ICAEW
REPRESENTATION 98/20

BUSINESS RATES REVIEW: CALL FOR EVIDENCE – TRANCHE TWO

Issued 30 October 2020

ICAEW welcomes the opportunity to comment on the Business rates review: call for evidence published by HM Treasury on 21 July 2020. We made a first submission on 18 September 2020.

> In our first letter we said we believe there is a strong case for a significant reduction in the multiplier. A lower overall liability would make the many issues with Business Rates less acute. However, over the longer-term actions should be taken to modernise Business Rates and make them more transparent. That would make the tax less problematic for business.
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> These measures could help businesses by making rates more certain and more responsive:
> - linking rates more closely with current property values (para 11);
> - having more frequent revaluations (para 12); and
> - providing greater transparency, e.g. as to how valuations are arrived at (para 13).
>
> Longer-term, business rates may have served their time. In a comprehensive review of business taxation, government could consider the best tax package to achieve its objectives.

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KEY POINTS

1. This is our second submission to the call for evidence. In our first (REP 70/20) we said that urgent action is needed to address the acute issues retail, leisure and hospitality businesses will face in April 2021 when business rates are reintroduced. We pointed out the continuous increase in the multiplier over time and called for a lower multiplier to protect the tax base and reduce pressure on businesses. In this response we turn to look at further reforms.
2. Business rates are widely considered to be unfair, disproportionate and unproductive. They were designed in an era that predates the emergence of online services. A reduction in the multiplier would make the issues we set out below less acute. However, action is still needed to make the tax more conducive to government policy objectives and less problematic for business. In the medium-term, we propose three measures for government to consider. They could make rates less problematic for business:
   - link rates more closely with market rents (para 11);
   - have more frequent revaluations (para 12); and
   - provide greater transparency, eg as to how valuations are arrived at (para 13).

Fairness

3. In spite of the concerns highlighted, business rates have been very successful at generating tax revenue, having outpaced wider economic growth over the past decade. This has in part been down to an annual inflation link for the multiplier, which for many years was pegged to RPI. As a result, business rates have consistently grown as a proportion of rateable values. We believe this now has to be reset.
4. Beyond this, proper consideration of the impact and fairness of business rates is now urgently needed. Although reliefs have been extended over time, and the smallest businesses are now exempt, business rates continue to be a growing burden. That increased materiality has made starker the shortcomings in the rates system.
5. Business rates are not distributed equally among businesses. They are paid predominantly by businesses that intensively use high-value property, for example, in retail, hospitality or manufacturing. That is a real issue now, given the rapid shift online that we have seen during the pandemic. It penalises those business models that remain in higher value locations, and makes blended online-offline models less viable. Businesses which can locate to out of town sites would pay lower rents and rates. An online retailer will occupy premises but does not need to be located in a prime area; consequently, it will also pay lower rents and less business rates. While this might to some extent encourage new business models, government needs to consider whether these effects are what they intend from the tax system.
6. Business rates also do not scale with profitability. As a fixed cost, they become proportionately more onerous as profitability declines and can cause significant problems in an economic downturn – such as that we are now experiencing. In our first response, we recommended that the multiplier should be reset.
7. The current system can be unfair and unpredictable even within a single business. Rateable values have the advantage of a level playing field between businesses that choose different ownership/rental models for their premises. However, they can be hard to estimate, can differ significantly as a percentage of turnover even between similar units within the same business, and can diverge materially from the rental actually paid. That makes the cost hard to forecast. Appeals can take a long time to conclude, tying up cash flow over this period.
8. The digital economy has been rapidly shifting value away from traditional bricks and mortar and into the virtual space. This creates a two-pronged problem: threatening the revenue

stream generated from business rates and putting greater financial pressure on those paying them. While the new Digital Services Tax will increase taxes on online businesses, this is developing independently of business rates and as a result blended online and offline businesses could be liable for both. Without coordination between the two the DST may therefore exacerbate some pressures of business rates.

