

# Knowledge and Attitudes of Online Sellers in China to UK tax compliance

HM Revenue and Customs Research Report 612

April 2021





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Published by HM Revenue and Customs, July 2021  
[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

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# 1 Executive Summary

- 1.1 This report outlines the findings from research commissioned by HMRC (Her Majesty's Revenue and Customs) to gain a greater understanding of the knowledge, attitudes and behaviours of Chinese online sellers in relation to their tax obligations when selling goods to the UK.
- 1.2 The research is based on 30 qualitative depth interviews with businesses in China selling products in the UK via online channels, carried out in January and February 2021. The interviews were conducted in Chinese languages by telephone interviewers based in London, using a sample supplied by HMRC.
- 1.3 This approach brings together opinions and experiences of online sellers to build up a detailed picture of the range of ways in which sellers in China interact with the UK tax and customs environment. As this is qualitative research no percentages or numbers of participants are provided, other than when a statement is based on a single interview. Because the information gathered is qualitative in nature, we cannot quantify the number or proportion of online sellers in China who share these views or experiences. We are however confident the number of sellers interviewed and the methodology chosen is suitable to answer our research questions.
- 1.4 The specific aims of the research include understanding:
  - Online Sellers' knowledge and understanding of the UK VAT and Customs rules applying to their goods
  - How these sellers learn to transact and engage with their UK customers;
  - The level of their awareness of UK VAT changes introduced in 2021;
  - How the goods they sell are moved from China to the UK;
  - Which, if any, Online Marketplaces (OMPs) are used by online sellers when selling to the UK and how they engage/use these platforms
  - How these sellers ensure they are compliant with their UK tax and customs obligations; and
  - What type of additional support and/or information would help them to meet their UK tax and customs obligations?

## Key findings

### **Sellers were mostly passive on UK tax and customs matters**

- 1.5 Whilst there were high levels of awareness of recent changes to the UK tax system regarding VAT charged on online sales to the UK from 1st January 2021, the depth of understanding varied between online sellers. Many were open in admitting that they did not have a detailed understanding of the specific policy.
- 1.6 Furthermore, the level of understanding was personal to each seller – there was no clear pattern in levels of sellers' understanding that emerged, e.g. in regard to length of time exporting to the UK, goods exported, or the proportion of their export business going to the UK.

- 1.7 In this context, Chinese online sellers were mostly passive in their efforts to understand their UK tax and customs matters. They were generally happy to trust their various paid intermediary agents to provide this information and to take care of the details on tax and customs matters on their behalf.
- 1.8 Although the research did not specifically reference Brexit, it was commonly referred to by sellers. Sellers advised that Brexit was a big news story with high prominence in China. The changes to the UK tax and customs systems were commonly viewed by sellers through a 'Brexit lens' and thought of as a related consequence of this. This was both related to the specific VAT tax changes from 1st January 2021 but also more broadly to exporting to the UK and the impact it might have for Chinese businesses in the future.

### **HMRC should share information in Chinese**

- 1.9 Most sellers felt it was difficult to find and understand information regarding changes to the UK tax / customs regime. This was largely due to a lack of access to reliable information in Chinese. Chinese sellers often translated information they received from other sources, including HMRC guidance, and were therefore reliant on the quality of their translation and their own interpretations.
- 1.10 Translation was a key point which came up in nearly all interviews. There was a common theme that any future Information aimed at educating Chinese sellers needs to be easily understood and accessible. There was a notable appetite among sellers for HMRC to produce and share seller information in the Chinese language.
- 1.11 There is evidence of the willingness of Chinese online sellers to engage with HMRC demonstrated by their requests for direct contact via email. However, it should be noted that not all the sellers favoured email due to the risk of HMRC correspondence being lost in overloaded email inboxes or being caught by spam filtering software. Alongside email, it was suggested that HMRC should consider other avenues of communication including using the online seller portals of individual Online Marketplaces, and via Chinese social media platforms such as "WeChat".
- 1.12 "WeChat" was mentioned regularly with online sellers explaining it is very popular in China and is used by businesses both as source of information and as a forum to network and discuss information. One of the main Online Marketplaces has their own corporate account on WeChat and it was suggested that HMRC could also set up a corporate account to engage directly with Chinese sellers.

### **A single Online Marketplace (OMP) dominates the market**

- 1.13 Almost all the sellers interviewed were using a single OMP. This OMP was considered by the sellers, to be very popular in the UK and was seen as the 'obvious' choice to sell products through for a number of reasons. These included the fact that the processes required for Chinese online businesses to sell on the platform were considered to be very simple and that the OMP mentioned also provides relevant information to the sellers.
- 1.14 A further advantage was that this OMP had its own fulfilment service. As a result, online sellers had little or no need to directly engage with UK customers. Where this OMP and fulfilment service were used, they were responsible for all customer communications including arranging delivery and dealing with end-customer complaints.

1.15 Aside from this OMP there was, to a lesser extent, one other OMP, also popular in the UK that was used by the sellers interviewed. Also, one further OMP based in China was mentioned, though use of this latter OMP was not very common for UK sales.

### **The use of external agents was commonplace**

1.16 The use of external agents by the sellers interviewed was commonplace. This was reported as standard practice by online sellers in China. Most sellers used a combination of tax agents, shipping agents and (as referenced above) the main OMP's fulfilment service.

1.17 In relation to what role these external agents play in the selling process, the tax agents assisted with tax calculations, ensuring the correct amount of tax was returned, and providing relevant information. Sellers were commonly happy to delegate this responsibility and there was evidence that they strongly rely on the tax agent's expertise to ensure that they were compliant with their UK tax obligations. There was little evidence to suggest that sellers undertook rigorous due diligence to check the work of their agents. These relationships were primarily based on recommendations and trust.

1.18 In addition to their tax agents, sellers were also reliant on shipping agents to provide services and necessary information to help with customs, occasionally also getting information about goods categorisation from the OMP, prior to handing over to the shipping agent. Again, there was little evidence to suggest that the sellers undertook rigorous due diligence to check the work of their agent.

### **Shipping and fulfilment services were critical to business processes**

1.19 The dominant OMP being used by the sellers interviewed, offers a fulfilment service which was widely used by sellers globally, not just in China. In terms of how this worked in practice for these sellers:

- most sellers engaged a shipping agent to take care of delivering the goods to the OMP's warehouse which was typically located in the UK or a location in Europe;
- the method of delivery to the OMP's warehouse varied and was based on business priority. Air freight was the fastest option but was expensive, whereas sea freight took longer but was cheaper. Rail freight was also used occasionally; and
- once the goods arrive at the OMP's warehouse in the UK (or Europe), the OMP's fulfilment service takes care of delivering the goods to the end customer.

1.20 The sellers interviewed expressed some concerns that Brexit may make it more complicated to ship goods to the UK via Europe due to additional customs checks. Because of this, Chinese online sellers who also delivered goods to Europe were considering using split shipments (shipping goods to the UK in addition to a location in Europe) where previously they would ship all their goods to a single location within the EU.

### **Online sellers aimed to comply with UK regulations – but errors are possible**

1.21 Every online seller stated their belief that it was very important to comply with the relevant regulations in order to export to the UK. Furthermore, sellers were open to engagement with HMRC about future compliance.

- 1.22 There was a common assumption that unless notified otherwise, they were acting in compliance with the relevant UK tax and customs obligations and hence HMRC were satisfied with their conduct.
- 1.23 One area where the analysis was unable to establish clarity however, was in the role of the tax “representative” (as opposed to “tax agent”). However, the term “VAT representative” (or “tax representative” which was often referred to) was not familiar to the sellers interviewed. Few of them were able to explain when asked, the distinction between a tax agent and a representative. This may suggest a gap in their knowledge which could lead to errors but is not evidence that the sellers were deliberately non-compliant. When probed on their tax arrangements, it was regularly mentioned that their agent had a “partner” based in the UK or that there was an office in the UK. Where this is the case these sellers could potentially be compliant, by virtue of having an (albeit indirectly) appointed VAT representative in the UK, whose representation they are not aware of.

