to determine which overseas sellers were compliant with VAT and customs duties regulations and which were not.

Awareness and understanding of VAT and customs duties

Although participants in the qualitative research were aware of VAT and customs duties, they were unfamiliar with the details of either; this is primarily because prices on the high street or on websites of large businesses tend to be inclusive of these taxes or duties (where applicable) meaning participants felt very distant from them.

Understanding where these taxes were applicable was closely tied to the level of exposure participants had to them, for example those who had encountered VAT or customs duties in work had much better knowledge of them.

Participants saw VAT as a transaction that took place between the seller and HMRC, and did not feel any sense of responsibility for ensuring that this was correctly paid. As such, when shopping online from overseas sellers they were not checking whether VAT was charged to them on the sale. This creates an opportunity for non-compliant sellers to avoid charging VAT as their compliance with VAT obligations is not being monitored by end consumers.

Although participants had low expectations of having to actively pay these taxes (they tended not to consciously consider the requirement to pay VAT or customs duties as this was often included in the total price), the earlier in the process they were made aware of VAT and customs duties, the happier they would be to pay them. Consumers would be particularly unhappy about having to pay these taxes at the point of collecting goods and would feel that they had been misled about the price.

In the qualitative strand of this research, participants were made aware of misrepresentation and undervaluation, and the impact this behaviour has on the economy. Responses varied as to how concerned participants were about this issue; those who felt that this was a significant problem and had concerns about non-compliant overseas sellers were likely to be much more vigilant when shopping using marketplaces in the future. This presented an alternative concern whereby participants could stop shopping with all overseas sellers to overcompensate for their concerns about non-compliant overseas sellers. Participants who were less engaged with the issue felt this was a problem solely for HMRC to deal with and would not change their shopping behaviour.

Considerations

There are a number of considerations for influencing consumer behaviour in relation to shopping from non-compliant overseas sellers. To move consumers away from this behaviour, it could be helpful to consider influencing the social norms around this, to make it seem less desirable to use non-compliant overseas sellers. Other strategies could involve equipping consumers with knowledge about the impact of non-compliant overseas sellers on the UK economy and UK businesses to help to motivate them away from using these sellers. However, a challenge remains in how best to provide consumers with the capability to differentiate between compliant and non-compliant overseas sellers, given the complexity of doing so.

2 Introduction

This chapter of the report introduces the research study and provides an overview of the approach taken. It includes details of the research context, objectives and design.

2.1 Context

Online shopping is an important part of the UK economy¹. Whilst the growth of this sector creates opportunities for UK businesses, it also creates some challenges for HMRC. A key challenge is posed by the increasing use of online marketplaces by UK consumers. These online marketplaces host a variety of suppliers, many based overseas, creating a global marketplace with orders being fulfilled from all over the world. However, evidence shows that these sellers are not always following the correct procedures for charging VAT and paying this to HMRC, depriving the government of significant revenue.

Goods sent from outside of the EU with a value of less than £15 or gifts with a value of less than £39 are exempt from VAT under Low Value Consignment Relief (LVCR)². Sellers can abuse this relief by undervaluing or misrepresenting the goods on customs labels when delivering them to deliberately avoid paying the correct amount of tax. This has a significant impact on the UK economy, as it means these sellers can undercut UK businesses, mislead consumers and reduce the amount of tax they pay.

Increasingly overseas sellers are using fulfilment houses to meet orders from UK consumers buying goods online. Fulfilment Houses are giant warehouses that enable goods to be sent to UK consumers more speedily than shipping them from far-away places. This enables overseas sellers who use them to compete with UK businesses selling on the same marketplace. VAT legislation requires that UK VAT be levied when goods are located in the UK at the time of purchase. Therefore, UK VAT, usually at 20%, is due on these goods. In 2016 HMRC introduced measures to ensure that overseas sellers comply with their VAT obligations when they sell goods that are housed in the UK.

HMRC estimates that the amount of VAT revenue forgone on non-EU online internet sales was £1-1.5 billion in 2015-16. HMRC commissioned this research to improve their understanding of the prevalence of online shopping from EU and non-EU sellers and gain deeper insight into consumers' online shopping habits and behaviours when using these sellers. This research also provides insight into the prevalence of online shopping from overseas sellers, consumers' perspectives on the issue of misrepresentation and undervaluation of goods and explores how customers can be encouraged to identify and avoid shopping with non-compliant businesses.

2.2 Aims and objectives

This research sought to provide information about the extent to which consumers shopped online with overseas sellers, based in the EU and outside the EU. This was investigated through a survey conducted as a module on the Office for National Statistics (ONS) Lifestyle and Opinions Survey, which ran in August 2016. A second strand of

¹ As a proportion of retail spending it has grown from 3.4% in 2007 to 14.7% in 2016 (from ONS Retail Sales Index <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/retailsales>).

² Items under £135 and gifts under £630 from outside of the EU are also exempt from Customs Duty.

qualitative research was conducted to gather in-depth information on the online shopping habits of consumers (in particular when purchasing from sellers based overseas) and to explore consumer understanding of how VAT and customs duty apply on goods and services purchased from overseas suppliers. Specifically, the research explored:

A. Experiences of online shopping from overseas retailers

- Consumers' previous experience of online shopping with overseas retailers, including whether they were always aware that they are buying from an overseas retailer and how they could tell when this is the case.
- The motivations and attitudes of online shoppers when buying from overseas retailers, including the relative importance of the different factors which influence this.

B. Awareness and understanding of VAT and Customs Duty when shopping online from overseas retailers

- Consumer knowledge and experiences of VAT and customs duty requirements when shopping online, including their responsibilities and the extent to which this is considered when shopping online.
- Consumer awareness of the process of paying VAT and customs duty when shopping overseas; responses to and experiences of being charged VAT and Customs duty on delivery.
- Whether consumers had experienced any signs of deliberate misrepresentation of products purchased from overseas and if so, how they identified this.
- Consumer attitudes towards evasion of VAT and Customs duty by overseas sellers through misrepresentation and undervaluation.

C. Considerations to increase consumer awareness and reduce evasion

- What would encourage consumers to avoid buying from non-compliant businesses.
- Reactions to options that could be put in place to reduce undervaluation/ misrepresentation of goods.

2.3 Sampling and methodology

Quantitative data

The first strand of research conducted was a survey designed by HMRC and run on the Office for National Statistics (ONS) Opinion and Lifestyle Survey, in August 2016. The ONS Opinion and Lifestyle Survey is an omnibus survey that uses a random probability sample of households in Great Britain stratified by several criteria³. Data was collected from a total of 964 respondents who completed a module looking at online shopping activities, as part of the August 2016 wave of the survey.

Qualitative research was also conducted. This was comprised of two different methodological approaches: an online community with 40 participants and six qualitative face-to-face interviews.

³ Stratified by region, the proportion of households with no car, the proportion of households where the household reference person is in the National Statistics Socio-economic Classification (NS-SEC) categories one to three and the proportion of people who are aged over 65 years

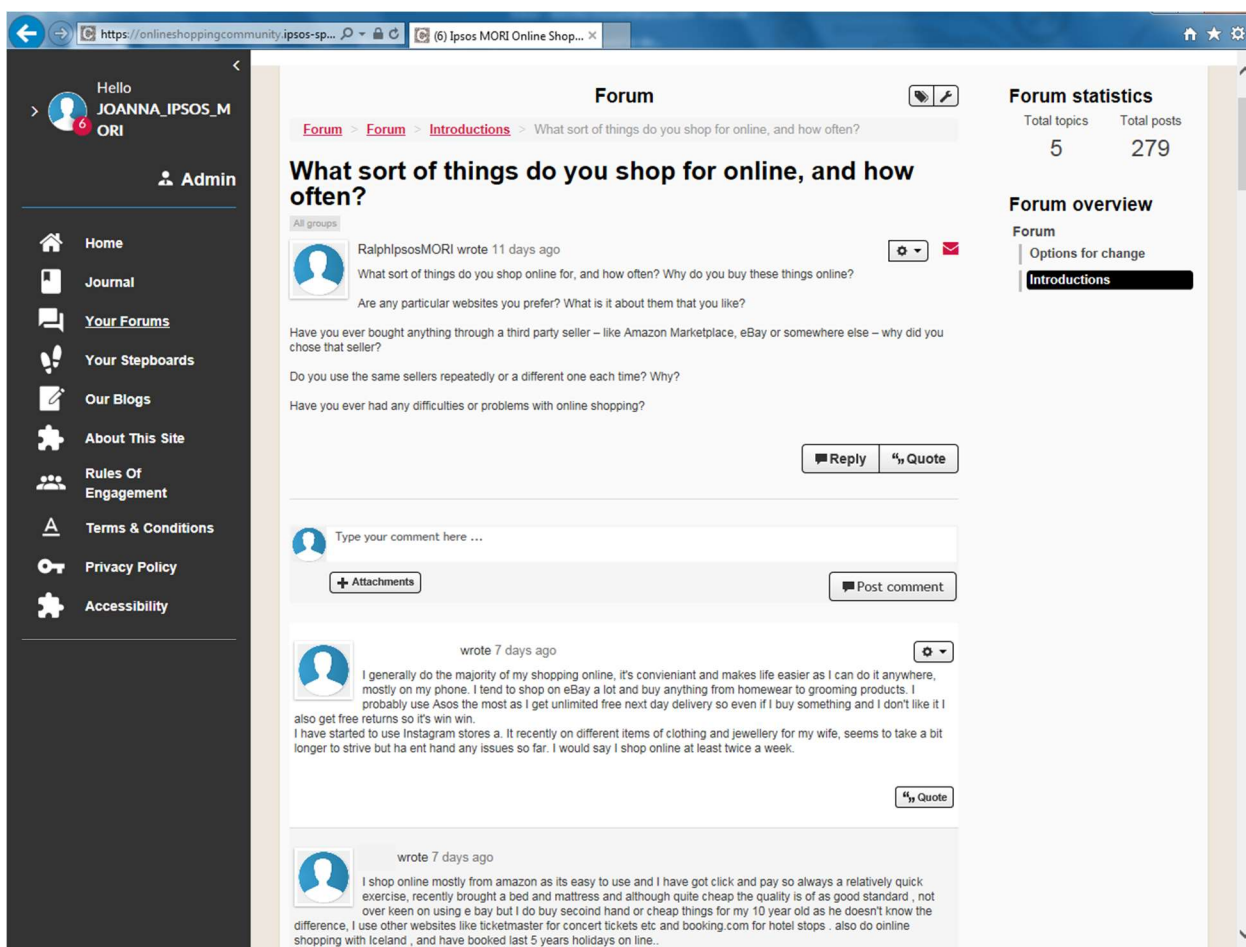
Qualitative research: Online community

Forty online shoppers were recruited to take part in an online community, an online secure website where participants completed a series of individual and group tasks. The tasks were posted every other day between the 9th – 18th December 2016. Tasks were:

- Solo tasks: conversations between only the moderator and participant, such as a discussion of personal experiences of buying from overseas sellers.
- Group tasks: where participants interacted with each other, such as a forum on shopping habits and motivations.
- Mixed tasks: where participants could only see what others had posted after they had responded to the original question, such as a discussion on potential ways to address misrepresentation by overseas sellers.

Throughout these activities, moderators engaged with participants and probed on comments made within the community.

Figure 2.1: Screenshot of a group task from the online community



The sample was designed to include a mix of online shoppers. The sample profile for the online community is outlined in the appendix.

