



REFORMING THE CUSTOMS TREATMENT OF LOW VALUE IMPORTS INTO THE UNITED KINGDOM

Issued 6 March 2026

ICAEW welcomes the opportunity to comment on the consultation regarding reforming the customs treatment of low value imports into the United Kingdom published by HM Treasury and HM Revenue & Customs on 9 January 2026, a copy of which is available from this [link](#).

ICAEW supports the government's decision to remove the customs duty relief for Low Value Imports (LVIs). The current regime creates an unlevel playing field between UK retailers and overseas e-commerce sellers, shipping individual low value items to the UK, and its removal is both necessary and overdue. However, the relief's removal will only achieve its intended effect if the new arrangements are well-designed and implemented promptly. This response identifies the key risks in the current proposals and sets out practical recommendations to address them.

- **The implementation timeline should be brought forward.** With the EU legislating to remove its own €150 threshold from mid-2028 with a flat rate duty of €3 being applied from 1 July 2026, a UK implementation date of 2029 would leave an up to three-year window during which the UK risks becoming a destination of choice for displaced, undervalued or non-compliant e-commerce parcels. This would directly undermine the competitive fairness the policy is designed to restore.
- **System design should prioritise simplicity.** Excluding goods claiming preferential origin or subject to non-ad valorem rates from the simplified LVI arrangements will force businesses to operate parallel customs processes. This creates disproportionate technical and financial barriers, particularly for SMEs, and increases the risk of errors and delays at the border.
- **The fiscal representative model needs to be reconsidered.** Mandating joint and several liability for a client's customs and VAT debts is not a workable requirement for regulated UK professional firms. Standard professional indemnity insurance does not cover assumed third-party tax debts of this kind, and reputable firms are unlikely to offer this service. Without an alternative, legitimate overseas sellers risk being locked out of the simplified regime entirely.
- **ICAEW proposes a more practical path to full compliance.** Rather than investing in a costly interim tariff bucket system, the government should introduce a simple transitional flat-rate duty that could realistically enable a launch by late 2027, materially narrowing the window of UK vulnerability. Once HMRC's planned AI-assisted tariff tools are available, businesses could move directly to full UKGT classification, avoiding the expense of building and then dismantling an interim system.

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- **Handling fees should be cost-reflective and levied per consignment.** Per-item fees would create disproportionate administrative burdens, penalise order consolidation and have a regressive effect on consumers of lower-value goods. Any fee must be strictly limited to the cost of services rendered, with the evidence base published.
- **A single, unified digital return for VAT and customs duty on LVI is essential.** Aligned valuation bases, exchange rates and reporting cycles are not just an administrative convenience – they are the foundation of a system that businesses will actually be able to comply with. Requiring separate returns risks cascading errors and will reduce voluntary compliance, particularly among smaller overseas sellers.

This response of 6 March 2026 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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KEY POINTS

1. ICAEW supports the government's decision to remove the customs duty relief for Low Value Imports (LVIs). The current regime has created an unlevel playing field, significantly disadvantaging UK high street retailers who pay full duty on bulk imports against overseas online sellers who ship duty-free single items. Removing the relief is a necessary step to address this market distortion and ensure fair competition.
2. While we support the policy intent, the UK's proposed timeline to 2029 creates a significant regulatory gap. The EU has now formally adopted the removal of its €150 duty-free threshold: an interim flat-rate duty of €3 per item category will apply from 1 July 2026, with full tariffs following when the EU Customs Data Hub becomes operational in 2028.
3. This creates a real and imminent risk of the UK becoming a destination of choice for undervalued or non-compliant e-commerce parcels displaced from the EU market. The government must consider whether a 2029 implementation is too late to protect UK retailers and fully compliant overseas sellers effectively.
4. For non-established overseas sellers, the requirement to appoint a UK-based fiscal representative introduces an uninsurable risk for professional service firms. Mandating joint and several liability for a client's customs and potentially VAT debts under standard professional indemnity insurance (PII) terms will likely lead to a severe market shortage of willing representatives, locking legitimate small and medium-sized enterprises (SMEs) out of the UK market.
5. The consultation proposes excluding goods claiming preferential origin, or those subject to non-ad valorem rates, from the simplified LVI arrangements. This will force e-commerce platforms to build complex 'dual-processing' software to dynamically route standard goods through the new LVI system and preferential goods through standard customs declarations via the Customs Declaration Service (CDS). We urge the government to minimise exclusions to prevent prohibitive technical barriers.
6. Rather than building an expensive 'tariff bucket' system, we propose a transitional flat-rate duty to allow for an earlier launch, followed by a direct move to AI-assisted 10-digit UKGT classification once HMRC's planned AI tools are delivered – avoiding costly interim infrastructure that may quickly become redundant.
7. Furthermore, if the government introduces a separate handling fee to recover administrative costs, it must strictly be applied on a 'per consignment' basis, rather than 'per item'. Per-item fees create disproportionate administrative burdens and actively discourage sustainable order consolidation.
8. To ensure high compliance and prevent 'cascading tax errors' at the point of sale, the new regime should allow businesses to calculate, report, and remit both VAT and Customs Duty through a single, unified digital return. Maintaining valuation symmetry between the two taxes is essential for simplifying audits and reducing friction.