## 2 Background

### Context

- 2.1 China is one of the UK's main international trading partners. According to the latest available data, trade in goods with China in April to June 2020 was worth £14.3bn, placing China third in terms of total volume of trade behind the United States and Germany<sup>1</sup>.
- 2.2 Many Chinese businesses sell goods to consumers in the UK using Online Marketplaces (OMPs). The precise numbers of such businesses are difficult to estimate from the available data. Overseas-based businesses selling to UK consumers in this way must ensure customs duties are paid regarding the import of goods they sell and must also comply with a series of rules regarding payment of VAT (Value Added Tax)<sup>2</sup>.
- 2.3 Prior to this research, HMRC identified from their customs and tax compliance activity that online sellers based in China may have difficulty understanding and undertaking their UK customs and tax obligations correctly. This may have created a risk of underpayment of VAT on these imports. A new model for the VAT treatment of goods was introduced on January 1<sup>st</sup> 2021 with the end of the Brexit transition period, to ensure that goods from EU and non-EU countries are treated in the same way, and to improve the effectiveness of VAT collection on imported goods. Specifically, the changes seek to address the problem of overseas sellers failing to pay the right amount of VAT on sales of goods that are already in the UK at the point of sale<sup>3</sup>.

### Objectives

- 2.4 The primary aim of the research was to support HMRC's efforts to gain a greater understanding of the knowledge, attitudes and behaviour of online sellers based in China in relation to their tax and customs obligations in the UK. This will enable them to meet their commitments under the 2018 Memorandum of Understanding between the UK and China, committing to closer customs cooperation.

The specific aims of the research include understanding:

- Online Sellers knowledge and understanding of the UK VAT and Customs rules applying to their goods
- How these sellers learn to transact and engage with their UK customers;
- The level of their awareness of UK VAT changes introduced in 2021;
- How the goods they sell are moved from China to the UK; if any Online Marketplaces (OMPs) are used by online sellers when selling to the UK and how they engage/use these platforms
- How these sellers ensure they are compliant with their UK tax and customs obligations; and
- What type of additional support and/or information would help them to meet their UK tax and customs obligations?

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<sup>1</sup> Office for National Statistics (2021). *UK Trading Partners and Trade Relationships: 2020*. 2 Dec 2020. Downloaded at: [www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/uktradingpartnersananalysisoftraderelationships/2020](http://www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/uktradingpartnersananalysisoftraderelationships/2020). Figures exclude unspecified goods.

<sup>2</sup> HMRC (2021). *Businesses selling goods in the UK using online marketplaces*. 31 Dec 2020. Downloaded at: [www.gov.uk/guidance/vat-overseas-businesses-using-an-online-marketplace-to-sell-goods-in-the-uk](http://www.gov.uk/guidance/vat-overseas-businesses-using-an-online-marketplace-to-sell-goods-in-the-uk).

<sup>3</sup> HMRC (2020). *Changes to VAT treatment of overseas goods sold to customers from 1 January 2021*. 3 Dec 2020. Downloaded at: <https://www.gov.uk/government/publications/changes-to-vat-treatment-of-overseas-goods-sold-to-customers-from-1-january-2021/changes-to-vat-treatment-of-overseas-goods-sold-to-customers-from-1-january-2021>.



## 3 Methodology

### Introduction

- 3.1 The research is based on 30 qualitative depth interviews with businesses in China selling products in the UK via online channels, carried out in January and February 2021. The interviews were conducted in Chinese languages by telephone interviewers based in London, using a sample supplied by HMRC.
- 3.2 The use of a qualitative methodology was a considered choice. The research questions focused on reasons for taking decisions, and fine detail of business practices among online sellers. This increased the value of a qualitative approach for in-depth understanding of interviewee motivations and levels of understanding. This is because a qualitative interview, with its greater length and greater permitted use of interviewer discretion, allows the interviewer to probe further for detailed explanations and explore reasons for decisions and actions taken by the interviewee and their business. This means that no percentage or absolute figures can be produced from the research, and there are no numerical outputs such as data tables. The value of the research comes from the detailed insights into attitudes and practices among online sellers.

### Sample

- 3.3 A starting sample file was provided by HMRC of 1,500 businesses randomly selected from their records of businesses based in China registered for VAT and Customs purposes, in order to retail goods to consumers in the UK, including via online marketplaces.
- 3.4 The sample included telephone number, email address and postal address, typically all in China. A cleaning process was carried out to prepare the sample for use. Only records with a valid phone number in China were eligible for research. More detail on sample cleaning is provided in the Technical Appendix.

### Segmentation

- 3.5 The sample did not contain a large quantity of information about sellers or agents; although some qualitative industrial sector information was available, this was not collected in a form to allow a consistent classification. It was possible through the use of an algorithm on the addresses to classify the sample by region of China, allowing geographical targeting.

### Topic guide

- 3.6 The topic guide was designed collaboratively by HMRC and IFF Research, prioritising ease of translation and understanding by respondents, avoiding tax jargon wherever possible, and consulting with translators where this was not possible.
- 3.7 The final topic guide, designed to last 40 to 60 minutes, covered the following subject areas:
  - Introduction, including full data protection information;
  - Current approach to UK tax and customs obligations;
  - Understanding of tax and customs regulations;
  - Implementing tax and customs regulation, and new changes to these.

3.8 Topic guides and materials were made available in both English and Simplified Chinese script for ease of interviewing and analysis. The topic guide is included the Annex.

### Fieldwork technique

3.9 Businesses sampled were notified of the research via email<sup>4</sup> in December 2020, providing an opportunity to opt out, or to book an appointment ahead of the start of the interviewing period. In total, it was possible to send emails to 1,493 of the 1,500 email addresses. Emails were sent in Simplified Chinese script and English for the People’s Republic of China, and Simplified Chinese script, Written Cantonese script and English for Hong Kong and Macau. Simplified Chinese script is to a large extent language-neutral and can therefore be read in any Chinese language or dialect.

3.10 Interviews were recruited and carried out by trained London-based interviewers who were fluent in Mandarin and either Yuehai or Taihu Wu, depending on the region of China to be called. All sample records were loaded into the interviewing systems so that they were available for the recruiters to call. All interviews were carried out and recorded via IFF Research’s secure systems, which use a secure connection directly to servers located on IFF Research premises, for guaranteed confidentiality once within the UK telephone system.

3.11 Hundreds of other languages and dialects are spoken. However, the businesses making online sales to the UK were found to be strongly concentrated in the regions shown below, as well as in a number of natively Mandarin speaking locations (e.g., Beijing, Tianjin). There was therefore no strong advantage in offering additional languages.

### Achieved sample

3.12 30 depth interviews were carried out with Chinese online sellers. Initially, the intention was to interview a mix of sellers and agents, but it became clear that it would be very difficult to identify and recruit a sufficient number of agents. The priority for the research had always been the sellers, so the decision was made to conduct interviews with sellers only.

3.13 A good spread by Chinese language region was achieved, as shown in 3.1.

**Table 3.1 Completed interviews, by language region**

	Completed	Target	% of target achieved	Drawn sample
Mandarin	16	17	94%	470
Yuehai	7	7	100%	852
Taihu Wu	7	6	117%	178
<b>Total</b>	<b>30</b>	<b>30</b>	<b>100%</b>	<b>1,500</b>

Source: IFF Research survey statistics.

<sup>4</sup> The intention had been to notify respondents via post, but due to delays in postal services caused by the Covid-19 pandemic, and difficulties with transliteration of Chinese addresses into English, an email-based approach was used.

3.14 Additional breakdowns of sample can be found in the Technical Annex.

## Analysis

3.15 A rigorous analysis process followed the fieldwork, including:

- Translation of responses into English for analysis by the interviewing team;
- Completion of an analysis framework to arrange responses into topics and allow 'at-a-glance' comparisons of different business types;
- A period of study of the analysis framework by all members of the research team;
- An analysis meeting to discuss lessons learned in-depth.