9. Given there is no direct link between rateable values and revenue/profitability, the revaluation system can also produce winners and losers, even when there has been no underlying change in a business's operations or profitability. All of these problems can lead to inherently unfair results.

Medium-term reforms to business rates

10. On this basis we propose three measures for government to consider which are set out in the paragraphs below. In each of these areas it is important that policy decisions are based on empirical research. ICAEW is actively engaged with academic research and can help connect government with researchers in this area.

11. **Clearer link with current values**: Many of the problems business face with rates are linked to the lack of certainty around how much they need to pay, the complexity of calculating it, the unfairness where similar hereditaments pay disproportionate levels of rates, and the difficulty of appealing. These issues might be addressed by a clearer and timelier link between market rents and rates. Technology could help to enable this.

12. **More timely data**: Government consulted in 2016 on delivering more frequent and regularly spaced revaluations and agreed then to conduct three yearly revaluations. It is important that this is carried out as planned. The summary of responses suggests that there was little support for the alternative options of self-assessment or a formula, with the former being onerous for business and the latter potentially unfair. We agree with this conclusion. However, over the medium term we believe that government must be able to do better than revaluations every three years. It was announced in 2016 that local authority business rate systems will be linked to HMRC digital tax accounts by 2022, but that timetable has slipped and currently we are not aware of when this might happen. We would welcome clarification. In time HMRC should have much better data capabilities as a result of the roll-out of digital tax systems and, in theory, it should be possible to use these data capabilities to enable more timely maintenance of valuations, perhaps involving a degree of automation. A good objective to have in mind would be to make it more certain what businesses will pay in relation to their rent; it would be a pity if digitalisation instead meant liabilities became yet more unpredictable.

13. **Greater transparency**: Better information about the calculation of rateable values could help make the system easier to navigate and fairer. The government could investigate whether the VOA might make available more comprehensive information about assessments, perhaps including a summary showing how a valuation was calculated. They might include with this information any evidence of market rents to support their assessment.

Longer-term reform of business tax

14. Public debate about the level of taxation on business is heavily focused on corporation tax. However, property tax – or business rates - accounts for a significant source of government income from business. It is now the third-largest tax borne by the largest businesses in the FTSE 100, yet remains largely unrelated to sales or profits. PwC's Total Tax Contribution survey of the 100 Group found that in 2019 business rates accounted for 19% of taxes paid by the FTSE 100.

15. Currently, business rates try to do three things at once. They are simultaneously a:

- property tax;
- business tax; and a
- source of revenue for local government.

Unfortunately, they do not perform any of these tasks particularly well. As a property tax they are poor at reflecting current property values and are difficult for businesses to estimate or change if they are wrong. As a business tax, they do not reflect business activity or the current capacity to pay. As a source of revenue for local government, they do not necessarily incentivise decisions consistent with local or national policy objectives. For example, as the smallest businesses are exempt, they disincentivise local authorities from encouraging policies that would support small businesses because they will not receive any income from them.

It's time to review business tax and local government finance

16. Business rates generated £30bn for the UK Exchequer in 2018/19. Combined with council tax and stamp duty land tax, property is the basis for a substantial element of government revenues; indeed the UK's reliance on property taxes is the highest in the OECD (source: OECD Global Revenue Statistics 2018 data). That reliance ended abruptly in 2020/21. The business rates holiday is estimated to result in foregone revenues of £10bn, a third of the total take. Reintroducing rates in April 2021 for retail, leisure and hospitality businesses is likely to be a major financial blow to businesses already struggling to recover from the covid crisis. We suggested in our first response that here is a strong case for a significant and permanent reset of the multiplier to a lower level.
17. In recovering those revenues, government will need to look beyond property. Now is the time for a fundamental rethink of local government finance and how businesses should be taxed overall. These questions are for government to consider and we do not explore them further here. However, we do note that technology should now provide new opportunities, including in identifying economic activity at the local level, which government could consider.