Qualitative research: Face-to-face interviews

In-depth qualitative interviews were carried out with six additional online shoppers to further explore views and motives around misrepresentation and buying from overseas sellers. The in-depth interviews also provided an alternative research method that could be used to crosscheck data gathered through the online communities for consistency, to ensure the research method had not influenced responses and also to ensure that we captured the views of those who were comfortable shopping online but not using an online community. Interviews took place in January 2017 and each one lasted for an average of 60 minutes. The sample profile for the face-to-face interviews is in the appendix.

Interpreting qualitative research

Qualitative research is illustrative, detailed and exploratory. It offers insights into the opinions, feelings and behaviours of people. All participant data presented should be treated as the subjective perceptions of consumers.

Qualitative research is not intended to provide quantifiable conclusions from a statistically representative sample. Furthermore, owing to the small sample size and the purposive nature with which it was drawn, findings cannot be considered to be representative of the views of all online shoppers or specific types of consumers, but instead the research has been designed to explore the breadth of views and experiences – understanding what underpins behaviour.

For further information around the research methodology, sampling and recruitment please refer to the appendices.

3 Online shopping behaviour

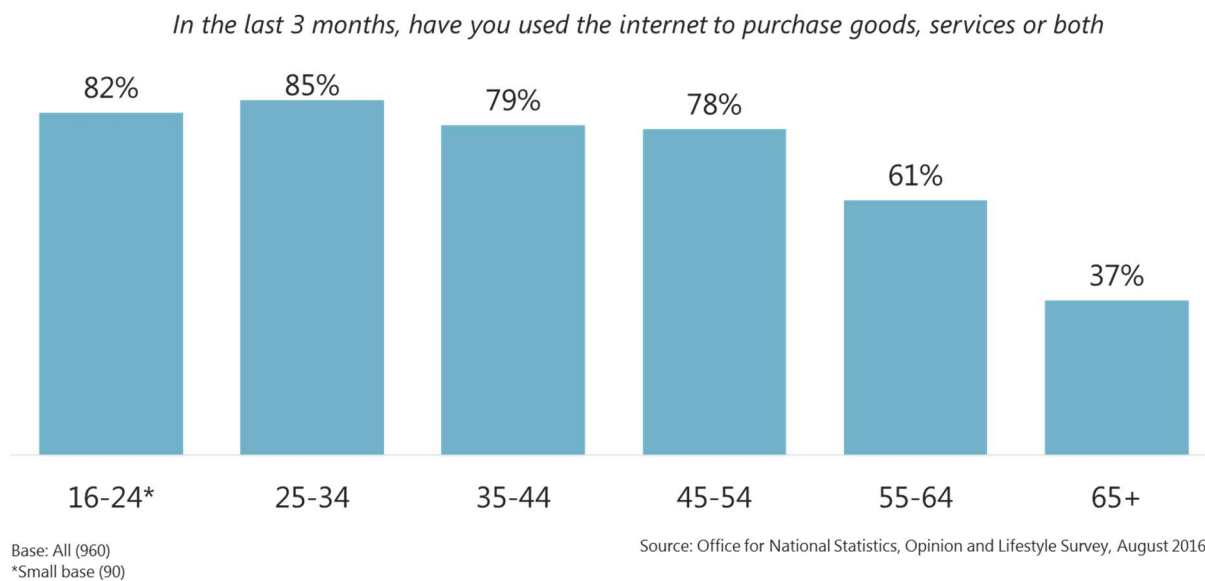
This chapter looks at online shopping behaviour. This includes the prevalence and frequency of online shopping in the UK as well as the types of products consumers buy online and their motivation for shopping online. This chapter concludes by considering the main factors that affect consumers' choice of seller.

3.1 Prevalence of online shopping and type of products bought

Prevalence of shopping online

The quantitative findings show that online shopping is a common activity in the UK, with around six in ten (63%) of adults having made at least one purchase online in the last three months. There is a correlation between age and likelihood to shop online, with around eight in ten of those aged 16-24, 25-34, 35-44 and 45-54 doing so, significantly more than those aged 55-64 (61%) or 65+ (37%).

Figure 3.1: Whether have purchased goods, services or both online in the past three months by age



Of those who had shopped online in the past three months, half (47%) had bought only goods and a fifth (20%) had bought goods and services. Only one per cent had purchased solely services in the past three months, suggesting that online shopping is used primarily for purchasing goods.

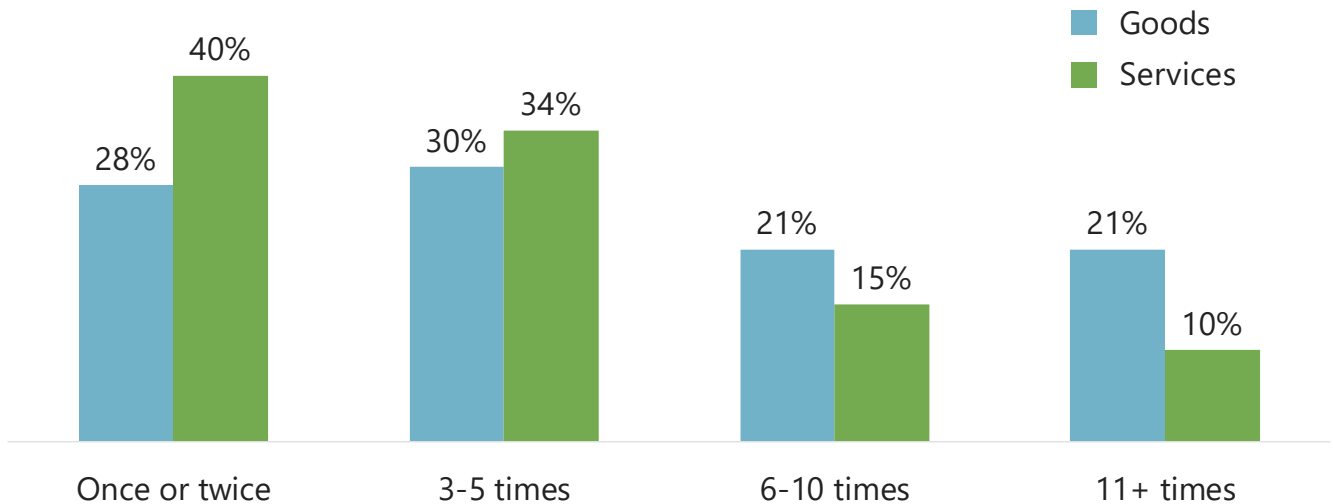
"I purchase mainly clothing and household items ... I would say I shop online 3 or 4 times a month."
Male, 35-54

Amongst those who purchased goods online, the frequency of having done so was fairly evenly distributed. Twenty-eight per cent had had done so once or twice in the past three months and a similar proportion (30%) had done so three to five times. A further 21% had done so six to ten times and the same proportion had done so eleven or more times. In contrast, purchasing of services within the past three months was more clustered amongst

lower frequencies, with 40% having purchased services online once or twice, 34 per cent having done so three to five times and only ten per cent having done so 11 or more times.

Figure 3.2: Frequency of purchasing goods or services online in past three months

How many times have you purchased these goods or services online in total, from all websites?



Base: All who use internet to buy goods / services (585)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

On average, consumers who shopped online had spent £316 on goods from UK sellers in the last three months, and £146 on goods from sellers based in the EU or outside of the EU combined. Consumers had also spent £99 on goods from an unknown location. By comparison, consumers had spent on average £969 on services from the UK in the last three months, £1,284 from sellers based overseas, and £1,915 on services from an unknown location.

Types of products

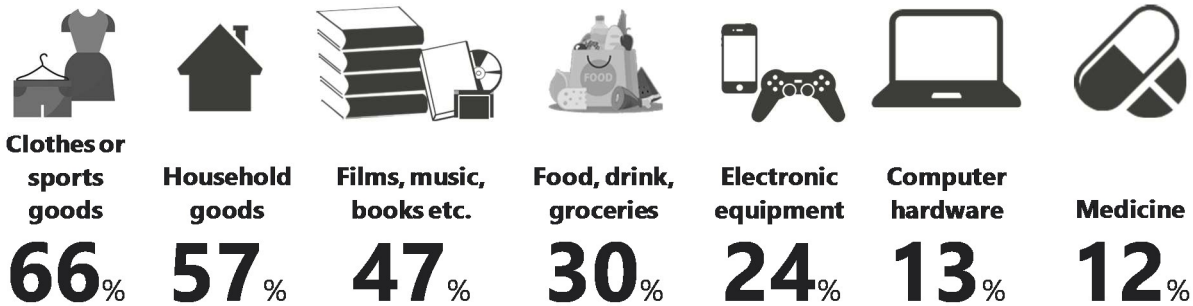
The types of goods most commonly purchased in the previous three months were clothes or sporting goods which two thirds of online shoppers mentioned (66%) and household goods, which over half (57%) of online shoppers had purchased⁴.

⁴ Previous studies show that these types of goods have been consistently the most frequently bought online over the past five years, and that the proportion of adults buying these goods online has increased in this time:

<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/datasets/internetaccesshouseholdsandindividualsreferencetables>

Figure 3.3: Types of goods purchased online

Thinking about the last three months, what type of goods did you purchase over the internet?



Base: All who use internet to buy goods / services (585)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

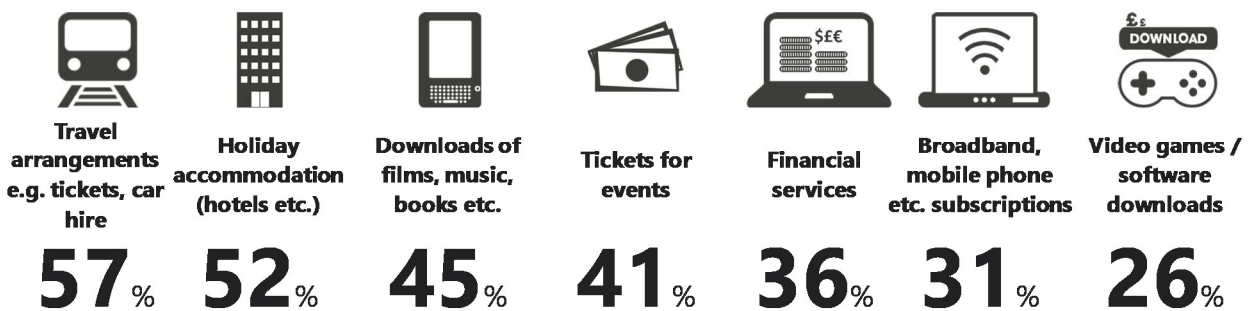
I now tend to buy most things online, clothes, car parts, boat parts, gifts and tickets for concerts and football games. I often use [marketplace] and [marketplace] for their variety and competitive prices ... we research each item for price and quality individually."

Male, 55+

For services, the most frequent purchases included travel arrangements such as tickets and car hire (57%), holiday accommodation (52%) and entertainment downloads (45%).

Figure 3.4: Types of services purchased online

Thinking about the last three months, what type of services did you purchase over the internet?



Base: All who use internet to buy goods / services (585)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

The survey was conducted in August, which may have influenced data collected: given that this is traditionally a period when people tend to go on holiday, this may account for the proportion of people reporting that they have purchased travel tickets or holiday accommodation. Other services purchased online were subscription based (e.g. broadband subscription) and so would only need renewing at a particular interval (e.g. annually), which again may account for the relative infrequency with which services were purchased.