## How to read this report

3.16 This report, based upon the findings from these 30 interviews, follows a number of analysis conventions. In particular, no percentages or numbers of interviewees are given in the report, other than when a statement is based on a single interview. This is because the information gathered is qualitative in nature; we cannot quantify the number or proportion of online sellers in China who share these views or experiences from the small number of interviews carried out. It would not add meaning to include percentages, and it might be considered misleading since they might not be representative of the wider population of online sellers in China. However, it is possible to use the interviews to bring together opinions and experiences shared by interviewees to build up a detailed picture of the range of ways in which such businesses interact with the tax and customs environment.

3.17 Themes presented throughout the report are based upon the perception and opinion of participants, and therefore subject to respondent misunderstanding. Although every effort was made to ensure the questions asked in interviews were as easily and widely understood as possible, respondent knowledge and recall of their purchase may in some cases be incomplete.

## 4 Awareness and understanding of the UK tax system

### Key findings:

- In general, sellers had a low understanding of UK tax related matters. Tax was acknowledged to be complicated, and it was typical to delegate the more technical aspects to trusted agents.
- That said, awareness of the VAT tax changes was high. Typically, sellers had been notified of upcoming changes by their agents or by their Online Market Place (OMP).
- Brexit was a news story with high prominence in China and changes to the tax and customs systems were often viewed through a 'Brexit lens'. This was related to the specific VAT tax changes but also more broadly to exporting to the UK.

### Understanding of tax and customs

- 4.1 In general, the sellers had a relatively limited understanding of their UK tax and customs obligations. They had a view of the broad picture and what it might mean for their business, but they were unclear on the details.

*“There is a lot of information about the UK VAT and customers regulation, and we know the information that relates to our business which is enough.”*

**Sports items, 25% of export business, 2 and a half years**

- 4.2 There were some sellers who were able to give a more detailed account of their tax and customs obligations, but this was not common. Furthermore, levels of understanding were based on the personal inclinations of the individuals interviewed. The analysis found no pattern in levels of understanding when accounting for length of time conducting business in the UK market, proportion of overall exports to the UK market, or on the category of goods sold.
- 4.3 As will be discussed in more detail in chapter five, the more technical aspects of tax and customs were outsourced to various agents. As of 1<sup>st</sup> January 2021, due to new legislative requirements, their OMP would automatically collect and account for VAT and the fulfilment service attached to the OMP would issue logistical instructions which the businesses would follow. Because of this, it was not seen as a necessity for most Chinese online sellers to have a firm grasp on the small details.
- 4.4 It is important to note that this lack of detailed understanding was not considered a problem on the part of the sellers. They were comfortable outsourcing this responsibility. They trusted the expertise of their agents and valued the convenience of outsourcing.
- 4.5 There was an acknowledgement that UK tax and customs are complicated, but generally they felt that they knew enough to be confident that they were compliant.

## Awareness of changes

- 4.6 Whilst understanding was low, awareness of the VAT changes was high. The vast majority of sellers were aware of the changes, with only a small number stating they were unaware. Exactly what these changes meant for their businesses, however, was not yet clear for the majority.
- 4.7 Typically, sellers had been notified of upcoming changes by their agents or by the OMP.
- 4.8 Changes to tax were often viewed through a 'Brexit lens'. This is not just related to tax, any change in their business dealings with the UK was often viewed in the context of Brexit and what that entailed for importers. Brexit was a news story with high prominence in China.
- 4.9 Brexit was not covered in the discussion guide as a question or as a probe, meaning that all references to Brexit during the interviews were instigated by the seller. Brexit was referenced in three ways –
- Spontaneously – it was the first thing some that sellers thought about when considering their business dealings in the UK market. In some instances, it was a factor in decision making as to whether to expand in the market or not.
  - In regard to shipping and customs – it was expected that it will become more complicated to ship products to the UK, particularly if the business's typical practice was to ship via Europe. Some sellers had concerns with regards to this.
  - 'Changes' in a broad sense – Brexit was often mentioned in response to questioning on tax changes, but the sentiment was generally broader than tax.

## Compliance with tax and customs obligations

- 4.10 Every seller stated that it was very important to comply with the relevant regulations in order to export to the UK.

*“We have to export our products to UK, and we have to follow the rules and regulations. If there are any issues, since I am not in UK, I can’t deal with it. So, I think it is very important to comply with all the related regulations.”*

**Kitchen products, 100% of export business in UK, 1 year**

- 4.11 Whilst it was not an aim to investigate whether the sellers were compliant with their UK tax and customs, the research found no evidence of deliberate non-compliance with UK tax and customs obligations among sellers participating in the research. On the contrary, compliance was seen as a vital pre-requisite to trading in the UK market. Amongst the sellers interviewed, non-compliance was more likely to be a result of error.

- 4.12 Many stated that they were aware of the guidance published by HMRC. However, it was not always clear whether they were referring specifically to HMRC guidance or just guidance generally.

- 4.13 Whilst it was the case that detailed understanding of tax and customs obligations was generally low, this had not been a significant area of concern for the sellers. As most of the sellers were not intimately involved in tax affairs and tended to delegate this responsibility to others, there was an assumption that unless they had been notified otherwise, they were meeting all of their obligations and were fully compliant.

*“We didn’t receive emails from HMRC which I think is good. That means we have been paying tax without any issues.”*

**Headphones, 10% of export business in UK, 2 years**

## 5 Business practices

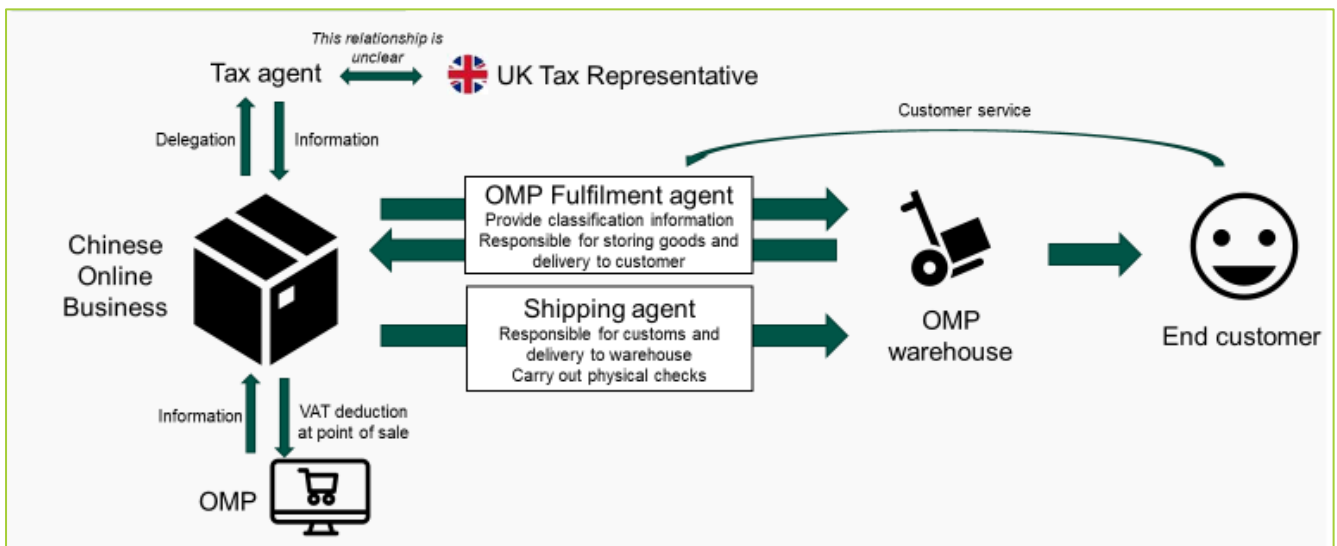
### Key findings:

- Most Chinese businesses sell their goods to the UK via a dominant OMP which they rely on for fulfilment services, relevant news and regulation updates.
- Delegation of responsibility to third party partners was a common practice. Usually this included a tax agent, shipping agent, and fulfilment services.
- Shipping agents were relied upon for transport, liaising with the fulfilment service at the destination, and for customs checks and information.
- Brexit brought a new layer of confusion and slight uncertainty for sellers when it comes to confidence in following regulation and business practice updates.
- The use of tax agents was standard practice. Sellers recognised the importance of compliance but were mostly passive actors regarding tax matters. Their involvement mainly consisted of monitoring and oversight of the work of agents.
- In most cases, tax agents were based in China and all communication took place in Chinese. There was one instance in which a seller was dealing directly with a tax agent in the UK who spoke Chinese.
- The term VAT representative was not familiar to sellers. It was common for their tax agents to have partnerships in the UK or to be a part of an international firm with offices in the UK.