The role of property tax

18. Nevertheless, we recognise that a business property tax is likely to remain a significant part of the landscape. It is therefore important to look at some of the problems with the business rates system and commit to investing in their resolution. Our 2018 thought leadership report, Business rates: maintain, demolish, rebuild or refurbish? examines the issues with the current system in more detail and considers some of the solutions that have been suggested.
19. Many of these problems have been longstanding features of the system. Income taxes (including corporation tax) follow productive activity and the generation of profits, consumption taxes take a proportionate share of activity. Business rates do not work like that. They can turn a profitable opportunity into an unprofitable one – and mean that potentially productive activity and investment is not pursued. They can turn a solvent business into an insolvent one. This problem has grown as rates have grown as a proportion of the economy. We believe there are three major issues that need to be addressed.
20. **Uncertain**: Rateable values are often inconsistent with the rent actually paid. That makes it very difficult for businesses to assess what their rates liability might be, particularly for new premises. They may be able to renegotiate rents with a landlord but there is no certainty whether or when this is then reflected in rates. Appeals are uncertain in success and timing and can be costly. Uncertainty has been compounded in recent years by the failure to deliver consistent revaluations.
21. **Disproportionate**: The mathematical 'gearing' described above means that as a fixed cost, business rates become proportionately greater for more marginal trading locations. In the

most marginal they militate against businesses establishing or continuing and may prevent investments from being made. Equally, the levying of business rates on some fixtures and fittings makes the business case for investment in improvements or plant intensive businesses more difficult to make. Again, this becomes more of an issue where the business case is marginal. In both cases a more flexible system could encourage more economic activity (and potentially more tax).

22. **Unproductive**: Business rates retention was intended to give an incentive to local authorities to encourage and expedite development. These have been blunted by the tariffs and top-ups system as well as the failure to roll-out 100% rates retention, which reduce incentives in local authorities that might have the greatest development opportunities. It is clearly essential that government maintains an adequate funding formula to supplement the local authorities that need it, but this mechanism needs to be combined with incentives to encourage development.

23. **Inflexible**: Given the time to produce data and the difficulty with uncertainty, there is no timely mechanism to reflect significant changes in a local area. For example, the exit of an anchor tenant from a small shopping centre, or construction of a new shopping near a high street, may lead to reduced footfall and loss of profitability. The inflexibility in business rates may accelerate the demise of existing businesses.

ANSWERS TO SPECIFIC QUESTIONS

Questions 1 to 9 were answered in our first submission.

Section 4.1 Valuations and transitional relief

Question 10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

24. In principle they need to be more frequent. Government had already committed in the 2017 budget to carry out revaluations every three years. In the current circumstances it is understandable that the planned 2021 review (four years after the last one) has been deferred for a year. This would have been based on 2019 values and therefore many businesses would have registered an increase at that date, when in fact rateable values may have declined significantly since then because of the pandemic.

25. Moreover, under the current unprecedented conditions valuations will be very difficult. However detailed or responsive the methods used, they would be affected by underlying uncertainty. The pragmatic solution is to suspend revaluations until conditions stabilise.

26. When normal conditions return, we do not believe the target of revaluations every three years is sufficiently ambitious, although we recognise that reducing it further using existing systems and processes would be difficult. We can see why a ‘self-assessment’ system could be unpopular; incremental administrative burdens and cost for business should be avoided. We believe that technology-based solutions should over time enable a move to transparent, annual revaluations. However, they should not create significant additional compliance requirements and cost for business. As reforms are designed, it is imperative that they are accompanied by rigorous costings.

Question 11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

27. Valuations would ideally, be transparent, responsive and easy for a business to challenge. We are sceptical that a banded or zone-based system would deliver this, but they merit further investigation as they could in theory make the system easier. There would also be a

trade-off between simplicity and fairness, for example the smaller the number of bands the greater potential for unfairness. Government could investigate with software developers whether big data and the use of algorithms could deliver a more specific approach – again with the overriding concern that businesses can see how calculations are arrived at and easily challenge the outcome. See Q12 below.