ANSWERS TO SPECIFIC QUESTIONS

Question 1: If you are representing or responding on behalf of an organisation or trade body, what is the name of your organisation/trade body?

9. ICAEW

Question 2: What type of organisation(s) are you representing (e.g. parcel operator, seller etc.)?

10. Professional body

Question 3: Which country is your organisation/trade body based in?

11. ICAEW is headquartered in the UK.

Question 4: What is the size of your organisation? If you are a trade body, please state your membership size instead.

12. Large (ICAEW has more than 210,000 members and students in over 150 countries).

Question 5: Do you currently import goods into the UK using the existing LVI customs arrangements?

13. No.

Question 6: For sellers/online marketplaces: based on the information provided in this consultation, how long do you envisage it will take you to implement the new LVI arrangements?

14. Members regularly tell us that any systems changes, which these proposals will require, take at least 18 months to implement.

15. However, the EU has formally adopted the removal of its €150 duty-free threshold. An interim flat-rate duty of €3 per item category will apply to small parcels from 1 July 2026, with full normal customs tariffs replacing this once the EU Customs Data Hub is operational, currently expected in 2028.

16. This means the gap could be up to three years from the EU's interim measure in July 2026, and potentially a full year even measured against the EU's full threshold removal in 2028. Either way, the window of UK vulnerability is significant, and the 2029 date should be revisited.

17. A further timing consideration is that the proposed 2029 implementation date coincides with the UK's rollout of mandatory e-invoicing for business-to-business and business-to-government transactions. Businesses will face simultaneous demands to upgrade ERP systems, logistics platforms, online storefronts and VAT reporting infrastructure across both programmes. HMRC should actively coordinate the design and sequencing of the two programmes to reduce duplicated investment and implementation risk.

Question 7: HM Treasury and HMRC are required to have regard to international arrangements to which the government is a party that are relevant to the exercise of any functions under Part 1 of the Taxation (Cross-border Trade) Act 2018. If there are any international obligations that you consider may be relevant to the proposed changes set out in the Introduction, please identify them here.

18. There are several critical international frameworks and obligations that the government must carefully consider when designing the new LVI arrangements, particularly as the UK moves from a duty-free to a tariff-bearing regime for these goods:

a. WTO General Agreement on Tariffs and Trade (GATT) Article VIII;

- b. Free trade agreements (FTAs) and rules of origin;
- c. WTO Customs Valuation Agreement;
- d. WCO Revised Kyoto Convention, in particular the General Annex standards on customs procedures, simplification and the use of information technology;
- e. WCO Framework of Standards on Cross-Border E-Commerce (2018); and
- f. Universal Postal Convention, in particular the provisions governing customs control, advance electronic data and customs duty obligations for postal items.

Question 8: The government is interested in understanding whether any particular groups might be impacted by the new LVI arrangements. Do you foresee any socio-economic impacts from the LVI changes, including the protected characteristics, as defined in the Equality Act 2010?

19. **Regressive economic impact on low-income households:** the removal of the £135 duty relief, combined with the likely introduction of handling fees, will significantly increase the cost of essential low-value goods such as clothing, household staples and children's items. These costs will be regressive, as lower-income households spend a higher proportion of their income on basic consumable goods. While we support removal of the relief to restore fair competition, this reinforces the need for proportionate duty rates, minimal fees and streamlined systems to avoid unnecessary regressive effects.
20. A further route to consumer price inflation deserves recognition. Online marketplaces (OMPs) are likely to increase their platform fees in response to the enhanced compliance responsibilities the new regime places on them as deemed suppliers of both VAT and customs duty. For UK consumers purchasing through OMPs — which represent a significant and growing share of retail e-commerce — this cost is likely to be passed through to product prices, compounding the direct impact of the duty and any handling fee. This effect will be felt most acutely by lower-income consumers who disproportionately rely on marketplace platforms for lower-cost goods. The government should factor this transmission mechanism into its assessment of the overall consumer price impact of the reforms.
21. **Impact on disability:** many individuals with disabilities also rely on cross-border e-commerce to source specialised aids, tools or medical consumables that are either unavailable or significantly more expensive in the UK domestic market. The risk here is not just cost but also supply chain friction; if new data requirements cause bottlenecks at the border, essential daily living aids could be delayed.