### Typical business process

- 5.1 Most common business practices relied quite heavily on delegation of responsibility to third parties for most, if not all of the steps in the sale process. Most sellers used third party Online Marketplaces (OMPs), shipping agents, fulfilment services and external tax agents for their sales to the UK.
- 5.2 The typical business process is represented in Figure 5.1 below, with details of their processes covered further in the rest of this section. Please note this diagram is a schematic representation of general business processes. It does not necessarily reflect individual business practice or the standard approach of all Chinese online businesses exporting to the UK.

Figure 5.1 Schematic representation of a typical business system



5.3 Chinese online businesses tended to use only one OMP through which to sell their products to the UK. Although there were some cases where they used two different OMPs, there was a clear preference for a single OMP through which they sold the majority of their stock, with the second OMP acting as more of a back-up and usually shipping directly from China due to the low number of orders. The OMP, apart from providing a platform for sales, also provided information, news and updates on relevant regulation regarding goods classification, customs and taxes.

5.4 Furthermore, the main OMP used also offered and indeed encouraged the use of their own fulfilment services. This meant that sellers only need to arrange bulk transport to the UK, and everything from warehousing, sale tracking, picking, packing, delivery, to customer support and returns, was handled by the OMP's fulfilment service.

5.5 All but one seller opted to ship their goods to the UK via a shipping agent, due to the additional customs information and support the shipping agents provided. The shipping agent makes sure the goods pass customs and will often be responsible for physical checks. Once in the UK, they then arrange the transfer of goods to the fulfilment services using details provided by the seller to their management software, so that from the moment the goods leave China, the original seller has no further direct involvement.

*"The products are shipped to the UK, directly to the [OMP's] warehouse. When the customers place an order in London, [OMP] will draw our products from its warehouse and deliver to the end customer directly. It only takes 2-3 days to deliver our products to end customers which is fast and saves a lot of time. Since 2017, we do not ship our products to UK directly to the customer but use [the fulfilment] service and keep our inventory in UK [OMP] warehouse. It is more convenient to us and also [ensures] the products will be delivered to [our] end customers on time. We can avoid the complaints from customers about late shipment. [OMP] bear all the logistic responsibilities and we do not need to worry about it."*

**Sports items, 30% of export business in UK, 3 years**

5.6 Another important element for the businesses was their external tax agent. They tend to only work with one, based in China, to which they delegate the calculations of their import, sale and VAT taxes. The tax agent was also expected to provide updates regarding changes in legislation and regulation and was used as a source of information when any clarifications were needed.



- 5.7 While some businesses mentioned that the tax agent they use works with a partner company in the UK in order to ensure compliance, most sellers were unsure or unaware whether they also had a tax representative in the UK. The relationship between the China based tax agents and UK tax representatives was unclear from this research.

### Online Marketplaces and fulfilment services

- 5.8 A single OMP dominates the landscape. All but two of the sellers interviewed used the same OMP to sell their products to the UK market. Using this OMP was seen as the obvious choice as it is straightforward to set up and it is very popular in the UK, making it easier to reach customers. None of the sellers indicated that this was a business decision that required much analysis. Some sellers also liked that they could take advantage of the platform's built in search optimisation and advertising for what they considered to be reasonable commission.
- 5.9 Some businesses also used an online auction site, but this was not common amongst the sellers who participated in this research. A few used local Chinese sites but only for sales to China, not the UK. Only one business used their own website, though this accounted for a small minority of their sales as they also used the main OMP and the auction site, and most of their sales were still delivered through the main OMP.
- 5.10 Nearly everybody traded using a single brand and had a single account on the OMP. This was seen as a simpler way of doing business which did not incur additional charges from having multiple accounts.
- 5.11 The most popular OMP has its own fulfilment service which was widely used. All but one of the sellers using the platform also opted into their fulfilment services. The fulfilment service was seen as a natural extension of selling on the OMP and was mentioned as a great advantage of using the platform. Businesses were further incentivised to use the fulfilment service by gaining higher prominence on the platform if they did so.

*“Almost all sellers are using the [OMP] fulfilment service. It is easier and convenient for our current company operations. They will provide the entire fulfilment service to us. Everything will be arranged according to OMP's standard process. OMP will charge us a delivery fee for each order.”*

**Kitchen and home products, 10% of exports to the UK, 3 years**

- 5.12 The most common advantage mentioned was that the fulfilment service was very convenient. It simplified the process significantly for the sellers, by reducing the need for their involvement in logistics and communication at the point of sale. According to the sellers, the direct link between the OMP and the fulfilment service means that what might otherwise have been a complex process for the sellers is now handled automatically, and efficiently, also speeding up the delivery times for customers. It was also mentioned that this gives sellers better visibility and ranking on the platform.

*“Our products will be shipped from China to [OMP] warehouse via shipping agent. Then I use [OMP fulfilment service] service. If you use [OMP fulfilment service] your ranking on [OMP] will be higher and easier to be purchased by buyers. If we arranged the shipment ourselves to customers, it would take longer time and there is higher chance of lost parcels. But this way I am very happy with the service and it's all dealt with by them.”*

**Household products, 100% of exports to the UK, less than a year.**

- 5.13 The process of selling through the incorporated fulfilment service was recurrently described as incredibly convenient, fast and easy. A common comment was that they ‘take care of everything’.

*“We use fulfilment by [OMP] because they deal with everything. It is a one-stop service, and they will deal with everything for us. Once we have registered the account, you can choose the service. [OMP] suggest online sellers to use [OMP fulfilment service]. There are more benefits for sellers if they are using this service as they will have better visit traffic or back-end setting etc.”*

**Office, home and garden products, 20% exports to the UK, 1 year.**

- 5.14 Desk research into the services offered by the respective OMP fulfilment service confirmed the almost complete transfer of responsibility regarding fulfilling orders, as well the use of incentives for sellers to use this service.
- 5.15 Another reason the fulfilment service was so popular was because sellers felt they offered straightforward instructions for categorisation and labelling. Sellers simply needed to ‘input the details in the system’.
- 5.16 It was difficult to ascertain exactly what sellers meant when they talked about categorisation and labelling. This was mentioned in the context of tax and customs, but it was unclear whether categorisation criteria from the OMP was the same as the customs tariff classifications or platform specific.
- 5.17 Regarding customs specifically, sellers said they rely primarily on information not from the OMP, but from their tax and shipping agents, the roles of which are discussed in more detail below.
- 5.18 Regardless of the source of information and support, sellers were involved in completing the customs related paperwork and checks. They reported “filling out the forms according to the customs codes”, labelling with details such as the product country of origin and performing checks.
- 5.19 While most sellers mentioned physical checks were conducted, the responsibility for who did this varied. Some did it themselves, but many relied on their shipping agent, factory or warehouse. Any additional physical checks or labelling that were required were seen as straightforward standard procedure.

*“Usually, the factory will check it for us. Otherwise, we will do the checking by ourselves. [OMP] has standards that we should follow, and we can only sell our products after their approval. For custom checks, we just provide the necessary documents. My product is simple, so [the process] is not too complicated for me.”*

**Leather wallets, 40% exports to the UK, 2 years**

*“We will do the checks at our workplace/factory and then pack all the products as per required. Prior to shipping our products, the logistics company will check again. I am not sure what the labelling requirements are as I don’t deal with them directly.”*

**Maternity and children’s clothes, 5% exports to the UK, 2 years**

## Shipping agents and Brexit

- 5.20 In shipping practices, there was a strong preference for using shipping agents among sellers, rather than organising international shipping themselves; a further example of sellers delegating, or outsourcing obligations.