The qualitative research showed that there were a group of consumers who had high confidence in online shopping and as such were happy to buy almost anything online because of the perceived advantages of doing so. Less

confident consumers tended to stick to categories they were familiar with buying online, or products they did not feel there was any advantage to being able to see before they bought, such as household goods.

"The only thing I wouldn't buy online would be items like a new car as there are some things you need to physically check out."

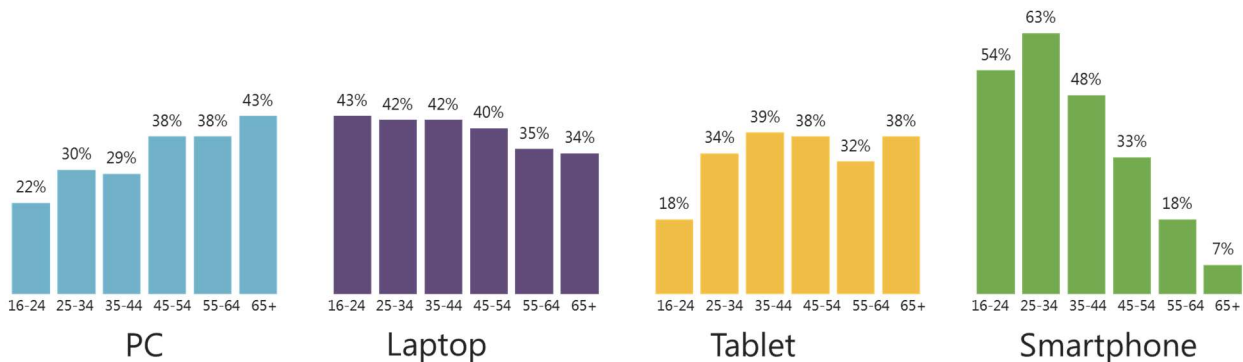
Male, 35-54

Device used for online shopping

The quantitative research showed that across the UK, smartphones (41%) and laptops (40%) were equally popular for carrying out online shopping. Tablets were also a commonly used device amongst online shoppers, with one third (33%) saying they used them to make purchases. Looking across different age groups, figure 3.4 shows that younger consumers are more likely to use smartphones for their online purchases, whereas older shoppers are more likely to use PCs.

Figure 3.5: Device usage by age group

When purchasing goods or services for personal use over the internet in the last 3 months, which of the following devices did you use?



Base: All who use internet to buy goods / services (585)
Multiple responses allowed, therefore combined totals sum to more than 100%

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

The data shows that there is less variation in the proportion who use laptops for online shopping across the age groups. The youngest group is less likely to use a tablet for online shopping, however, there are no differences among the other age groups. This would suggest that the impact of age is not as great on these devices, where the prevalence of use is more evenly distributed.

There were few differences between men and women; similar tendencies towards use of different devices were observed. However, women were less likely to shop online using a PC than men (25% vs 40%).

The type of device used for online shopping is important as it can influence shopping frequency and the amount of information available to consumers. The qualitative research found that smartphones enabled consumers to make impulse purchases on the go, rather than having to wait for access to a computer.

"I shop online a few times a month, I am always browsing [marketplace] and [marketplace] and often do impulse buying too"

Female, 35-54

The versions of websites displayed on smartphones and tablets often simplify the page to ensure the content is visible to consumers, however this potentially makes information about the seller (e.g. location) or product less clear.

"I have a Kindle so it's just a matter of log on and purchase and I have the one click payment set up which makes it nice and easy to pay "

Female, 18-34

Payment method

When asked how they pay for goods or services ordered over the internet in the last three months, nearly nine in ten (86%) reported that they used their debit or credit card details to complete the transaction. Pre-pay cards or pre-accounts (e.g. PayPal) were the second most frequently mentioned payment method, which a third of people had used. Less common payment methods mentioned included electronic bank transfer via internet banking (5%) and payments not via the internet (e.g. in cash, or ordinary bank transfer), (1%).

3.2 Reasons for shopping online

In deciding to shop online the key factors were price, convenience and range – these were interlocking and influenced by consumers' previous experiences and personal circumstances.

Price - Consumers chose to shop online to find products at the best available price. They felt that goods were cheaper online than on the high street, so this drove them to look online for the goods that they wanted and shop around; this was the case even if they had the opportunity to purchase it in a shop or initially found it on another website.

"If I see something in a store, I tend to not buy it in the store, I then look online and see how the price compares and even with the delivery cost it is usually cheaper"

Female 55+

"I shop around usually at least 3 different sites for any one item to make sure I am getting the best price, and that would take me hours on the high street where as I can do that in 10 minutes from the comfort of my own home online."

Male, 18-34

Convenience - Shopping online was seen as more convenient than going to the shops. This feeling was present amongst consumers of all life-stages and localities. Convenience was a particular motivation for parents who wanted to avoid taking their children shopping and for those who lived in rural areas, far from their nearest town.

Range - Online shopping was seen to offer access to the broadest possible range of products and was therefore used by participants to fulfil different shopping modes, both browsing (leading to impulse purchases) and seeking particular items. In each case, the ability to compare many different products and their prices easily was valued and seen as a clear benefit of shopping online rather than on the high street.

"We buy things online purely for convenience, and the range is much wider than I can purchase locally and there's always an offer on somewhere!"

Female, 35-54

The factors influencing consumers' decision to shop online were consistent across purchase type and value; how they combined factors depended on the priorities for each particular purchase.

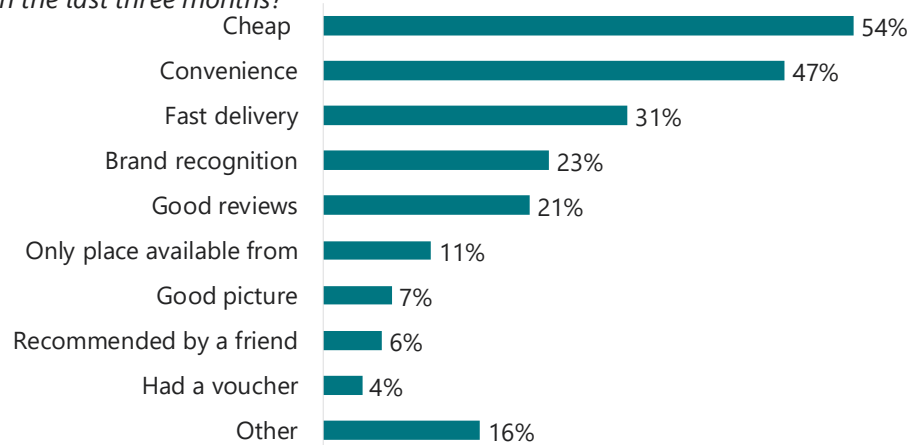
3.3 Factors in choosing an online seller

When it came to choosing between sellers, the three main factors mentioned by online shoppers in the quantitative survey were price (54%), convenience (47%) and fast delivery times (31%). These factors were also mentioned across the qualitative research by participants with diverse shopping habits, suggesting that these factors were important to all types of consumer.

Quality was another key factor in determining seller choice, with 23% reporting that brand recognition was one of the main reasons they chose a particular seller. For 21% it was important for the seller to have a positive reputation, saying that good reviews were an important factor when it came to using a particular seller.

Figure 3.6: Main reasons for having chosen a particular seller in the past three months

What were the main reasons you used a particular seller when purchasing goods or services using the internet in the last three months?



Base: All who use internet to buy goods / services (585)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

The qualitative research showed that use of online marketplaces was deeply embedded in the shopping habits of those who shop online and that they did not distinguish between the use of an individual seller and a marketplace.

The strength of online marketplaces was that they offered participants the opportunity to compare a number of different sellers on one site. As such, participants had to do minimal additional searching to be confident of finding the right product at the right price. Market places also offered consumers the ability to easily compare delivery times and costs, and make the decision which best suited their needs for that purchase. When making purchases that are not time-critical, consumers prioritised price over delivery time, as this was more important to them at that point. In contrast when making a more time-sensitive purchase, such as a birthday present, consumers would prioritise delivery time.

Consumers felt that understanding the seller's reputation was important when making a decision as to whether or not to use them; often using the seller rating system provided by the marketplace to determine whether a seller was trustworthy. They also used this rating system to understand whether items sold by the seller were likely to be of a suitable quality.

The ability to return an item easily was of variable importance to consumers. When buying more expensive items consumers wanted to know that they would be able to return an item easily, but for lower cost goods, this was less of a priority. For any purchase, the ability to make a return reassured customers, particularly for less confident consumers.

The customer service of the marketplace was seen as underwriting individual sellers and consumers would default to this if there were any difficulties. For example, one community participant had received an item from a third party seller which was not as expected and when he had no success in getting a refund from the seller he raised this with the customer service team from the marketplace who refunded him on the same day.

"I like [marketplace] because [...] their website is easy to use and their customer service is very good [...] I bought a controller for a games console which never worked. The seller refused to have it returned and was only prepared to give me back a portion of my money. I escalated it with [marketplace] who refunded me within two hours!"

Female, 35-54

As with consumer motivations for shopping online more broadly, reasons for doing so were interlocking and prioritised depending on the needs and context of each purchase. When making a decision about a seller, consumers took into account issues of price, convenience and trust. Although cost was often the most important factor, levels of trust in a seller or marketplace could influence behaviour to the extent that consumers did not always buy the cheapest item.

"The important bits to me are cost, delivery time, I tend to look for entrusted sellers and look at feedback given by others, then judge whether it is the right choice to make."

Male, 35-54

"If I'm buying well in advance of my need then I will simply go for the best price (regardless of delivery time), if short notice I will end up paying more. If I can use a trusted seller I will, but if I really want the item I'll take a risk."

Female, 18-34

3.4 Summary

The majority of adults in the UK (68%) have shopped online in the last three months. Among those who had made purchases on the internet, goods were more likely to have been bought than services. The types of goods most frequently purchased were clothes and sporting goods followed by household goods, suggesting consumers have most confidence buying these without seeing them first.

Smartphones and laptops were equally popular for carrying out online shopping. The type of device used to access online marketplaces can influence the shopping experience as the ease of use and amount of information available to consumers can vary. Younger people were more likely to use smartphones for their online purchases, whereas older shoppers were more likely to use PCs.

Qualitative and quantitative findings show that price and convenience were the most important factors in choosing an online seller, followed by delivery time, brand recognition and trust in the seller. Online shopping was seen to offer access to a wide range of products and enabled consumers to easily browse or search for particular items. The ability to compare products, prices, delivery options and returns policies was seen as a clear benefit of shopping online rather than on the high street.