Question 9: Are there any goods in the proposed list of excluded goods in paragraph 2.4 that you think should be eligible to use the new LVI customs arrangements? If so, what are those goods and why?

22. The list of exclusions outlined in the consultation should be kept as narrow as possible to ensure the new regime remains scalable and straightforward to administer. We recommend the government re-evaluates the exclusion of goods subject to non-ad valorem tariff rates.
23. Excluding these goods creates a significant technological barrier for automated e-commerce checkouts. Point-of-sale systems and online marketplace algorithms are inherently designed to calculate taxes as a percentage of the transaction value. Forcing sellers to manually identify low-value goods subject to weight- or quantity-based tariffs and route them through standard, separate import customs arrangements will disrupt automated compliance flows. If the government proceeds with a transitional flat-rate duty or a simplified 'tariff bucket' approach, low-value non-ad valorem goods should be brought within the scope of the new LVI arrangements and assigned to an appropriate value-based bracket or flat fee.
24. For sellers, online marketplaces, and logistics providers, maintaining two parallel customs processes for goods valued at no more than £135 – one for standard LVI goods and another full declaration process for excluded goods (such as those subject to trade defence measures or excise duty) – increases the risk of sorting errors and border delays. Wherever

possible, HMRC should design the new LVI data architecture to be robust enough to process these goods without forcing them entirely outside the streamlined digital regime.

Question 10: With respect to potentially mandating the new LVI customs arrangements, do you foresee any opportunities, challenges or impacts arising from implementing/using these arrangements?

25. While a mandatory system offers the opportunity to create a level playing field between UK high street retailers and overseas e-commerce sellers, we foresee several significant challenges if the new LVI arrangements are mandated as currently proposed.
26. A mandatory, unified system that tightly integrates customs duty collection with the existing VAT 'deemed supplier' rules presents a clear opportunity to streamline cross-border compliance. It would provide regulatory certainty for large OMPs and could significantly reduce the administrative burden of calculating border taxes for standard shipments.
27. The consultation states that goods claiming preferential rates of duty or using special procedures are excluded from the new LVI arrangements and must use standard import customs arrangements. Mandating the new LVI system for standard low-value goods, while strictly requiring the Customs Declaration System (CDS) for preferential low-value goods, forces businesses to maintain two parallel compliance systems.
28. If the mandate to use the LVI system is unconditionally tied to the requirement that non-established sellers must appoint a UK-based fiscal representative with joint and several liability, we foresee a severe market impact. As detailed in our response to question 18, reputable UK professional services firms will generally be unable to provide this service due to professional indemnity insurance (PII) restrictions and uninsurable risks.
29. Finally, we reiterate our concern regarding the proposed implementation date. Mandating this system by March 2029 could create a nearly three-year gap after the EU removes its own €150 threshold in mid-2026. The primary impact is that the UK market will likely absorb a displaced wave of undervalued e-commerce parcels in the interim, undermining the policy's protective intent.
30. It is also important to recognise that the removal of the relief will affect UK retailers not only as potential beneficiaries of a more level playing field, but also as importers in their own right. UK retailers who source low-value stock from overseas will face increased upfront duty cashflow pressures that they have not previously experienced. This may require upgrades to accounting systems and a review of working capital and pricing strategies. Retailers operating hybrid fulfilment models – where stock moves across borders to replenish domestic inventory – face particular disruption risk if new data requirements or border processes introduce delays into cross-border replenishment cycles. The government should consider whether transitional cashflow measures, such as extended duty deferment facilities, could ease this adjustment burden.

Question 11: If the new LVI customs arrangements are mandated, how will you meet these requirements? Are there any instances where you would want to use standard import customs arrangements for consignments of goods valued at £135 or less?

31. For our members' clients, there are critical instances where businesses will need to use standard import customs arrangements for low-value goods, as specifically required by the consultation's proposed exclusions:
 - a. Claiming preferential origin: where an FTA exists, businesses must be able to prove origin to claim a 0% tariff rather than defaulting to a standard UK Global Tariff rate or an optional simplified LVI bucket rate.
32. Special procedures and reliefs: businesses importing low-value components for repair or manufacturing will need to use inward processing, and UK retailers will need to claim returned goods relief for rejected e-commerce exports.