*“This is the best option and I think nearly 99% of sellers in China use this approach.”*

**Headphones, 10% of export business, 2 years**

- 5.21 All three major avenues for shipping were being used: air, sea and rail freight. Decisions about which method was preferred were made based on business priorities. Air freight is fast but expensive, whereas sea and rail freight are slower but cheaper. Some businesses tended to lean towards using sea freight for most exports, based on the time-cost balance, but for lighter items, air freight was preferred.

- 5.22 Sellers often mentioned that they used shipping agents and that their experience and expertise were the main considerations when selecting one. It was felt that the shipping agents had greater experience and expertise on international shipping and customs regulations for their destinations than the sellers themselves. It was typical for the shipping agent to carry out physical checks of shipments. It is therefore also a convenient service.

- 5.23 Their expertise was particularly valued in regard to customs, it was felt that their expertise will reduce the likelihood of problems arising. Sellers were happy to delegate much of this responsibility to the agent, as it tended to be seen as ‘the done thing’ or a standard business practice.

*“Shipment agents are more professional. It is easier for us to implement this way to avoid making any mistakes.”*

**Kitchen products, 100% of exports to the UK, 1 year**

- 5.24 Britain leaving the European Union was perceived by sellers to complicate shipping, customs clearance and fulfilment. Many sellers specifically mentioned Brexit as an additional concern or problem for their business.

- 5.25 There were some concerns regarding how Brexit would affect sales to the UK or to Europe, as before 2021, sellers from China included sales to the UK as part of their EU sales, which meant the OMP allocated goods to the EU or UK warehouses based on estimated sales.

*“After Brexit, we cannot export goods from Germany to the UK as there are mutual trading restrictions between these two countries. Currently, I need to send my products to two different countries directly. I have to register in Germany and UK as they aren’t the same. I have no further sales plan for UK as the market isn’t [big enough] for my business.”*

**Mobile phone accessories, 1% of exports to the UK, 3 years**

- 5.26 Since Brexit, to avoid complications and additional customs obligations, sellers felt it was likely that these would have to constitute two separate shipments, incurring double the paperwork and increased costs. Views were polarised over what this would mean for the business. While some sellers expressed no concerns, others mentioned increasing prices to cover the increase in costs, while some said this may affect whether they continue to do business in the UK.

*“Our products are very heavy and air shipment will be too expensive. Prior to Brexit, we used rail shipment and the custom checking process wasn’t complicated. Now we decided not to because we will be charged the custom checking fees twice if there are other customs checking in other European countries.”*

**Household products, 100% of export to the UK, 1 year**

- 5.27 In December 2020 and January 2021 there was a certain level of uncertainty surrounding Brexit and its implications for Chinese sellers, which highlighted again the reliance on external sources for information and guidance.

*“Currently my business in the UK isn’t too big. Also due to Brexit, there are quite a lot of changes which we are still not sure about. I am waiting for my agent to share further details with me.”*

**Maternity and children’s products, 5% of exports to the UK, 2 years**

## Tax agents

- 5.28 The use of tax agents was seen as standard practice. All but one of the sellers were using a tax agent at the time of the fieldwork. The seller who was not currently using a tax agent indicated that they were considering hiring an agent as they found the new changes complicated.

*“Currently, I handle all the VAT registration by myself and I did not work with any tax agent. However, I am thinking of whether I should work with a tax agent due to the new changes of tax regulations. ... I was told that I will need a UK address attached to my VAT code and currently I only use my China address. I’m not sure how it works. I might choose the tax agent based in China due to time difference. However, I know that most of the tax agents in UK have a branch office in China.”*

**Daily use products, 100% of export business in UK, 6 months**

- 5.29 The second part of the quote above is significant. It indicates some knowledge of the role of the tax representative as well as highlighting the practical arrangements that may be common practice – that Chinese online sellers deal with China based tax agents who work with UK based agents on their behalf. However, it should be noted that the level of detail offered in this quote and the level of responsibility that this individual took upon themselves was not typical of sellers.
- 5.30 Sellers recognised the importance of compliance but were mostly passive actors regarding tax matters. Their involvement mainly consisted of monitoring and oversight of the work of agents, and, in one instance, a finance team that worked with an external agent.

*“Our agent will deal with everything for me. For certain details on how this tax amount came out, I am not quite sure. With the new regulations, [OMP] will deduct the tax amount automatically. We pay whatever they charge us. I feel that we have a passive role and have minimal control over this.”*

**Office/home/garden products, 20% of export business in UK, 1 year**

- 5.31 ‘Passive’ could be construed as a negative characterisation of their role in the process, but the analysis does not point to this. Rather, sellers were happy to delegate this responsibility, it was seen as a normal part of business, and they trusted the expertise of agents.
- 5.32 As discussed in chapter four, sellers were aware of changes to VAT rules, but they did not have a detailed technical understanding of these changes. They trusted their agents to supply the information they need to know and are comfortable with delegating responsibility for the technical aspects to others. Generally, the extent of personal engagement sellers had with the changes was a view of how it might affect profit margins.
- 5.33 There was a general feeling amongst the sellers that they knew enough to be compliant. The necessity to have a strong understanding of the details was lessened further for many as they referenced that since the 1<sup>st</sup> of January 2021, their main OMP had started automatically deducting VAT, due to legislative changes.

*“I am aware that the new regulations of VAT tax process. From now on, the platform [main OMP] will help us to deduct the tax accordingly. Previously we had to submit our*

*sales related data to our tax agent on a quarterly basis and they will help us to calculate the total tax for submission... Since the tax will be deducted via the platform now, I believe that the data should be accurate.”*

**Wig related products, 5-10% of export business in UK, 6 months**

- 5.34 The exact role of the tax agents was not always made clear by sellers. This may be indicative of the arms-length role they played on tax related matters. Typically, where information was offered it related to the tax agent carrying out calculations for the amount of tax to be paid, help with submitting the correct amount of tax, and the sharing of information that may impact their business. As will be covered in the following section, the responsibilities of the tax agent may also extend to working with a tax representative based in the UK.
- 5.35 Sellers mostly found their tax agents through trusted contacts and networks. Recommendations from friends and through business networks were the most commonly stated avenues for hiring an agent, which did not remove the need for sellers to conduct due diligence checks, but it did reduce the risk of working with unprofessional or ill prepared agents. One seller even mentioned having a probation period before fully appointing their tax agents. Forums and WeChat groups dedicated to businesses who sell on the main OMP were also mentioned as a place for suggestions, as well as a place where agents would approach businesses. A small number stated that they found their agent through an online advert.

## VAT representatives

- 5.36 The term VAT representative was unfamiliar to most sellers and only a small number were able to give an accurate description of the role of a VAT representative as opposed to a tax agent.

*“A VAT representative would need paying more and has joint liability... According to my understanding, VAT representative needs to cover more taxation issues for our company that means taking higher responsibilities and the service charge is also higher. An agent is just an agent who helps to deal with VAT issues.”*

**Mobile phone accessories, 70-80% of export business in UK, 2 years**

- 5.37 Consistent with their generally low understanding of tax related matters, sellers were unable to explain the processes they would need to take if there was a dispute over their tax returns to the UK.
- 5.38 Most tax agents were based in China and communication took place in Chinese. There was one instance in which a Chinese online business was dealing with an agent based in the UK who spoke Chinese.
- 5.39 When probed on the specifics of their tax arrangements, a number of sellers described an arrangement where they may indirectly and without their explicit knowledge, appoint a VAT representative. Whilst the specific details were not always clear (due the arms-length approach to tax that most adopted) it was regularly mentioned that their tax agents were working in partnership with agents in the UK or that their tax agent was part of an international firm which had an office in the UK.

*“I work with an agent in China who has partnership with tax firm in UK. I only have contact with the agent in China.”*

**Leather products, 40% of export business in UK, 1 and a half years**

*“If we have any questions, we will ask our tax agent. They have someone based in UK who will have a better understanding”*

**Headphones, 10% of export business in UK, 2 years**

## 6 The role of HMRC

### Key findings:

- Sellers were generally happy to receive information regarding changes to tax from HMRC. In the instances that they would proactively check HMRC guidance, this was often in response to information they had seen or received from elsewhere.
- The main sources of information regarding changes to tax were the OMP, their tax agents and via business networks. It was also common to receive and discuss information on WeChat.
- It was acknowledged that the information received regarding changes to tax could be complicated or unclear. This was exacerbated if the information was not provided in Chinese and required translating.
- Sellers were open to direct engagement from HMRC. It was of utmost importance that any communication should be in Chinese so that it can be easily understood.
- Preferred avenues of communication included email (but this was not universally popular), alongside communications via the main OMP and via WeChat.