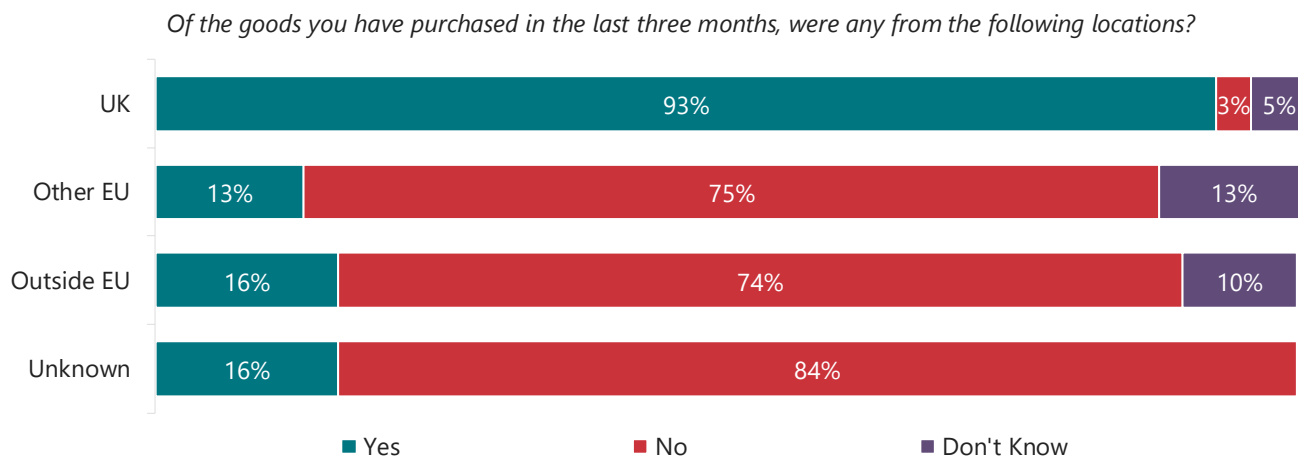
4 Experience of buying from overseas sellers

This section looks at the consumer experience of shopping online from sellers based overseas. This includes consumers' level of awareness of where sellers are based, attitudes towards overseas sellers and how consumers established seller location. The chapter concludes by looking at the decision-making process that consumers went through when purchasing from an overseas seller.

4.1 Awareness of shopping from overseas sellers

Among people who have shopped online for goods in the last three months, the majority (93%) said they had bought goods from the UK, with much smaller proportions having knowingly bought goods from other EU countries (13%) or countries outside the EU (16%). Around 16 per cent said that in the past three months they had made a purchase without knowing where the goods were from, showing there is a degree of uncertainty about the location of sellers.

Figure 4.1: Awareness of location of goods purchased in the last three months



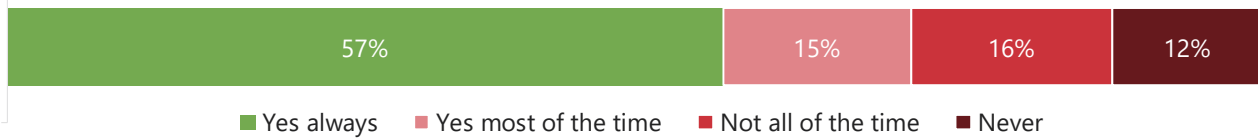
Base: All who use internet to buy goods / services (585)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

Among those who had bought goods from overseas sellers in the last three months, three in five (57%) reported they knew where the seller was based for every transaction they made in this time. Two in five (43%) reported that they were unsure of the location of the seller at least some of the time; this included 12 per cent who said that they never knew where the seller was located. This suggests that those who do not know where the seller is based make up a substantial minority of those shopping from overseas sellers. It should be noted that this would exclude those who were completely unaware that their item had come from an overseas seller.

Figure 4.2: Awareness of location of non-UK based sellers

If you bought goods from non UK sellers, were you aware when you ordered that they were not based in the UK?



Base: All who bought goods from non-UK sellers (140)

Source: Office for National Statistics, Opinion and Lifestyle Survey, August 2016

4.2 Experiences of not knowing where the seller was based

Consumers who had shopped online had experienced items unexpectedly coming from overseas. In these instances, ways in which consumers understood items had come from overseas included:

- Delivery times that were longer than expected, for example an item not having arrived after a few weeks or months.

"I got an email saying that delivery is expected between I think it was three months after ... it's only when I got a reply back from the email that I realised that it was a Chinese company, that it was coming from China"

Male 18-34

- Foreign writing on packaging, suggesting goods had come from abroad when it was expected that they would be shipped from the UK.

"I have [purchased from overseas] and I wasn't aware of any difference. I was only aware when one of my parcels arrived and it had foreign writing on it!!!"

Female, 55+

4.3 Experiences of sellers misrepresenting goods

When consumers realised that an item had come from overseas at times they also saw accompanying signs of misrepresentation such as:

- The customs label giving a vague or incorrect description of the item.

"They will have the contents described very vaguely, often not labelling the whole package's contents. I realised it was mislabelled as soon as I received the item and read the packaging."

Male, 18-34

- Goods that had been purchased being described as a gift on the customs label.

"I bought some lacy tights from [marketplace], I did know they were not from the UK, as the delivery time was so far away, but they were very cheap... I was very surprised to see them labelled as a gift on the envelope as they clearly were not I had bought them... I did not like what they are doing... and I would not buy from them again."

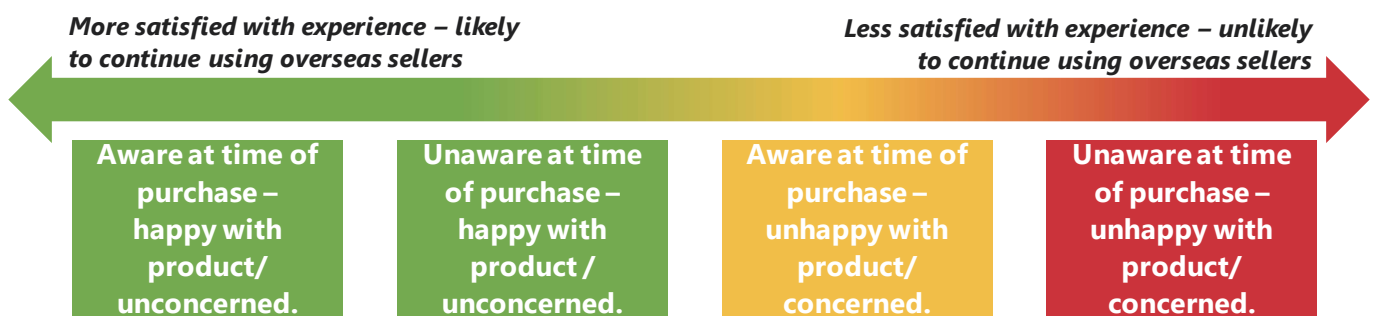
Female, 55+

Consumer understanding of seller motivation to mislabel items ranged from those who understood that this was to avoid VAT and customs duty to those who had no understanding of why they might do this and thought it might be to benefit them, the consumer.

4.4 Attitudes towards overseas sellers

Consumer attitudes towards overseas sellers tended not to be influenced by the sellers' location (or consumers' awareness of the location), but by their experiences of the transaction or their thoughts about the product once they had received it. These experiences had an impact on the likelihood that consumers would continue to shop from sellers based overseas or look to shop with vendors based in the UK. As figure 4.3 shows, consumers fell into one of four categories:

Figure 4.3: Attitudes towards overseas sellers and likelihood of return business



Source: Ipsos MORI, Qualitative research into experiences of online shopping and handling VAT, December 2016 – January 2017

Aware (seller based overseas) and happy (with product/transaction): This group had the highest levels of satisfaction and were highly likely to continue shopping with overseas sellers.

"For our camera, the zip broke so we ordered a case [from an overseas seller], it didn't have the logo badge as previous one but apart from that the quality was excellent, and a quarter of the price of going to a UK store online or High St."

Female, 35-54

Unaware and happy: These consumers expressed satisfaction with their experience because they were happy with the product they received and the conduct of the transaction. This group was also happy to continue to shop overseas.

"It wasn't clear that the item came from abroad and it's not a problem as long as I know when the delivery will be."

Male 55+

Aware and unhappy: This group showed less satisfaction with overseas sellers, questioning the quality of the goods that they sold, and feeling that they had been let down by the vendor. These consumers were less likely to continue to shop overseas.

"On the few occasions that I have ordered products from [non-EU country] [...] the quality wasn't what I was looking for. I think I was drawn in to buying by the price. I also find the delivery times frustrating."

Female, 35-54

Unaware and unhappy: These consumers experienced the highest levels of dissatisfaction, feeling that the seller had misled them by hiding their location. This group were unlikely to intentionally shop overseas again and were motivated by this experience to take steps to avoid overseas sellers entirely.

"I have bought a multi nail filer from [marketplace], the site had in large letters "UK seller" but when it arrived, after a very long wait it had obviously come from China, it was also rubbish, they should not get away with that."

Female, 55+

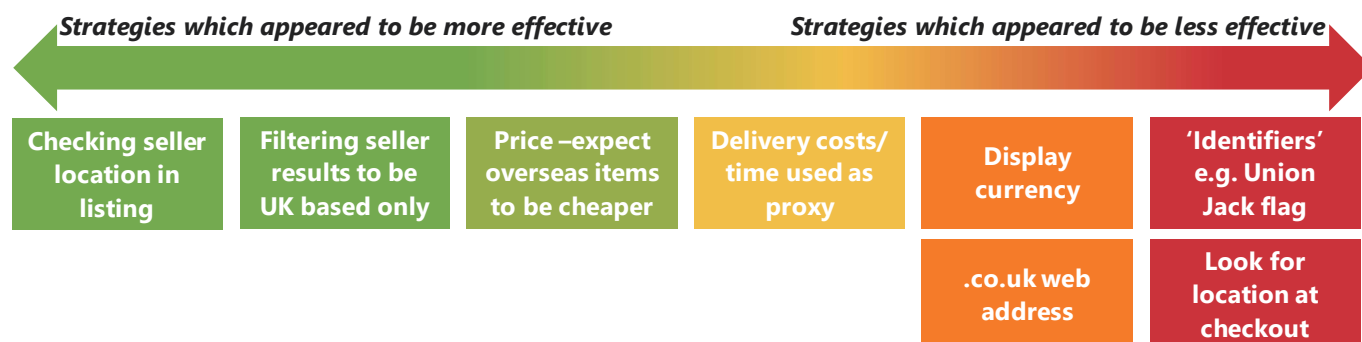
It should be noted this only applied to those who have had prior experience shopping online from overseas sellers. There were cases of consumers who had decided to actively avoid shopping from overseas sellers entirely as they were concerned about how they would return products to the seller if they were unhappy with them and / or believed that goods from overseas sellers may be of lower quality.

4.5 Understanding where sellers were based

Consumers who were interested in where sellers were based used a number of strategies to attempt to find this out. Strategies which appeared to be more effective tended to rely on the consumer looking into the seller's details⁵. Checking the seller's details on their profile page and looking for their listed location (which is supposed to be their trading location) seemed to be the most effective strategy for verifying where a seller was based. Another strategy used was to filter search results by the stated location (where this function was available); this tended to be quite effective as it meant the consumer did not have to look for the location. However this method was not completely reliable as it was susceptible to sellers declaring that they were based in the UK/EU, when in fact they were not.

Consumers also compared the prices for products from different sellers as they expected that those who were based overseas would be cheaper than those based in the UK. This seemed to be a less effective method than others previously mentioned, but consumers felt this could be used, believing that foreign goods may cost less because they were lower quality.

⁵ Strategies were evaluated for effectiveness by searching for a range of products being sold by third party sellers on marketplaces and establishing how likely they would have been to ascertain whether or not a seller was based overseas.

Figure 4.4: Strategies for establishing location of seller by effectiveness

Source: Ipsos MORI, Qualitative research into experiences of online shopping and handling VAT, December 2016 – January 2017

Methods which appeared to be less robust for verifying the seller's location tended to be cursory checks. The least effective strategies included noticing British or country-specific symbols and identifiers (e.g. flags, page wallpaper, images), and interpreting these as signifiers that the seller was based in the UK. It would appear that these identifiers can be used to mislead consumers into believing that they are buying goods from a UK based business, when in fact this was not the case. Checking seller information at checkout also tended to be unsuccessful, as this did not necessarily display the correct despatch address, or the business's registered trading address.