Question 12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

28. Data capabilities might offer new possibilities to separate assessment into different components. To our mind there are three:
    i. Regular updating of rateable value – it may be more acceptable to automate this if its combined with safeguards ii and iii;
    ii. Simple online platform for ratepayer to view the calculation and challenge if they believe it is wrong. Ideally this would be a single platform for the whole of the UK;
    iii. Review capabilities to enable the VOA/local authorities to identify and resolve anomalies or abuse. Data analytics could have a place in this process, to enable manual valuation to be focussed where it is most needed.

Question 13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

29. Although we appreciate the difficulties highlighted, the fact remains that the two-year lag before valuations take effect is not consistent with a responsive system. Government should work with the VOA to consider how to better use technology to enable a more rapid response.

Question 14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

30. We note that many occupiers may be renegotiating rents or impairing property values as a result of the pandemic. Moreover, turnover linked rents are growing in popularity, albeit from a low base. Government needs to be aware that where the rental market might be becoming more reflective of current conditions, business rates will lag even further behind.

Question 15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

31. Not applicable.

Question 16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

32. Transitional reliefs are another symptom of a system that needs reform. In a well-designed tax system, where valuations respond rapidly to current conditions, there should in theory be less need for them.

33. Nevertheless, under the current system and in the current situation, there will undoubtedly be a role for them. The cost of these reliefs needs to be part of the quantum as government considers options for the reform of business rates, and in the longer-term of business taxes and local government finance.

Section 4.2 Plant and machinery and investment

Question 17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?

34. We recognise that this is a concern has been raised by many commentators. Government needs to examine this area and weigh it against its policy objectives, which we presume include the need to increase growth and improve productivity. We appreciate that business rates on P&M raise significant revenues for local government, which would need to be replaced. Again, a more transparent and responsive system could avoid some of the issues that arise in this area.

35. Above all, businesses need simplicity and certainty so that they can plan with confidence. In that regard this area is particularly problematic as P&M valuations will often be complex and it may be difficult for businesses to assess themselves what the rates consequences might be of installing new equipment. That exacerbates the natural disincentive that levying rates on P&M has to investment and complicates decisions to invest.

36. The P&M regulations set out in para 4.30 of the call for evidence look complicated to apply and potentially lack certainty in treatment. That is particularly regrettable if the incremental rates cost deters business from investing for good social reasons, eg for environmental or staff or community well-being reasons. The corporation/income tax system recognises the value of productive investment and provides a system, namely capital allowances, to encourage it. While we accept that capital allowances may not be perfect, the policy objective is clear and the approach is difficult to reconcile with that adopted for business rates, which could have the opposite effect. For example, if a business incurs additional rent (and perhaps then an increased rateable value) because of improvements, these could also be subject to business rates as plant and machinery additions.

Question 18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?

37. No comment.

Question 19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?

38. As explained in Q17, exemptions could be used to encourage investment where it may not otherwise happen due to business rates. Government already exempts disabled adaptations and may consider further exemptions. However, as noted above, we believe a full review of this area against government’s objectives is desirable.

Question 20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

39. While exemptions would be welcomed by businesses that receive them and could help support government policy objectives, they would represent a further complication of the system.

Question 21 How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

40. For businesses overall the aim should be to reduce the disincentive effect that rates currently have. This could be helped by a more transparent and responsive system.

Question 22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

41. As explained in Q17, the current system is likely to disincentivise such investments. Government needs to consider its policy objectives and ensure that the rates system encourages reducing carbon emissions.

Section 5.1 Valuation transparency and appeals

Question 23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

42. The new CCA system has been broadly welcomed. It has aided transparency and, consequently, reduced the level of appeals (particularly those that were speculative or submitted on a mass basis). However, some members – in particular those in our Construction and Real Estate community have concerns that navigating the system can be time consuming.