### Existing sources of information

- 6.1 Sellers generally preferred to receive information regarding changes to UK tax rules rather than proactively seeking it out. They felt that if and when important changes came into force, they would receive timely notifications with the relevant information.

*“We don’t need to look for such information as [OMP] or the agent will inform us of any new regulations which is very clear and detailed... I am happy with the information as everything is fine and have not had any trouble.”*

**Smart switches and sockets, 20% of export business in UK, 3 years**

- 6.2 Whilst a few sellers proactively checked HMRC’s website for information on tax and customs matters, this was not common, and it would often be to check information that they had received from elsewhere.

*“We don’t really go visit HRMC website unless there are significant changes/news. We mainly rely on the information shared via [OMP’s] platform”*

**Children’s clothes, 70% of export business in UK, 5 years**

- 6.3 The OMP was a key source of information on any significant changes. This information was delivered via notifications, through the ‘news centre’ on the platform or by training sessions. Receiving information in this way was seen as highly convenient as it was the same place in which they conducted their day-to-day business.

- 6.4 Another key source of information was the tax agent and to a lesser extent the shipping agent.

*“There are three main sources [of information]: 1) Shipping Agent: there is a C88 document with exporting tax info. It will tell us how much tax we need to pay. I am not quite sure with all the details; 2) Tax agent; 3) [OMP] news centre and emails.”*

**Office equipment, 20% of export business in UK, 1 years**

- 6.5 The reference to the C88 document<sup>5</sup> in the example above would suggest that this particular seller (despite their claim of being unsure) had a good grasp on some of the finer details of their customs obligations.
- 6.6 It was also common to receive information on WeChat. Significantly, WeChat performed a dual role – as a source of news and as a forum for discussion among businesses.
- 6.7 Sellers also indicated that they received and discussed information via dedicated business networks.
- 6.8 There was acknowledgement that the information received, regardless of the source, could be complicated or not clear. In many cases this was related to the difficulty in translating information from English to Chinese. It may also be related to the quality of information, the inherently complicated nature of tax, and the confidence that the sellers had in understanding the changes.

*“It would be ideal for HMRC to release an officially regulated translation of tax guidance, as information shared from other channels can be unreliable.”*

**Kitchen products, 100% of export business in UK, 1 year**

### Communication routes

- 6.9 Very few of the Chinese sellers claimed to have had direct communication from HMRC, that they can recall.
- 6.10 In response to questioning on the best way for HMRC to communicate changes, most sellers indicated that they would appreciate hearing from HMRC directly. It was regularly suggested that HMRC should email Chinese online businesses directly.
- 6.11 However, it must be noted that email was not a guaranteed method of delivery or universally popular. It was felt that emails may get lost in junk folders or amongst the many other emails received on a daily basis.

*“I would prefer HMRC to send to us directly all the relevant details within an official written format with multiple language translations. Currently, we can only receive/access this information from other unofficial channels. Email format is not very popular in China though... We have too many emails every day and we might have missed that particular email from HMRC sometimes.”*

**Home furniture, 10-20% of export business in UK, 2 years**

- 6.12 Notifications via the OMP were felt to be the most convenient channel to receive information on changes. Some suggested HMRC could use OMPs to target and reach relevant sellers.
- 6.13 WeChat was also mentioned regularly as a source of information that HMRC could communicate through. WeChat is very popular in China and is used both as source of information and as forum to network and discuss information. The main OMP have their own corporate account on WeChat, and it was suggested that HMRC could also set up a corporate account.

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<sup>5</sup> The C88 documents is an administrative document, more specifically the main Customs form used for International Trade, to assist with declaring import, export, transit and community status declarations in manual processing situations.

6.14 QQ, a Chinese instant message app, was also mentioned (although not as frequently) as a source of information.

### Language and targeting

6.15 For many, it was difficult to find and understand information on their UK tax and customs obligations. This was primarily due to a lack of reliable information in Chinese. Sellers would have to translate information they received and were therefore reliant on the quality of translation and their own interpretations.

6.16 By far the most common suggestion for HMRC was that information should be available in Chinese.

*“HMRC could have set up services in Chinese to make us aware of this information sooner. Language barriers make reading and understanding the contents difficult.”*

**Mobile phone accessories, 70% of export business, 2 years**

6.17 It was also suggested that videos and case studies would be useful forms of communication.



## 7 Case studies

- 7.1 The following four case studies have been selected because they either represent an interesting or atypical business, or, because they represent the key findings particularly well.
- 7.2 The first case study is of a business that sells headphones. It represents a typical business selling goods online via OMPs.

### **Business profile – Headphones:**

- It is a business based in Guangdong
- They have been trading in the UK market for 2 years. 10% of their total business is with the UK.
- Shipping: “Sea freight is good for big volume orders and cheaper on costs. We use air freight sometimes, but costs will be higher and a lot quicker.”
- Fulfilment: “We sell our products on [Main OMP]. [OMP’s fulfilment service] is the most cost efficient and convenient options for us. They will handle all orders from the moment they are placed.”
- Tax and customs: Aware of changes - “From now on, [OMP] will deduct the VAT whenever there is a sale, however we are also being charged the importing VAT. We have been charged twice. We are not sure how this works and we should be able to claim the duplicated tax amount back, but we don’t know how.”
- Information sources: “Whenever we need information, we will check on HMRC website and [OMP] as well as speaking to our tax agent.”  
... “Detailed information via [OMP] notifications would be most efficient”.

7.3 The second case study is of a business that sells gaming accessories. This business was chosen as a case study because the seller was using multiple platforms, rather than just the main OMP.

#### **Business profile – Gaming accessories**

- Based in Guangdong. Trading in the UK market for 6 months. 5% of total business is with the UK
- Platforms: they sell mostly through main OMP, but also have their own website and also use an auction site. Main OMP orders are cheaper and faster for customers.
- Shipping: They use a shipping and logistics company and rely on their expertise for customs, categorising and labelling. Use mainly sea freights for time-cost balance.
- Fulfilment: Use OMP's fulfilment service for Main OMP orders. For own website and auction site orders they ship each order straight from China, using shipping company and local couriers once in the UK.
- Tax: Use tax agents based both in China and UK and rely on them completely. They are aware of the general regulations but not details. Aware of changes, and they caused an increase in sales prices.
- Customs: "Logistic company will provide the custom codes for us to classify our products. It's complicated so we need their help on this."
- Information sources: "My tax agent will inform us and OMP will also send notifications. We will also check online and read news."
- Preferred method of communication was via OMP updates.

7.4 The third case study is of a business that sells home furniture. It is one of the few Chinese online businesses not selling through the main OMP as well as operating under multiple company names.

#### **Business profile – Home furniture**

- Based in Shaanxi. Seems to operate multiple companies.
- Trading in the UK market for 2 years. 15% of total business is with the UK
- Platforms: They use an auction site. Because the main OMP doesn't allow selling under multiple company names from the same account, but the auction site does.
- Shipping & customs: By sea. Cargo is too heavy for air freight. They use a shipping agent but deal with custom clearance themselves, through consignees.
- "We use our factory as a shipper, and we have oversea companies being our consignee to receive our products and also clear the custom for us."
- Fulfilment: They use fulfilment services as it's the only way they can deliver such big, heavy products. Communicate with them through ERP software (Enterprise resource planning software).
- Tax: They use a tax agent but try to understand and check what they do. They are aware of the new changes, in taxation as everyone in China was talking about them on WeChat Corporate. Still, they do not understand the changes entirely or how they will impact their company.