Tactics that seemed to be a little more effective included checking the currency in which the goods are being sold (or looking for evidence that the listed price has been converted into pounds), however this would not always be successful as items could be listed in pounds even if the seller was based overseas. Reviewing email/web addresses to check for '.co.uk' suffixes also did not seem especially effective in identifying the seller's true location, as businesses could quite easily acquire an email address with a particular country code suffix. Reviewing delivery time was a slightly more effective method: sellers were likely to be honest about this as if waiting times were longer than stated this would be reflected in the customer reviews of that seller.

It is also clear that consumers lack the skills to be able to identify non-compliant overseas sellers, who are evading VAT, prior to receiving an item. Even if consumers did have the skills to identify non-compliant overseas sellers, the information to do so may not be present on the website, or this may be deliberately misleading.

Even where consumers were taking steps to identify overseas sellers they were not looking out for signs of use of fulfilment houses, as they were unaware of their use. As the strategies outlined above show it is unlikely that consumers would be able to identify their use.

4.6 Decision making when selecting an overseas seller

As explored in chapter three, consumers took into account a range of factors when shopping online. With the exception of those who were actively trying to avoid shopping online with overseas sellers, consumers tended not to make a distinction between sellers based in the UK or overseas and were happy to purchase from either; rather, their decision to use a particular seller was based on their needs from that purchase. Consumers were making purchases from overseas sellers in two different mind-sets:

Shopping around – in this scenario, consumers were using overseas sellers to get the best price for an item as they typically offered goods at a lower price.

Shopping for niche items – alternatively when consumers were looking for specific or niche goods which are not widely available they were limited by the number of sellers that have these goods for sale. In these circumstances, customers often felt they had to use an overseas seller, as they were the only place where the specific item was available. Any concerns consumers had about overseas sellers were overridden by their desire for the item. Furthermore, when consumers were looking for a specific item that they felt knowledgeable about, they had high confidence in their own ability to determine the legitimacy and quality of the item. For example, one participant collected a specific type of sports memorabilia and used the sellers' profile to judge their authenticity, to give him confidence in using a particular seller.

"I rarely ever use the same seller as the things I usually purchase are 1 of a kind item, but I do always check the seller's feedback etc. to see if they're a trust worthy person."

Male, 18-34

As outlined in chapter three, there are a range of influences that determine whether a participant would use a particular seller. When making a decision about using an overseas seller, the considerations were broadly similar as when using a UK based seller:

Price – consumers expected that an item from an overseas seller would be cheaper than one from a UK based seller. If this was not the case, they were unlikely to use the overseas seller. Consumers would also avoid overseas sellers for more expensive items due to concerns about quality and the challenges of returning unsuitable items. As such, consumers felt that if an item was low cost it did not matter whether it was poor quality. Those with a better awareness and understanding of VAT and customs duties rules did not purchase more expensive items from overseas sellers to avoid the inconvenience of having to pay these duties and retrieve their goods from the Post Office.

Reputation – consumers were particularly reliant on the feedback rating from other shoppers when using an overseas seller, as they often had underlying doubts about the quality of the item or worried that it may not arrive. Consumers also looked at customer reviews when choosing between sellers; those with better customer testimonies would engender a greater sense of trust and consumers said that they would be more likely to shop with those sellers.

Returns and refunds – consumers believed that returning an item to an overseas seller would be difficult. This contributed to their tendency to avoid shopping for high value goods from overseas sellers, as they were less concerned about being unable to return low value items that had not cost large sums of money.

Quality – consumers expressed concerns about the quality of goods they bought online from overseas sellers. This included worries about whether items would be counterfeit, liable to break sooner or have a shorter working life. However, despite these concerns, some consumers continued to shop for goods from overseas sellers, as they were happy to make this trade off when shopping for lower value items. Consumers also reasoned that these goods may only be for their children, so having a shorter lifespan was of less a concern and something they expected to happen.

"I use [marketplace] also but mainly only for cheap things for the kids as they usually break everything anyway tbf [to be fair]"

Female, 35-54

Safety – consumers also had some more serious concerns, including worries that goods from overseas sellers may not meet health and safety standards and could pose a risk to their welfare.

Customer service – while consumers had underlying concerns about the customer service that would be offered by an overseas seller, for example due to language barriers, there was confidence in the online marketplace to provide an acceptable level of service.

"In the past I have had troubles with delivery where I have not received my items and every time [marketplace] delivered exceptional customer service by providing me with a replacement."

Male, 18-34

Delivery – delivery times and charges can act as a barrier to use of overseas sellers but consumers also factored this in during the decision making process. Customers spoke positively about short delivery times and cheap postage, however, in these instances they could fail to recognise that sellers may be using fulfilment houses to fill these orders.

There was no uniform approach to evaluating and selecting between overseas sellers. Each consumer had their own particular set of standards by which they would judge sellers, depending on the context of the purchase. There was a strong tendency towards using overseas sellers for low value items, which consumers placed little value on and were therefore more willing to take a risk on.

4.7 Summary

Of those who had shopped online in the previous three months, 13 per cent had made a purchase from within the EU (excluding the UK) and 16 per cent from another overseas country; this shows shopping from overseas sellers remains a minority activity amongst those shopping online. A further 16 per cent were unsure of the origin an item they purchased; however, this figure could be higher, as around four in ten (43%) consumers who reported they had shopped overseas in the previous three months did not know where their purchases had come from, on some or all occasions.

Consumer attitudes to overseas sellers do not seem to be driven by the item location, rather by their experience of receiving the item. If the item meets consumer expectations, they are likely to continue shopping from overseas sellers, regardless of whether they knew where the seller was based at the time of purchase. The inverse is also true: consumers who were dissatisfied with the item were unlikely to purchase from an overseas seller in the future and this experience motivated consumers to develop strategies to avoid overseas sellers.

Consumers who were interested in identifying the location of sellers employed range of strategies to do this. Some approaches were believed to be more effective, for example checking the seller location in the item listing details. Others appeared to be highly ineffective, such as, using a signifier in the listing details (e.g. an image of a Union Jack) as a proxy for assuming the seller was based in the UK.

Consumers were broadly unaware of the use of fulfilment houses meaning they were not looking out for signs of use of these. It was also clear that customers did not have the skills to determine which overseas sellers were compliant and which were non-compliant.

5 VAT, customs duties and misrepresentation and undervaluation

This section looks at levels of customer awareness and understanding of VAT and customs duties, including views on where responsibility for compliance lies. It concludes by considering consumer attitudes to misrepresentation and undervaluation.

5.1 Awareness and understanding of VAT and customs duties rules

Consumers who took part in the qualitative research knew VAT is a tax paid on goods or services and that customs duties are a levy on overseas purchases. However, understanding of the rules and familiarity with the detail of the policy was low. Consumers struggled to explain how the rules might apply to certain types of goods, what the exceptions were, and the thresholds at which the taxes and duties were levied.

"To be honest I don't have any idea about the VAT when purchasing items - it's not something I really look into. If someone was to ask me about VAT and customs duty I wouldn't really know where to start."
Female, 18-34

Where consumers had a better level of knowledge of VAT and customs duties, this had been acquired in one of two ways:

- Experience of the rules gained through exposure at work (e.g. fulfilling orders and processing VAT).
- Having previously bought goods online that required additional duties to be paid.

In these cases, consumers correctly identified that VAT was applied on particular types of goods, and that customs duties were levied against goods of a certain value or higher.

"I know VAT is a goods and services tax. It is charged on most items you purchase at varying rates, some items such as children's clothes are zero rated, your domestic fuel at home is at 5%, most other goods are at the full rate of 20%... Customs duty has two purposes I think: to raise revenue from imported goods and to protect it from other countries who have a lower wage/cost structure from flooding the domestic market with very cheap imports."

Female, 35-54

Understanding of how VAT or customs duties are applied to purchases was limited amongst consumers who had not encountered them in a meaningful way. Indeed, consumers would not normally have to review or calculate the amount of VAT owed on goods or services because these costs are typically included in the total purchase price (e.g. when shopping on the high street or from larger retailers on the internet). Under UK law it is the responsibility of those selling goods and services to charge and account for the correct amount of VAT. Knowledge of customs duties was often limited to consumers' experiences of shopping at duty free shops and this did not equip them with a robust level of knowledge.

"The only thing I know is when you go on holiday and get goods duty free... and an allowance for certain things, you pay VAT on goods brought and the money goes to the government"

Female, 35-54

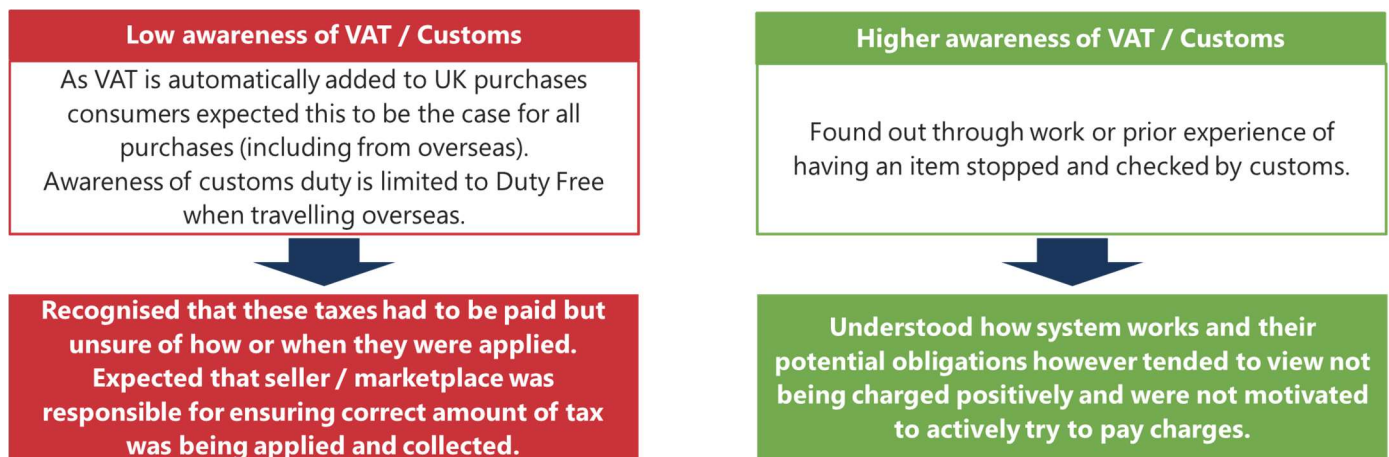
5.2 Responsibility for VAT and customs duties

Regardless of the level of knowledge that consumers had about VAT and customs duties, there was little motivation to check that either had been correctly applied to purchases; this included those made from overseas sellers via marketplaces. In part, this was due to the expectation that VAT and customs duties would have already been applied, in the same manner that UK retailers automatically apply these taxes.

"I understand VAT and that most items are VATable. The custom duty is presumably for items coming into the UK. Both are a tax on goods purchased which is passed onto to the Chancellor of the Exchequer. As far as online shopping is concerned I assume both these taxes are included in the retail price."

