



ONLINE SALES TAX

CONSULTATION RESPONSE

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INTRODUCTION

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The British Property Federation (BPF) represents the UK real estate sector, an industry which contributed more than £116bn to the economy in 2020 and supported more than 2.4 million jobs.

In our 2020 [response](#) to the [Fundamental Review of Business Rates](#), we set out our initial views on the possible benefits and risks of an online sales tax (OST). We recognised the value in exploring new approaches to reduce business rates but set out some high-level reservations about an OST in terms of cost, complexity and administration. We concluded that we need to see the detail of a proposed OST, and understand the policy intention behind the introduction of the tax, before we can provide substantive comment on the benefits or risks of an OST.

Our position remains unchanged.

All BPF members agree on the need for fundamental reform of business rates. However, there are differing views on whether an OST might be part of the solution. Without more detail on the scope and design of the tax, and on the policy drivers behind the tax (including a better articulation of the “problem” with the business rates system the tax is intended to fix and how revenues from an OST will be targeted), we are not able to provide a definitive sector response.

However, we would make the following comments:

- to assess impact and determine whether the benefits of an OST outweigh the costs, **the Government needs to provide more clarity on exactly how revenues raised will be used to reduce business rates, and for whom. Any assessment should also take account of the 2023 revaluation of business rates in England and the reforms of the system announced by the Chancellor in his Autumn budget;**
- we would challenge the assumption in the consultation paper that a cut to business rates would automatically flow to the property owner, and not the retailer. Not only is [45%](#) of UK commercial property owner-occupied, but long-term rental agreements and the highly competitive nature of the retail rental market means that the capitalisation of retail rates into rents would be the exception and not the rule; and

- if Ministers decide to move forward with the introduction of an OST, we expect the Government to consult further on the technical detail of such a tax. This should be in the form of a technical consultation, ahead of any subsequent consultation on draft legislation.

We would also repeat our call for more fundamental reform of the business rates system. Whether or not an OST is introduced, the system still needs radical change. **In particular, we need to reduce the overall burden of business rates by resetting the multiplier at a fairer level, abolish downwards transitioning from the 2023 revaluation to ensure that the hard-hit retail sector immediately benefits from a [projected £8.5bn boost](#), and provide additional business rates relief on empty properties.** Whatever the final decision about an OST, we need action now to support our retail sector.

RESPONSE TO CONSULTATION

The BPF provides a voice for UK real estate. We do not represent the retail sector, or the e-commerce sector, and are not able to respond to most of the questions in the consultation paper. We have limited our response to general principles and to those issues most relevant to our membership.

Scope

The consultation paper asks a number of questions about the scope of a potential OST.

We are not able to comment in detail on which goods and services should be brought within the scope of an OST. However, we would note that defining scope will be complex and potentially controversial.

As the consultation paper recognises, it is increasingly difficult to distinguish between online and offline activity and – if the scope of the tax is set broadly – there is potential for the tax to apply to the many high street retailers who have online channels, which would seem counter-productive to the policy intention behind an OST. There is also the potential for some of the activities of some BPF members, such as those providing financial services, to be brought within scope of an OST. This again seems to run counter to the purpose of an OST and we would oppose the tax being applied in this way.

Given the complexities involved, we expect the Government to consult further on the technical detail of an OST if Ministers decide to move forward with the introduction of such a tax. This should be in the form of a technical consultation, ahead of any subsequent consultation on draft legislation.

We note that, if introduced, there is no guarantee that revenues raised from a UK-wide OST would be used to mitigate business rates in all parts of the UK. We recognise that this would be a decision for the Devolved Administrations but would be looking for some reassurance that the link between an OST and reducing business rates in England would be replicated across the UK.

Design

The consultation paper explores the design and administration of a possible OST and asks a series of related questions.

The only observation we would make is that, as with scope, designing an OST will be complex and potentially costly. As acknowledged in the consultation paper, there is little international precedent for an OST, and it is not clear how a tax would apply to cross-border sales. The additional burden of an OST on taxpayers could be significant and there must be real concerns about unintended consequences.

These concerns reinforce our call for further consultation on the detail of an OST if the Government decides to proceed with the introduction of such a tax.

Impact

The consultation paper asks questions about the possible impact of an OST. We have limited our response to the questions on business rates.

Question 32: On balance, what would the impact be of an OST with business rates reductions on the scale described above, including on retailers that operate both online and offline?

We are not able to form a view on the impact of an OST on business rates without more detail on how the tax will be applied and how any business rates relief will be calculated and targeted.

As the consultation paper notes, an OST is unlikely to raise sufficient revenue to replace business rates. This means that any meaningful business rates relief funded by an OST will need to be targeted, potentially resulting in some retailers being subject to the new OST but receiving no rates relief in return. We would need to understand the scope of the tax and the nature of the relief provided to assess the impact on retailers and on property owners.

We would also want to see the outcome of the business rates revaluation that is currently underway in England before coming to a firm view on the impact of an OST. [Research](#) suggests that the 2023 revaluation could result in a major re-allocation of the tax base, moving away from traditional retail to the logistics and distribution warehousing sectors, where strong growth has

been driven through online retail. This might address some of the concerns that have led to calls for an OST.

The planned move to a three-year cycle of revaluations in England, and better alignment of rateable value and market rent, may also have a bearing on the case for an OST.

It will be important to understand how an OST will work, and how revenues raised will be used to reduce business rates, before any new tax is introduced. We should also look at the impact of an OST in the wider context of the 2023 revaluation and planned reforms of the business rates system in England.

Question 33: Do the potential revenues from such a tax justify the additional administration that it would require of businesses, as well as the design complexities detailed in the previous sections?

The consultation paper estimates that a revenue-based OST levied at a rate of 1% on the online sales of goods to UK customers above an allowance of £2m would raise around £1bn per annum. Without more detail on scope and design, it is difficult to comment on whether the benefits in terms of revenue outweigh the complexity and costs involved in the introduction and administration of an OST.

However, it seems clear that an OST would impact different retailers in different ways and only individual businesses can say whether the benefits justify the costs for them. Further, should an OST be introduced, this calculation will inevitably change over time as the share of sales that are online change for a business or if Government changes the design or level of any OST.

To be clear, we welcome measures to reduce the burden of business rates, and the BPF has long campaigned for fundamental reform of the system. However, even a relief of around £1bn will not deliver the systemic reform of the business rates system that is required. Indeed, elements of the current system, such as increasing the UBR in line with inflation - which is currently at 9% - have the potential to wipe out any benefits delivered by an OST.

We would challenge the assumption in the consultation paper that a cut to retail business rates would automatically flow to the property owner, and not the retailer. For example, 45% of UK commercial property is owner-occupied and, in such cases, any reductions in rates will obviously flow directly to the business concerned. The retail real estate market is also highly competitive, with an over-supply of rental property, which means the ability to increase retail rents is severely limited. Indeed, rents in the retail sector outside of London have come down by over [50%](#) in real terms of over the last decade to 2019. In addition, many retail tenants have long-term rental agreements which limit the ability of landlords to increase rents.