43. Government could consider how CCA can be incorporated within digital enhancements to the business rates system. Greater efficiencies might be achieved for rate-payers and government.

Question 24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

44. The VOA should, rightly, maintain confidentiality on the terms of individual rental transactions that have been used to inform an opinion of rental (rateable) value. However, the vast majority of transactions are reported widely through databases such as CoStar to which the majority of surveying firms subscribe. The terms of some lettings (particularly in the retail sector) are confidential due to the level of inducements, in terms of rent free periods and capital contributions to tenants fitting out costs that a landlord may offer, and this should be respected.

45. In reaching a fair opinion of rateable value the VOA should be made privy to such data, but this should not be shared with third parties as the threat of the removal of confidentiality may serve to stifle the market. Given that we are likely to be entering a particularly difficult economic period it is likely that landlords and tenants will enter into more confidential arrangements, so this position is likely to become exacerbated.

46. Nevertheless, while confidentiality should be respected, that should not prevent the VOA increasing transparency about how it has arrived at valuations. It is important that ratepayers have greater clarity about the basis for assessment. The introduction of a CCA system with greater transparency will be a net gain, although users of the system will have to acknowledge that a certain level of confidentiality must be maintained.

Question 25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

47. In making any systems decisions HMRC should ensure that agents (which could include, for example, surveyors) will have access to the system. This will make it easier and more efficient for taxpayers to interact with government and ultimately should ensure that data is of higher quality than it might be otherwise.

Section 5.2 Maintaining the accuracy of ratings lists

Question 26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

48. There seems to be an assumption behind the current process that very granular and specific data needs to be collected on a manual basis. The call for evidence suggests that this approach be extended, which would make reporting even more onerous. We question whether this is necessary in a world of big data. If ratepayers had the ability to check calculations and correct in real time when they re wrong, there should be an expectation that the quality of data increases. At the same time, digitalisation should be expected to enable new analytical tools to allow manual investigation to be targeted where risk is highest.

Question 27 What are your views on making a register of commercial lease information publicly available?

49. It is not clear what problem government are trying to solve here. Great care needs to be taken in seeking to share confidential business data.

Question 28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

50. In principle we believe that reporting obligations on businesses should be minimised. Nevertheless, a more interactive and timelier portal, that would enable rate payers to view the basis of assessments and update incorrect/superseded assumptions, could help to ensure more accurate liabilities that better reflected current conditions.

Section 5.3 The billing process

Question 29 How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?

51. Billing should move online, preferably though a single national portal, which might include Wales, Scotland and Northern Ireland. A single system would simplify administration for businesses with multiple premises and might help improve collection. Such a system should be built around the principle of agent access. Larger businesses will use an agent to administer rates for them. Enabling agent access should again help improve compliance, especially if efficiencies mean it is cost effective for more businesses to use an agent.

Question 30 What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?

52. This is welcome and overdue. There should be one portal to not only view and pay bills but also see the details of how valuations have been arrived at and to enable real-time challenge where bills appear to be wrong. In reviewing business rates government could look at digital developments elsewhere in the tax system, which might provide insights to help achieving this. The portal should cover the whole of the UK.

Question 31 What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?

53. Responsive telephone support would be necessary, but we need to move to secure means of communication – if email is not sufficiently secure then other technical solutions need to

be devised rather than relying on antiquated approaches based on telephony. Agent access should be available as default across the portal.

Question 32 What, if any, criteria should be applied in exempting certain ratepayers from online billing?

54. In a similar manner to the roll-out of MTD, some taxpayers are digitally excluded and the systems will need to cater for their needs.

Section 6 Exploring alternatives to business rates

Question 33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

55. The business rates system needs fundamental reform. A new system based on capital values could be designed around current data capabilities and government policy and might alleviate many of the issues with the current system. It might also help to encourage landlords to maximise the use of their land. However, there is a danger that we would move from one unsatisfactory system to another, different, system that retained many of the problems of the existing system.