Female, 55+

Figure 5.1: Awareness and understanding of VAT and customs duties rules



Source: Ipsos MORI Qualitative research into experiences of online shopping and handling VAT December 2016 – January 2017

Participants perceived the payment and collection of VAT and customs duties as a transaction that took place between the seller and HMRC. They did not consider that they had responsibilities towards or were involved in the transaction process of paying these taxes or levies; again, this appeared to be a result of UK consumers' distant relationship with VAT and customs duties.

"I would say responsibility is on the seller to ensure VAT is added to their prices and they then have a responsibility to ensure tax paid to the HMRC. Not entirely sure on Customs Duty however. In terms of impacts if correct VAT not paid, I would assume there would be consequences for the seller/business."

Male, 35-54

Given consumers lack of engagement with VAT and customs duties, this presents a particular opportunity for non-compliant overseas sellers to exploit a gap in the tax transaction process. Participants' everyday shopping experiences had led them to expect that all necessary taxes will automatically be applied to their purchases and so do not check whether these taxes have been added at the point of purchase. As a result, this can be seen to create

an opportunity that non-compliant sellers can take advantage of with unlawful behaviour, as it is not being monitored by the consumer within the transaction.

5.3 Paying for VAT and customs duties

When consumers were asked to pay VAT and customs duties as part of an online purchase, their views on doing so varied depending on the stage of the purchase they became aware of the charge. Consumers were happy to pay any duties or taxes if they were clearly stated prior to purchase. During the early part of their purchase, consumers were gathering information about the range of products available and comparing prices offered by different sellers. Knowing about additional charges upfront allowed them to make an informed comparison between different sellers and make a decision based on that information.

"I would be overall fine with paying a customs charge or VAT, in much the same way as if it was a delivery or postage charge"

Male, 18-34

Participants were much less happy with these costs if they discovered that they had been applied at the point of checkout and the expected purchase price had increased. Upon finding that the price was higher than anticipated after choosing the seller, consumers felt that these taxes were hidden costs, used by the seller in a way to hide the true price of the item when another seller may be offering a more competitive price overall.

"I can't imagine getting to the end of a transaction then seeing up to a 20% price increase and not cancelling the order"

Male, 18-34

Participants stated they would be very unhappy if they had to pay any additional taxes or duties at the point of collection. In this instance, participants felt the seller had purposefully misled them by presenting an attractive selling price on the website, when they faced an additional charge after the transaction. From the participants' perspective, they felt they had not agreed to paying what they perceived as additional fees on top of the stated price. Beyond this, additional handling fees could increase purchase costs, which participants found annoying as they made the overall outlay much higher than anticipated.

"I had to pay duties to collect my package because it hadn't been declared properly by the seller. That was frustrating!"⁶

Female, 18-34

Participants recognised they were highly price sensitive when shopping online and that sellers could make themselves more attractive to shoppers by not charging VAT and selling goods at a lower price. However, consumers also expected that VAT and customs duties would be included in the price when shopping online as this was in line with their previous experience when shopping on the high street or from other sellers on the internet. Consumers also felt that to be a more transparent approach.

⁶ In this case, the participant would have paid the appropriate custom duties as well as an administration fee by the postage carrier to release their goods.

5.4 Attitudes towards evasion and fraudulent behaviour

As part of the research, participants were made aware of misrepresentation and undervaluation as tactics to evade taxes and duties and employed by certain overseas sellers to gain a commercial advantage over other sellers, by evading taxes and duties. Participants were given the following information:

The things we buy online can sometimes be labelled in a way that doesn't show their whole value. For example, when it's posted a complete product might be described just as 'parts,' or the full contents might not be listed. Sometimes goods can be labelled as a 'gift' on the postage (which can make them tax free) when they were actually bought, or the seller has undervalued the item by writing on the packaging that it is worth less than what it was sold for.

In some cases this mislabelling is accidental, but it can also be deliberate. Often, but not always, labelling products in these ways means that they are not taxed as they should be.

Further to this, participants were also made aware of the extent of the impact that this behaviour has on the UK economy:

HM Revenue and Customs estimates that the amount of VAT revenue forgone is £1-1.5 billion. HM Revenue and Customs are also worried about the impact this will have on the UK economy, and UK based businesses' ability to compete in the market.

Participants who had not experienced mislabelling or misrepresentation (or had not recognised this) were unaware of this behaviour and thus its impact on the economy. Those who had experienced mislabelling or misrepresentation tended not to have considered why sellers might label goods as a gift or under declare their value. It was only when prompted on this that they recognised that this might be in order to avoid paying VAT and customs duty.

Participants' generally fell into one of four groups, which corresponded to the level of concern and engagement they had with the issue, as can be seen in figure 5.2:

Figure 5.2: Responses to evasive behaviour



Source: Ipsos MORI Qualitative research into experiences of online shopping and handling VAT December 2016 – January 2017

Highly engaged with tackling evasion: This group was the most concerned and tended to have pre-existing doubts about using overseas sellers, so was taking action to avoid shopping with them. The additional information about the illegality of the behaviour of non-compliant sellers and the impact on the economy cemented in their minds that they had done the right thing in avoiding overseas vendors. This group felt personally engaged with supporting HMRC in combatting this behaviour and wanted a channel for reporting non-compliant sellers when they were detected. This response poses risks as participants spoke about avoiding all overseas sellers, including those who were compliant with VAT and customs duties requirements, in order to ensure that they were not using a non-compliant seller.

"£1.5 billion is not loose change. It is affecting UK businesses and consumers. I'm reluctant now to order from overseas"

Male, 18-34

Somewhat engaged with tackling evasion: There was also a group of participants for whom being made aware of the illegality of these activities led them to want to avoid non-compliant overseas sellers. This group associated evasion of tax by non-compliant sellers with them offering poor quality and perhaps counterfeit goods.

"Now that I know this is happening and especially how it's affecting the economy of our country I will try and find out how to recognise mislabelling and foreign companies"

Female, 55+

Somewhat indifferent towards tackling evasion: For one group, information about lost tax revenue prompted a change of attitudes. This group were less concerned with legality of behaviour, but the impact on economy made them think again about shopping with non-compliant sellers. When participants considered the impact of this behaviour on the economy, this made the impact effect of this VAT evasion feel more tangible. In turn, participants could see how it would be difficult for smaller UK businesses to compete with those sellers engaging in evasive activity. Overall, the cost of this evasion on the UK economy and its impact on UK businesses was the most motivating factor in encouraging consumers to avoid non-compliant overseas sellers.

"Well I don't think I'd be doing much different to what I currently do. But I'll certainly be looking to see if any of the envelopes have got like 'parts' and 'gifts' and that kind of thing [written on them]."

Male 35-54

Highly indifferent towards tackling evasion: A final group were unconcerned about the impact of misrepresentation and undervaluation and had no intention to change their behaviour to avoid non-compliant overseas sellers. These participants saw this as low-level crime and any action they could take would be too insignificant to drive change. These consumers believed that HMRC was solely responsible for resolving this issue as it was about the payment of VAT, which they saw as a matter for the seller and HMRC, with no consumer responsibility.

"Once again, as the end user, what could you do about it and what should you do about it? ...for an ordinary member of the public, it's not their business, don't get involved"

Male 55+

5.5 Summary

Participants were aware of VAT and customs duty. However, they tended not to be familiar with the rules and how they applied to different types of goods, what the exceptions were, and the thresholds at which the taxes and duty applies. Understanding of the rules was closely tied to exposure consumers had; where they had encountered VAT or customs duties in work they had much better knowledge.

Participants had little contact with VAT or customs duties on a day-to-day basis, as prices on the high street or on websites of large business tend to be inclusive of these taxes or duties. As a result, consumers did not consider the impact of these taxes not being paid. Equally, they did not think that they were responsible for the correct payment of them, seeing this as a transaction that occurs between the seller and HMRC.

Although there was low expectation of having to actively pay these taxes and duties, participants were happier to do so if they were made aware of the charges earlier in the process. They would be particularly unhappy at having to pay at the point of collecting goods, having felt misled about the true cost of the item.

Participants were made aware of misrepresentation and undervaluation and the impact this behaviour has on the economy. Responses varied by how concerned consumers were with this issue; those who felt this was a significant problem and had concerns about certain overseas sellers (based on preconceptions or experience of buying goods from overseas) were likely to be much more vigilant when shopping on marketplaces. Participants who were less worried felt this was an issue solely for HMRC to deal with and would not change their shopping behaviour.

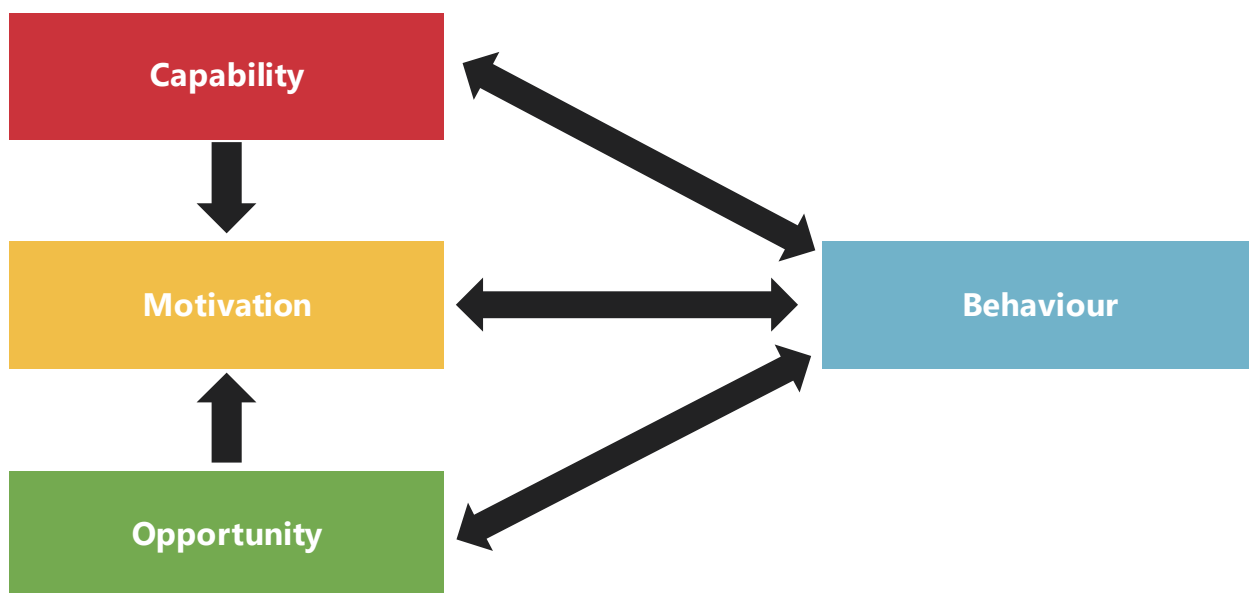
6 Potential for Behavioural Change

This section of the report will put forward some considerations for policy suggested by the research findings. The findings in this chapter are structured around the use of a behaviour change framework, which is used to understand potential ways to influence consumer behaviour when shopping overseas. This chapter concludes by recognising that a key challenge in encouraging consumers to avoid non-compliant overseas sellers is the difficulty in identifying which sellers are compliant and which are non-compliant.

6.1 The COM-B Behaviour Change Model

The considerations for increasing compliance in this area would mean changing consumer behaviour - away from using non-compliant overseas sellers and towards using compliant overseas or UK based sellers. The COM-B model of behaviour change acts as an overall framework for influencing behaviour. The model considers capability, motivation and opportunity to be the key determinants of behaviour and the interaction of these factors results in a particular action. The model proposes that to change behaviour, one or more of these factors needs to be influenced.