7.5 The fourth and final case study is of a business that acts as both a seller and a shipping agent.

#### **Business profile – Shipping agent**

- Based in Zhejiang. A seller as well as a shipping agent.
- Shipping: Shipping to the UK market for 5 years. 20% of total business is to the UK. Uses air and sea transport.
- Customs: They classify the goods they transport, according to the main OMP's classification, and conduct physical checks. They do not directly deal with customs and related regulations.  
“We have assigned a UK company to deal with this kind of work.”
- Fulfilment: They contact their clients' fulfilment agencies or delivery services once arrived, through a management system.  
“We just log on the system and complete all the required information such as product information, etc.”
- Tax: They use tax agents based both in China and the UK but due to the nature of the job they need to have a good understanding of the UK VAT and customs regulation themselves too. But they find it difficult to keep up.
- Information sources: Tax agent and doing their own research. Not aware of HMRC guidance but aware of changes.  
“So far so good, but the information provided by tax agency or third parties sometimes is not very clear.”
- Impact of changes: “This means that our cost is higher than before and reduce the profit. We will increase the selling Price to cover the cost.”
- Information sources: Currently receive updates from tax agent and also do their own research. Would prefer to receive direct information from HMRC but not through email.

## 8 Technical Annex

### Introduction

8.1 This Technical Annex provides in-depth information regarding the survey's technical aspects and sample outcomes.

### Sample source and cleaning

8.2 A pre-drawn starting sample file of 1,500 randomly selected businesses was provided by HMRC from their records of businesses registered to import goods to the UK. Businesses in China had been identified by the postal address information given. The starting sample comprised agent or seller status, telephone number, email address, company name and postal address, as well as a free text description of the company's activities in terms of industrial sector.

8.3 Phone numbers and email addresses provided with the sample were cleaned through an automated process at IFF Research to ensure that they were valid and that emails could be sent. Due to cleaning and validation processes at HMRC, and processes to clean phone numbers (e.g., reinstating missing country codes) this excluded only six records, leaving a sample of 1,494 available for fieldwork.

8.4 Postal addresses included on the sample could not be used for a mailout via the postal system due to issues with transliteration from Chinese. However, sufficient information was provided to determine region within China and therefore to split the sample by region, enabling targeting by language.

### Sample distribution and targets

8.5 The sample was distributed as shown in Table 8.1. The aim of the fieldwork was to achieve the targets shown at the base of the table.

8.6 The segmentation by region allowed targeting of specific parts of China for interviewing in specific Chinese languages. Although Mandarin is spoken throughout China, the use of regional languages was considered likely to be useful in order to maximise response rate in key areas including the export centres of Shenzhen and Shanghai. The languages used as the basis for sample segments were:

- Yuehai (also known as Cantonese), offered for interviews in Hong Kong, Guangdong or Macau.
- Taihu Wu (also known as Shanghainese), offered for interviews in Shanghai, Jiangsu or Zhejiang.
- Mandarin (the standard Chinese taught in schools throughout the People's Republic of China), offered in all regions.

**Table 8.1 Drawn sample, by segment**

Languages offered (in addition to English)	Seller	Agent	Total
Mandarin	291	179	470
Mandarin and Yuehai	490	362	852
Mandarin and Taihu Wu	119	59	178
<b>Total sample available</b>	<b>900</b>	<b>600</b>	<b>1,500</b>
<b>Target number of interviews</b>	<b>25</b>	<b>5</b>	<b>30</b>

Source: HMRC sample.

8.7 Only one of the thirty interviews was achieved with an agent. This was because although information was recorded on the starting sample to indicate whether the record was an agent or seller, this proved unreliable in practice. The great majority of those called who were marked as agents were found to be sellers, to the extent that it was not practical to identify agents to interview from within the sample.

### Sample outcomes

8.8 The table below shows the sample falling into each category from the drawn sample

**Table 8.2 Classification of sample for calculation of response rate (CATI survey)**

Sub-group	Sampled records (number)	Sampled records (% of all eligible records sent mailout)
Completed interview (I)	30	2%
Partial interview (P)	5	0%
Refusal (R)	31	2%
Non-contact (NC)	1,265	85%
Unknown eligibility (U)	116	8%
Other non-response (O)	33	2%
Not eligible (NE)	5	0%
<b>Total (all eligible records sent mailout for mainstage)</b>	<b>1,494</b>	<b>100%</b>

Source: IFF Research survey statistics.

8.9 The majority of the sample was not called, since it was possible to achieve all 30 interviews with far fewer records than those made available. Although a very cautious approach was taken in ensuring sufficient sample was available, given the unknown level of response, the ease of gaining interviews was greater than expected during research design. This suggests that it might be possible to carry out surveys or interviewing with this group and sample source on a larger scale in future

## Additional breakdowns of responses

8.10 Responses were gained across a range of industrial sectors, as shown in Table 8.3. These are derived from an open text field provided on the sample, rather than categorised using any official classification.

**Table 8.3 Responses by sector**

Sub-group	Total interviews
Clothes	5
Household products	5
Toys and gifts	3
Mobile phone accessories	3
Accessories	2
Kitchen products	2
Sport items	2
Gaming accessories	2
Gardening tools	1
Headphones	1
Crystals	1
Health care products	1
Furniture	1
Leather products	1
Musical instruments and accessories	1
Smart switches and sockets	1
Stainless steel products	1
Wig related products	1

Source: IFF Research survey statistics.

8.11 Interviews were completed across China, with a focus in the areas where most export businesses were located, according to the sample – around Hong Kong and Shenzhen, including Guangdong province (7 responses) and Shanghai and surrounding regions (Jiangsu and Zhejiang) (7 responses). The full distribution is shown in 0

**Table 8.4 Responses by Chinese region**

Region	Total interviews
Guangdong	6
Jiangsu	3
Zhejiang	3
Chongqing	2
Guangxi	2
Shaanxi	2
Shanghai	2
Liaoning	2
Fujian	1
Guizhou	1
Hebei	1
Heilongjiang	1
Hong Kong (SAR)	1
Shandong	1
Shanxi	1
Sichuan	1
Taiwan	1

Source: IFF Research survey statistics.

8.12 Most interviewees were relatively new to selling to the UK; only three had been exporting to the UK for more than five years. The full distribution is shown in Table 8.5

**Table 8.5 Responses by period selling to the UK**

Period of time selling to the UK	Total interviews
5 years or more	3
3 years	6
2 years	10
1½ years	3
1 year	5
Less than 1 year	3
Average length	2 years

Source: IFF Research survey statistics.



8.13 Nearly all interviewees sold via the same OMP, which had a dominant position in the market place. Three sold via other OMPs, and one sold via their own website direct to UK customers, as shown in Table 8.6.

**Table 8.6 Responses by online market platforms used for sales to UK customers**

OMPs used	Total interviews
Most popular OMP	28
Any other OMP	3
Own website	1
China-based OMPs	3

Source: IFF Research survey statistics.

## 9 Topic guide

### A Introduction (3 minutes)

#### Introduction

Thank you for agreeing to take part in this research project that HMRC have asked us, IFF Research, to carry out for them.

#### Background

This research is being carried out by IFF Research, for HMRC, the UK's tax, payments and customs authority. HMRC is seeking to improve how they support online traders located in China and the agents who assist them to import goods to the UK. You have been randomly selected to take part from the HMRC list of VAT registered companies importing to the UK via online platforms. For every interview, a charitable donation of £25 will be made to the Red Cross Society of China.

#### Interview

The interview should last about 40 to 60 minutes and will explore how the process of selling goods to UK customers works, and what additional help and guidance regarding tax and customs might be useful for you or others in your industry.

Do let me know if at any point you're pressed for time.

#### Confidentiality

IFF Research is an independent market research company, and we are members of the Market Research Society, and must follow its Code of Conduct. Any information you provide will be treated as confidential, and only used for research purposes. HMRC will not be able to identify any individual or business that has participated. IFF Research will not have access to details of your or your clients' tax affairs. The published report will not show information about individual businesses.