56. There is also the question of the costs and upheaval that would be involved. Such a change would involve identifying a new group of taxpayers and establishing a new register of capital values. Government could choose to keep the tax-take the same overall, but the distribution would change. Given the scale of change, assessment and collection difficulties may arise.

Question 34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?

57. The problem with business rates is that they too often act as a disincentive to productive activity. If they were more transparent and easier to flex with conditions they would be less of a barrier to investment and growth. With care, a CVT system should be able to be designed to alleviate or avoid these problems. However, without careful design it might merely replicate the problems of the current system.

Question 35 How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

58. Clearly, some useful data on transaction values is already held by HMRC and the land registry. Additional data requirements will partly relate to what level of granularity the government believes will be needed. A system that allows taxpayers to view and challenge calculations in real time online and has the analytical capacity to enable reviews and enforcement to be targeted by risk, might be able to be based on less granular data (ideally data already held by HMRC and the land registry) – as anomalies would be flagged by taxpayers and officer review.

Question 36 How would replacing business rates with a CVT affect the distribution of taxation?

59. In substance the economic effect of such a tax should not be radically different to business rates. We should expect the most valuable properties to already have the highest rateable values. However, as explained in question 33, rebasing the system will change at least to some extent the distribution. Alleviating this temporarily through transitional relief would be complicated where the taxpayer or taxable unit had changed.

60. There would be a bigger impact if the CVT changed the scope of the tax. For example, undeveloped or redundant land is not currently taxed, and neither is agriculture. However, we question the value that would be derived from bringing such land into the scope of tax. Government seeks to encourage agriculture with a substantial subsidy regime, so it would seem counterproductive to introduce new taxes on it.

Question 37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?

61. A compelling case would need to be made for such a change. Given it appears that collections rates are high, and rates are difficult to avoid, we question the benefits of such a change. The lease is a contract between landlord and tenant. While in some cases the landlord would be able to review the rent and adjust it to reflect the additional costs, this would sometimes not be possible, particularly during a downturn. Some landlords would fail as a result leaving CVT unpaid.

62. Nevertheless, ultimately collection and compliance is expected to be high for a property tax and some transitional issues would resolve in time. Moving the liability to landowners would reduce the number of taxpayers, which might reduce administration costs. In some cases, landlords' cashflows might be 'lumpier' than many tenants, for example retailers, who will receive cash on a daily basis. This might lead to a higher incidence of late payments, although the other side of the coin is that a landlord's income should also be regular and predictable.

63. Government could review arrears data in the property sector to gauge the scale of potential issues.

Question 38 What lessons can be learned from other countries experiences with CVTs?

Business property tax is exceptionally high in the UK, so any lessons from other countries would need to reflect this difference.

Question 39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

64. The government should study in detail the systems in the Netherlands and Hong Kong which use technology to enable annual revaluations.

Question 40 What would be the benefits and risks of introducing an online sales tax?

65. Government needs to ensure that the UK tax system is fair and reasonable and that, as far as possible, there is parity of treatment as between online and offline transactions. Businesses operating in the UK should pay tax at the same rate on their activities. We can see the merits of the government's digital services tax.

66. Nevertheless, we question the targeting of an online sales tax. Many, if not most, retailers will have online and offline activities and risk being hit by a "double whammy". This would affect their most innovative activities – which might be only marginally profitable or loss leading. Business rates has a poor track record for encouraging innovation or productive investment. We are therefore uneasy that an online sales tax might complicate the system while also disincentivising activity. It would need much more careful thought and analysis.

Question 41 Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?

67. Once the digital services tax is in place, supplementing the levying of UK VAT on sellers of goods in the UK through online marketplaces, we would need to see further evidence to convince us of the necessity of such a tax.

Question 42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?

68. The government has recently temporarily reduced VAT on the basis that it encourages more transactions. An incremental sales tax would have the opposite effect.

Question 43 How could an online sales tax affect the distribution of taxation?

69. Some online retailers will pay more, but many retailers operate online and offline.