Figure 6.1: The COM-B Model of Behaviour Change



Source: <http://www.behaviourchangewheel.com/>

Each of the component influences on behaviour is made up of sub-factors:

Capability refers to both the physical and psychological capability required to take a particular action.

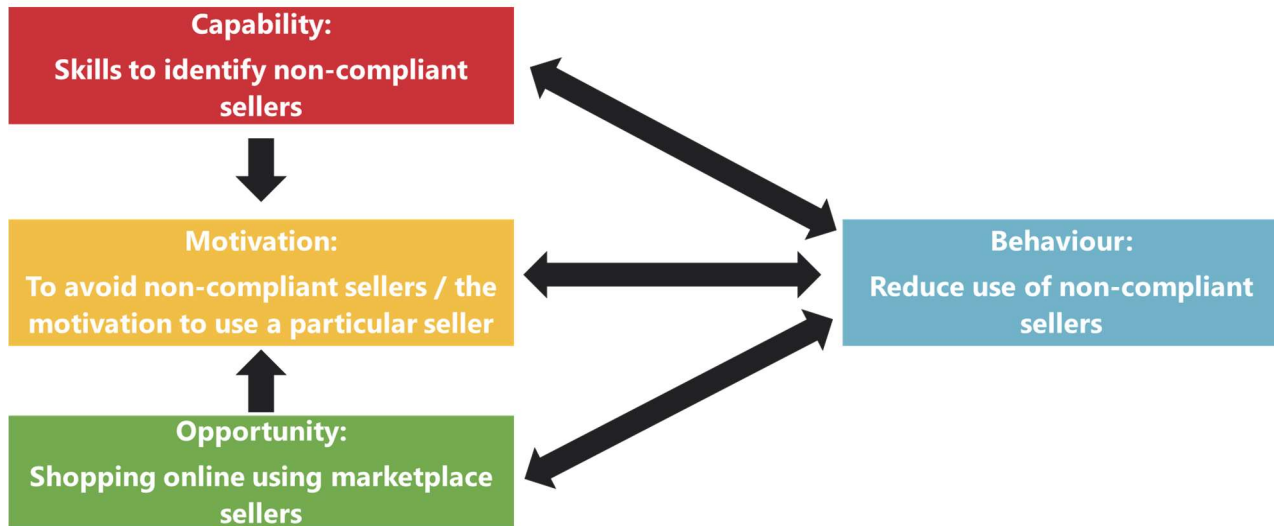
Motivation comprises automatic (instinctive) motivation and/or reflective (considered) motivation.

Opportunity includes physical and/or social opportunity, that is to be physically capable of carrying out an action and for social norms to support it.

6.2 Applying the COM-B model to shopping overseas from non-compliant sellers

The desired behavioural outcome is for consumers to reduce their use of non-compliant overseas sellers. The different elements of making a purchase from an overseas seller can be considered using the model.

Figure 6.2: Applying the COM-B model to shopping from non-compliant overseas sellers



Source: Ipsos MORI Qualitative research into experiences of online shopping and handling VAT December 2016 – January 2017

Opportunity

The physical opportunity associated with this behaviour is shopping using online marketplaces where non-compliant overseas sellers are active. To influence this, steps would need to be taken to remove or block non-compliant sellers from these marketplaces. As such, this is not a lever that can be easily used to influence the overall behaviour.

The social opportunity associated with this behaviour is whether consumers consider using non-compliant sellers is socially acceptable; this could be influenced using social norms (rules of behaviour that are widely considered normal or acceptable). Consumers who were exposed to negative comments from others in the online community about the use of non-compliant sellers felt more strongly about the importance of avoiding their use than those consumers who took part in a depth interview and were not exposed to this discussion. A challenge for the use of social norms to encourage consumers to avoid non-compliant overseas sellers would be how to make them aware of preferred behaviour (i.e. not shopping with these sellers) in the moment of making the purchase. As consumers make these purchases in a private way, where they are not observed, this may weaken the effect of social norms. However, messaging around typical behaviour at the point of checkout might be able to nudge consumers towards preferred behaviour. For example, telling consumers that a certain proportion of the UK population shops with compliant sellers may encourage them to be more discriminating in their choices.

Motivation

To encourage consumers to avoid non-compliant overseas sellers, a primary area to consider addressing would be motivation. Even where consumers have the opportunity or capability to avoid non-compliant sellers, without the motivation to do so, these opportunities would remain unacted upon and the skills would remain unused. Findings from the research suggest that both automatic (instinctive) and reflective (considered) motivation to avoid non-

compliant overseas sellers could be increased by helping consumers to see the benefits of avoiding them and the potential risks of using them. There are a number of ways in which this could be achieved:

- **Raising awareness of the issue of online VAT fraud (misrepresentation and under-valuation).** As discussed earlier, consumers were unfamiliar with the details of VAT and customs duty and therefore failed to understand how a seller would benefit from misrepresenting goods and reasons they may have for doing so. Raising awareness of this could motivate consumers to avoid non-compliant sellers by helping them see taxes which are due are not being collected. When consumers understood that non-compliant sellers were engaging in evasive activity, they were more likely to make an association between these sellers and poor quality goods, which also acted as a motivation to avoiding them.
- **Raising awareness of the impact of undervaluation and misrepresentation to the UK economy.** When this concept was introduced to consumers in the research, the explanation of the cost of this to the UK economy had a positive impact on their likelihood to want to avoid non-compliant overseas sellers. The effect of this can be enhanced by including in messaging the impact on the local economy and UK based businesses. This makes the impact of undervaluation and misrepresentation feel more tangible, helping to overcome the perception that individual purchases do not matter as they are low value or infrequent.
- **Raising awareness of action taken by HMRC to tackle the issue of misrepresentation and undervaluation with businesses.** Consumers could feel that any action they took in attempting to redress this issue would be insignificant if they were acting alone. They reacted positively to hearing about the different strategies and actions that HMRC had in place to combat non-compliant sellers. Telling consumers about the work that HMRC is doing could be an effective lever to encourage consumers to avoid these sellers.

Capability

Once consumers were motivated to avoid non-compliant overseas sellers, having the capability to identify them would also be essential to reducing their use. As discussed in chapter five, low awareness of the details and thresholds of VAT creates an opportunity for non-compliant sellers to evade this tax, as consumers are not checking whether it has been applied. Raising consumer awareness of when VAT should be applied could help to enable consumers to spot and avoid non-compliant sellers. For instance, if consumers were given simple tips on how to identify non-compliant sellers this would enable motivated consumers to avoid shopping from them. However, equipping consumers with the skills to identifying these sellers would be challenging, given the difficulty in determining which overseas sellers are compliant and which are non-compliant, and the lack of information, or misleading information presented on some websites. Moreover, sellers who have brought goods into the country to sell through fulfilment houses without paying the correct tax or customs duties are potentially harder for consumers to identify, and therefore pose a greater challenge to enabling consumers to have the capability to avoid these sellers.

6.3 Summary

The behaviour change framework suggests a number of considerations for influencing consumer behaviour in relation to shopping from non-compliant overseas sellers. To move consumers away from this behaviour it could be helpful to consider influencing the social norms around this, to make it seem less desirable to use these sellers.

Equipping consumers with the knowledge about the impact of overseas sellers on the UK economy and UK businesses could help to motivate them away from using non-compliant overseas sellers.

Raising awareness of when VAT and customs duty should be applied could help give consumers the capability to identify compliant and non-compliant overseas sellers. However, the use of fulfilment houses adds an additional layer of complexity to this, as it is not apparent which sellers are using these legitimately and which are not. For example, it cannot be assumed that a seller who is registered overseas but offers next day delivery is non-compliant as they could be legitimately using a fulfilment house and accounting for VAT. If consumers could be given simple tips on how to identify non-compliant sellers this would enable motivated consumers sufficiently motivated to avoid shopping from them.

Appendix

Appendix A: Quantitative methodology

The quantitative research was designed by HMRC and run on the Office for National Statistics (ONS) Opinion and Lifestyle Survey, in August 2016. The ONS Opinion and Lifestyle Survey is an omnibus survey that uses a random probability sample of households in Great Britain stratified by region, the proportion of households with no car, the proportion of households where the household reference person is in the National Statistics Socio-economic Classification (NS-SEC) categories one to three and the proportion of people who are aged over 65 years.

Data was collected from a total of 964 respondents who completed a module looking at online shopping activities, as part of the August 2016 wave of the survey.

Appendix B: Qualitative methodology

The qualitative research was comprised of two complementary methodologies: an online community with forty participants, and six qualitative face-to-face interviews.

The online community was deemed appropriate as the research explored online shopping behaviour. The online community allowed consumers to respond in a safe space, where all views and attitudes were welcome. The anonymity afforded by the use of pseudonyms enabled participants to provide truthful responses to questions and stimulus, which provided greater validity to the data produced within the research.

Different types of tasks were used within the online community in order to facilitate participation and to generate rich data. Solo tasks were used when the subject matter was considered more sensitive or when participants may feel that they were being observed, so responded in a more guarded way. Group tasks were used when topics were less contentious, and in situations when a more discursive environment was required to share ideas and discuss participants' attitudes.

To complement the online community, six depth interviews were also conducted. Firstly, depth interviews were used to generate data which could be used to review the findings which emerged from the online community. Secondly, as the depth interviews were conducted after the online community had closed, they provided the opportunity to fine tune the topic guide, and explore particular lines of inquiry which came out of the online community. Finally, the depth interviews also allowed for research to be conducted with particular audience types who had been less vocal on the online community (further discussion can be found in the following section).

In-depth interviews were deemed appropriate for a research area that covered potentially sensitive issues relating to compliance and behaviour. Depth interviews allowed interviewers to build rapport with customers and to explore their thoughts and attitudes towards legal issues, and to share their views of how they might change their behaviour after being made aware about the impact of misrepresentation and undervaluation.

Two topic guides were developed (one for the online community, one for the depth interviews) to cover the key themes and research questions; a copy of the online community topic guide can be found in appendix C. This supported the research team during fieldwork, ensuring that relevant data was collected and, in the case of the depth interviews, the interview kept to time.

The online community took place between 9 – 18 December 2016. Participants had to complete a total of five tasks over 10 days. As is common practice in qualitative research, once they contributed to all tasks participants were given a gift of £50 from Ipsos MORI as a gesture of thanks. All six of the depth interviews took place face-to-face in participants' homes; fieldwork was conducted between 21 – 24 January 2017. Interviews took between 45 minutes and one hour. Participants who took part in interviews were given a gift of £30 from Ipsos MORI for their time.

The data was analysed using an inductive approach, whereby anonymised data collected on the online community and interview transcripts were analysed for recurring themes. Qualitative research is used to map the range and diversity of different type of experiences rather than indicate the prevalence of any one particular experience; as such, numerical language has not been used in this report.

Analysis was underpinned by the COM-B model of behaviour change. This acts as an overall framework for influencing behaviour and is the foundation of the Behaviour Change Wheel, which was developed from 19 frameworks of behaviour change identified in a systematic literature review. The model takes its name from the factors that it sees as influencing behaviour: Capability, opportunity and motivation. The model recognises behaviour is part of an interacting system that involves all of these components and proposes that to change behaviour, one or more of these factors needs to be influenced.

Appendix B: sampling and recruitment

Participants for both the online community and the depth interviews were located and recruited via a free find method. All participants were made aware of the scope and purpose of the research at the point of recruitment and offered the opportunity to opt-out of the study. Customers were recruited by a specialist qualitative research recruiter, subcontracted by Ipsos MORI.