**Under UK data protection legislation**, you have the right to have a copy of your data, change your data or withdraw from the research at any point. If you'd like to do this, please ask, or you can consult the IFF Research website. We will be recording the interview, just so that I don't have to take too many notes as we go along. The recording will be stored securely, used for analysis purposes only, and not transferred outside IFF Research. **Is this OK?**

#### **START RECORDING**

*IF ASKED:*

**IFF contact details, for information about the research or data protection:**

[www.iffresearch.com/gdpr](http://www.iffresearch.com/gdpr) – +44 (0)20 7250 3035 – IFF Research, 5th Floor, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD.

**MRS (Market Research Society) contact details, to verify IFF's details:** [mrs.org.uk](http://mrs.org.uk) – +44 (0)800 975 9596.

**HMRC contact details, to verify this is genuine HMRC research:** Google 'genuine HMRC contact' or contact Amy Bonsall at [amy.bonsall@hmrc.gov.uk](mailto:amy.bonsall@hmrc.gov.uk) – +44 (0)3000 571055.

**ICO (Information Commissioners' Office), to make a formal complaint under UK data protection legislation:** +44 (0)303 123 1113.

- **Do you have any questions before we start?**

## A Current approach to UK tax and customs obligations (10 min)

**First of all, we'd like to ask a little about your current situation, and what kind of advice and support your business already uses to help it export goods to the UK, and identify market opportunities in the UK.**

ASK ALL

### A1 **When did your business start selling goods to the UK?**

- How large a proportion of your business is exporting to the UK?
- Why did you decide to export to the UK?

ASK ALL

### A1A **What kind of goods do you now sell to the UK?**

ASK ALL

### A2 **Do you use a shipping agent or consolidator to handle shipments to the UK, or do you handle the shipments yourself?**

- Why did you choose this approach?

ASK ALL

### A3 **What methods of transport do you use to send your goods to the UK?**

- Why did you choose this approach?

ASK ALL

### A4 **Are your goods sent directly to the end-customer in the UK, or do you use fulfilment services, for example a warehouse that will store goods in the UK before they are sold to end-customers?**

*IF USE FULFILMENT SERVICES*

- Why?
- How did you find out about this service?
- How do you tell the fulfilment service or warehouse to issue goods to customers when they are ordered?

*IF DO NOT USE*

- Why not?

ASK ALL

**A5 Do you use online marketplaces or websites to sell goods to the UK?**

*IF YES: Which ones do you use?*

*ASK ALL: Do you sell goods directly on your own website?*

ASK ALL

**A6 Do you use any paid agents, advisors or representatives to assist with your UK tax and customs obligations?**

- Do you use multiple agents or advisors, or just one?
- In what countries are they based?
- How much do you rely on your agent to have the right information?
- Do you find some of the information yourself?

*Interviewer note: if there are multiple agents/advisors, it must be clear from the answers which types of support apply to which agent/advisor.*

ASK ALL

**A7 How did you find this agent / these agents?**

- *IF NOT CLEAR:* Did you approach them, or did they approach you?
- *IF NOT CLEAR:* Did you shop around for these services?
- How did you find out if they would offer a good quality service?

## B Understanding of tax and customs regulation (20 minutes)

**I'd now like to ask a bit more about the tax and customs elements of exporting goods to the UK, and how HMRC can make this easier for you.**

ASK ALL

**B1 Taking into account any advice you receive, how confident are you in your business's understanding of the UK VAT and customs regulations that apply to the goods you sell to the UK?**

- Why do you say that?
- Are there any areas where you're more or less confident about the detail?

**B2 THERE IS NO B2**

ASK ALL

**B3 What are your main sources of advice, information or guidance about UK VAT and customs obligations?**

- How would you ideally receive this advice, information or guidance? Is there anywhere you regularly look for such information about other issues?
- How happy are you with the advice, information and guidance you receive through these routes? Why?
- Have you ever proactively sought advice, information or guidance on UK VAT and Customs matters? From who?

ASK ALL

**B4 HMRC currently have guidance available for overseas companies selling on online market places to UK customers, which you may or may not be aware of. Have you seen or been told about this existing guidance?**

*IF YES:*

- How confident are you that you fully understand the elements of the guidance that apply to your business?
- How could the guidance be improved?
- Are there any specific issues that could be better explained?

*IF NO:*

- How could HMRC best ensure your business received the guidance?
- Would your advisors or agents have a role here?

IF USE FULFILMENT SERVICE (SEE A4)

**B5 Do you sometimes receive enquiries from fulfilment services, warehouses or distributors you may use in the UK asking to verify or confirm details about your company and the goods you are storing with them?**

*IF EVER:*

- Do you understand why this information is needed by your fulfilment service?
- Is there any information, advice or guidance HMRC could provide which could help your understanding about using UK fulfilment services?

*IF NO:*

- Do you know where your goods are stored in the UK prior to sale?
- Does someone else handle organising this storage on your behalf? If so, how did you select them?

## C Implementing tax and customs regulation, and new changes

**And finally, I'd now like to ask a bit more about the processes you go through when exporting goods to the UK.**

ASK ALL

**C1 Do you or your agent classify your goods into different groups, for import to the UK?**

*IF YES:*

- How do you do that?
- To what extent is this done for VAT or Customs purposes?
- Is the process easy or difficult for the business? Why?

ASK ALL

**C2 Do you or your agent carry out any physical checks of your goods before they leave for the UK, relating to UK tax regulations?**

*IF YES:*

- How do you do that?
- What labelling requirements, if any, does this involve?
- To what extent is this done for VAT or Customs purposes?
- Is the process easy or difficult for the business? Why?

ASK ALL

**C3 Does your business use a VAT agent or a VAT representative based in the UK to deal with VAT on your UK sales?**

*IF YES:*

- *IF NOT STATED: Which one of these do you use? (interviewer: could be both in theory)*
- What is the difference between a VAT agent and a VAT representative, as far as you're aware?
- As far as you're aware, what are your responsibilities in the event of a dispute over VAT payments in the UK? How do you know this?

IF SELL FROM OWN WEBSITE OR A CHINA-BASED WEBSITE (SEE A5)

**C4 You mentioned earlier that you sell goods from a China-based website, or your own website.**

- Does it have any impact on how you need to deal with UK VAT and customs regulations, compared to selling via an online market place? In what way?

IF USE OMPS (SEE A5)

**C5 You mentioned earlier that you sell goods on online market places. Do you have your own account on any online market places, or do you share an account with other sellers, for example through an agent(s)?**

- Does it have any impact on how you need to deal with UK VAT and customs regulations, compared to selling via a China-based website or having your own account? In what way?

IF HAVE OWN OMP ACCOUNTS (SEE C5)

**C6 Do you sell under multiple brands or user-names on the same market-place?**

**Do you use the same brand(s) or user-name(s) across all market-places?**

- What are the advantages of this approach for the business?

ASK ALL

**C7 Were you aware that UK VAT rules for sellers from outside the UK changed on 1<sup>st</sup> January 2021?**

*IF YES:*

- Where did you hear about the changes?
- Could you describe what the changes mean for your business?
- Do you think the way you sell goods to UK customers will change as a result? (*PROMPT IF NECESSARY: e.g. using your own website or online market places more*)

*IF NO:*

- Where would you routinely look for information about changes such as this?
- Would your agent or advisor be involved?

IF AWARE OF CHANGES (SEE C7)

**C8 How easy or difficult was it to find the information you needed about those changes?**

- What could HMRC have done to make you aware of this information sooner?

IF AWARE OF CHANGES (SEE C7)

**C9 How confident are you now in your understanding of the detail of these changes?**

- Is there anything more HMRC could do to help you better understand these changes?

ASK ALL

**C10 Finally, in comparison to all your other activities in running your business, how important is checking that your business is complying with UK Customs and VAT regulations?**

- Why?



## D Thank and Close

**Before you go, just for the recording, I need to state that this interview has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.**

**On behalf of the team at IFF Research and HMRC, thank you very much for taking the time to help us with our research.**

“

**IFF Research illuminates the world for organisations businesses and individuals helping them to make better-informed decisions.”**

Our Values:

**1. Being human first:**

Whether employer or employee, client or collaborator, we are all humans first and foremost. Recognising this essential humanity is central to how we conduct our business, and how we lead our lives. We respect and accommodate each individual's way of thinking, working and communicating, mindful of the fact that each has their own story and means of telling it.

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