Ipsos MORI set various quotas in order to recruit a range of customers from different areas of the country with a range of characteristics, for the online community and the depth interviews. The quotas were set with reference to the shopping habits of the participant in the past twelve months. Quotas included: awareness of having shopped with sellers based outside of the UK, websites and marketplaces shopped on, frequency of online shopping, value of purchases, type of purchases (goods), age and gender. The final quotas for the online community and depth interviews are presented below:

40 online shoppers – online community		
Variable		(N) Participants
Primary Characteristics		
Knowingly purchased goods / services from sellers outside the UK		18
Not aware at time of purchase and realised after that purchase was from seller outside the UK		12
Have not knowingly purchased anything online from outside the UK		10
Secondary Characteristics		
Marketplace user (past 12 months)	Amazon	40
	eBay	33
	Alibaba	3
	Etsy	8
	Other marketplace	1
Frequency of online shopping	At least once a month	31
	Every 2 – 3 months	7
	Every 3 – 6 months	1
	Less often	1
Value of purchase	Under £18	33
	£19 - £49	37
	£50 - £100	33
	£100+	28
Type of purchase made	Household goods	32
	Consumer electronics	26

	Physical entertainment / education (e.g. books)	25
	Clothing and sports goods	38
Age	16-34	16
	35-54	20
	55+	4
Gender	Male	20
	Female	20

6 online shoppers - face to face interviews		
Primary Characteristics		N Participants
Knowingly purchased goods / services from sellers outside the UK		3
Not aware at time of purchase and realised after that purchase was from seller outside the UK		3
Have not knowingly purchased anything online from outside the UK		/
Secondary Characteristics		
Marketplace user (past 12 months)	Amazon	6
	eBay	3
	Alibaba	
	Etsy	3
	Other marketplace	
Frequency of online shopping	At least once a month	3
	Every 2 – 3 months	
	Every 3 – 6 months	3
	Less often	
Value of purchase	Under £18	
	£19 - £49	6
	£50 - £100	(Across all categories)
	£100+	
Type of purchase made	Household goods	3
	Consumer electronics	
	Physical entertainment / education (e.g. books)	4
	Clothing and sports goods	
Age	16-34	3
	35-54	

	55+	3
Gender	Male	3
	Female	3

In fieldwork, participants were again told of the purpose of the research; consent to take part in the online community and the depth interviews was sought from and provided by all participants, prior to the start of data collection. Data from the online community was captured and downloaded, and interviews were recorded using encrypted voice recorders, once consent had been provided by customers. All data files were password protected and securely held on the Ipsos MORI servers; only members of the research team had access to these files. Once analysis and reporting had been completed, all sensitive information was destroyed including, sample data and data files.

Appendix C: topic guide

Topic guide for online community tasks with online shoppers.

TASK ONE: Introductions and experience of online shopping

Forum 1 - Introductions

Right then, let's get started! First off, we'd really like to hear a bit about you. We're really interested to know: where you live, who you live with and, what an average day for you looks like. This is just a chance for us to get to know each other a bit, so there's no pressure to share more than you want to – think of it like small talk at a party, a way to say hello.

We'll be checking into the forum throughout the day and asking you some questions to find out a bit more about you. We're keen for everyone to have a chat on the forum, so feel free to ask questions to someone else. As a reminder, our rules of engagement can be found here. We'll be posting the next activity tomorrow, so please look out for that!

Forum 2 – Your experiences of shopping online

Hello and thank you to everyone who has posted a message on our forum! Today we'd like to find out about your online shopping habits. Please tell us:

What sort of things do you shop online for, and how often? Why do you buy these things online?

Are there any particular websites you prefer? What is it about them that you like?

Have you ever bought anything through a third party seller – like Amazon Marketplace, eBay or somewhere else – why did you chose that seller? Do you use the same sellers repeatedly or a different one each time? Why?

Have you ever had any difficulties or problems with online shopping?

As with the first forum, we're keen for everyone to discuss their experiences with each other, so please do ask questions if someone says something interesting.

TASK TWO: Decision-making and shopping

Introduction

Thanks so much for all your contributions to the group activities, we really appreciate it. We'd like you to complete this task on your own. We're curious to find out about your experiences of shopping with companies based overseas.

The task will involve working through a number of steps. Once you have added your thoughts to the box below click the 'next' button, which is in the top right of the activity section of the page. There are three steps to complete in total.

Step 1 – Decision-making around shopping

Why do you typically decide to buy things online? And is this different or the same when you're using an online marketplace like Amazon, eBay or Etsy? Why?

What are the most important things for you when you're choosing which retailer / seller to go with? This might be the price, the delivery time, whether you're buying from a trusted seller, or something else.

When you're looking to buy something online, do you look at whether it's coming from inside or outside the UK? If so, how do you find out? If not, why not?

It'd be great if you could share any specific examples with us - perhaps you've been doing some Christmas shopping lately? We're really keen to hear your thoughts!

Step 2 – Shopping from overseas sellers

Have you ever bought something online from overseas?

If you have, are there any differences for you between buying from sellers based in the UK and those based abroad? What were they?

When did you find out that the seller was based abroad – was it when you were looking at the products on the website? When you went to make the purchase? Or another point?

Are there any types of products that you wouldn't want to buy from overseas? Are there any you would prefer to buy from overseas? What are your reasons for this?

If you haven't bought something online from overseas, please let us know why not in the space below and you can move onto the next step.

We're looking forward to hearing your thoughts on this.

Step 3 – Sellers' location

Now we'd like to understand a bit about how easy it is to tell where sellers are based in the world, especially when shopping on marketplace sites like Amazon and eBay:

How do you tell where a seller is based? Are you looking for this information?

Have you ever not been sure where a seller is based? Why was it unclear? Have you ever been misled as to where you were buying your goods from?

Have you ever bought anything online and not been sure whether it's come from inside or outside the UK until it arrived?

How did you tell where it had come from - were there any signs that the item had come from abroad? For instance, any signs on the internal or external packaging or the delivery time.

Is it easier to tell when the seller is based abroad on certain websites than others? If so which sites is it easier to see on and which is it harder?

Thanks for sharing your thoughts on this – if you haven't had chance to do so you can re-visit the previous forum to catch up on the discussion there!

TASK THREE: Understanding of VAT and customs rules

Introduction

Thanks so much for all your contributions so far, we've found it so interesting to hear about your experiences of shopping online.

We have another individual task for you now. We're interested in people's understanding of VAT and customs rules when it comes to online shopping.

Don't worry if you're not sure about this, that's absolutely fine. We want to find out how much people are already aware of, so please don't feel you have to look anything up – just tell us anything you know now.

There are four steps to this task, and we really appreciate any replies you can give.

Step 1 - Understanding

To start off, can you tell us anything you know about VAT and customs duty? It could be anything you can think of, such as:

What are VAT and customs duty, and what are they for?

If you have heard about VAT and customs duty before, where did you hear about them?

Do you feel you understand them? How confident would you feel explaining them to a friend?

What do you think is their connection to online shopping?

Please don't worry if you feel that you don't know that much about VAT or customs duties, we're interested to find out whatever it is that you know.

Step 2 – Responsibilities and Impacts

When it comes to online shopping, do you know who's responsible for making sure VAT and customs duty are paid correctly? Is it the seller, the customer, the marketplace/website, or someone else? Is this always the case or does it vary?

What do you think the impact might be if the duty or VAT wasn't paid correctly? How might this affect the seller, or the customer, or the marketplace?

Step 3 – Previous experience

Have you ever been asked to pay VAT or customs duty for something you bought online, in addition to the overall price (including the delivery)? If so, what happened?

Step 4 - Opinions

If you were asked to pay VAT or customs duty while shopping online, how would you feel about it? Would it affect your choice about which product to buy or which website to use? Has it ever affected your decisions in the past? How so?

TASK FOUR: Mislabeling online and on packaging

Introduction

Thanks for all your help so far, we're really grateful for your replies!

Now we'd like to hear your views about how products sold online are labelled and packaged. Please can you read the text below; afterwards we have some questions about this.

The things we buy online can sometimes be labelled in a way that doesn't show their whole value. For example, when it's posted a complete product might be described just as 'parts,' or the full contents might not be listed. Sometimes goods can be labelled as a 'gift' on the postage (which can make them tax free) when they were actually bought, or the seller has undervalued the item by writing on the packaging that it is worth less than what it was sold for.

In some cases this mislabelling is accidental, but it can also be deliberate. Often, but not always, labelling products in these ways means that they are not taxed as they should be.

We're really keen to hear about your experiences and opinions of this mislabelling. Remember, we're not trying to catch anyone out. We just want to hear about different people's opinions on this and, as always, all your responses will be anonymous. Thanks.

Step 1 – Experiences

Have you ever received a product which was mislabelled in this way? What was the product, where did you buy it, how was it labelled? How did you realise it was mislabelled?

Why do you think products are sometimes mislabelled in this way? How do you feel about this? If you saw this online, do you think it would affect your choices of what to buy or who to buy from?

And if you haven't had the chance to have a go at the previous tasks, they are still open for you to complete.

Follow up probes (note: probes will be tailored by moderator to individual respondent and not written out verbatim):

What do you think the impacts of mislabelling might be?

On the seller?

On the customer?

On the website?

On the government?

Is this likely to be something you think about when you're shopping? What would you be looking out for?

If you knew that a product was going to be mislabelled in the ways mentioned at the start of the task, would that affect your decision to buy it or not? Why do you say that?

Do you think this is a problem? If yes, who do you think should be responsible for dealing with it?

Do you think anything should be done to change this? If so, what? If not, why not?

TASK FIVE: Options for change

Introduction

Thanks again everyone for all your help so far! Now for our last activity we want to hear your thoughts about what, if anything, the government could do to discourage people from buying goods likely to be mislabelled online.

To give you a bit of background to this, we wanted to make you aware of the situation:

HM Revenue and Customs estimates that the amount of VAT revenue forgone is £1-1.5 billion. HM Revenue and Customs are also worried about the impact this will have on the UK economy, and UK based businesses ability to compete in the market.

The government wants to raise awareness of how this practice is damaging UK business.

What do you think about the impact of this mislabelling?

Whose responsibility is it to stop this from happening?

What do you think would encourage people to stop buying from sellers who do not follow the rules around tax and customs duties? What should the government do?

Now that you know this is happening, do you think it's likely to change how you shop online? Are you more or less likely to look out for mislabelling, and do you think it will affect what you choose to buy? What might encourage you to look out for it when you're shopping?

Thanks everyone for all your replies, we really appreciate your help. It's been really interesting hearing everyone's opinions and we hope you've enjoyed it too. Thanks!

Follow up probes (note: probes will be tailored by moderator to individual respondent and not written out verbatim):

What is the impact of mentioning UK businesses on the likelihood of using overseas sellers who are evading tax? If we said this behaviour is damaging the UK high street what impact would that have?

What is the impact of mentioning £1.5 billion lost revenue?

What else could we say to discourage people from using these sellers?

Where is the best place to get these messages across - News stories, banner ads, advertising? Anywhere else?

Joanna Crossfield

Associate Director
joanna.crossfield@ipsos.com

Ralph Halliday

Senior Research Executive
ralph.halliday@ipsos.com

For more information

3 Thomas More Square
London
E1W 1YW

t: +44 (0)20 3059 5000

www.ipsos-mori.com

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