33. The core issue with the mandate is the technological barrier created by separating these flows. If a consumer's online shopping basket contains one item subject to standard LVI rules and another item claiming FTA preference, e-commerce platforms, marketplaces, and logistics operators will be forced to build complex software capable of dynamically routing these items between the new LVI data system and standard CDS.
34. The government must carefully consider how this routing complexity will be managed. If the UK system simply mandates compliance without offering centralised triage support – for example, an HMRC data hub that automatically routes submitted commercial data to the correct customs procedure – the technical and financial barriers to trade for SMEs will be exceptionally high.
35. A related design challenge that the government must address is the treatment of returns. Under a flat-rate or simplified duty system, where a single charge is levied on a whole consignment at point of sale, the mechanism for calculating and refunding duty and VAT on partial returns is not straightforward. If a consumer returns some but not all items from a multi-item order, any refund mechanism must be capable of apportioning the original charge fairly across individual items. This is particularly important given the high return rates in e-commerce, especially for clothing and footwear. The government should set out clearly how returns will be handled within the new regime before implementation, and we would welcome early consultation with industry on this specific design question.

Question 12: How do you expect the implementation of the new LVI customs arrangements to impact the use of the £39 relief for non-commercial consignments sent by one private individual to another?

36. We expect the reported use of the £39 gift relief to increase significantly. By removing the commercial LVI relief but retaining the gift relief, a boundary issue is created. It is highly likely that some overseas commercial sellers will attempt to misdeclare standard business-to-consumer (B2C) shipments as consumer-to-consumer (C2C) gifts to bypass the new tariffs, artificially inflating the use of the relief.
37. While the actual volume of genuine private gifts sent to the UK may remain stable, the practical experience of using the relief will likely deteriorate for legitimate users. As HMRC and carriers are forced to increase scrutiny and risk-profiling to combat the expected rise in misdeclarations, genuine private individuals (such as those receiving family care packages from abroad) are more likely to face border delays, requests for evidence, or incorrect duty assessments.
38. HMRC should rely on data-led profiling – for example, identifying high volumes of 'gifts' originating from a single commercial address – to manage this anticipated spike in illegitimate use, ensuring that the burden of proof does not disproportionately fall on genuine consumers or logistics operators.

Question 13: For sellers/online marketplaces: How will you facilitate paying customs duty to HMRC on a quarterly basis? Please explain your answer.

Question 14: For software providers/intermediaries: Would you consider providing a service to enable sellers/operators of online marketplaces to make these payments?

Question 15: For software providers/intermediaries: Do you have any ideas for how you think any new services to make these payments would best work and/or how it would fit with the current services you offer?

39. As a representative professional body, the operational mechanics of facilitating quarterly payments (question 13) or developing commercial software services (questions 14 and 15) do not apply directly to ICAEW or our internal operations.
40. We do, however, want to express our support for the overarching proposal to make operators of OMPs liable for the customs duty payments on LVIs.

41. This proposal sensibly mirrors the successful 'deemed supplier' rules already in place for VAT. Creating a cohesive collection mechanism where the marketplace is responsible for both the VAT and the customs duty at the point of sale is the most logical and efficient approach. Enforcing compliance and collecting revenue through a concentrated number of large, well-resourced marketplaces is significantly more robust than attempting to police millions of fragmented, non-established overseas sellers.
42. Furthermore, we fully support the proposal to collect these LVI customs duties on a quarterly basis. Aligning the duty payment cycle with standard VAT return periods will significantly reduce the administrative and cash-flow burden on businesses, allowing for more streamlined and predictable accounting processes.

Question 16: For sellers/online marketplaces without a physical presence in the UK: If having a physical presence in the UK was mandated in order to use the new LVI arrangements, how would you meet this requirement? Would you need to appoint a fiscal representative, or would you look to establish a physical presence in the UK?

Question 17: For sellers/online marketplaces without a physical presence in the UK: How much do you estimate it would cost you to appoint a fiscal representative?

43. Not applicable.

Question 18: For businesses with a physical presence in the UK: Would you be prepared to act as a fiscal representative under the conditions set out above?

44. We fully recognise that from a revenue protection perspective, mandating a UK-based fiscal representative makes absolute sense. The Exchequer legitimately requires a secure, established entity within its jurisdiction to pursue for unpaid tariffs, rather than attempting to enforce debts across multiple foreign jurisdictions. We note that the EU utilises a similar model, mandating EU-established intermediaries with joint liability under the import one-stop shop (IOSS) VAT scheme and proposing similar representation for its upcoming customs reform.
45. However, from the perspective of our UK-based members, we must advise the government that very few reputable professional service firms will be prepared to act as fiscal representatives under a model of joint and several liability. While the policy intent to secure the tax base is understandable, the commercial and professional barriers are severe:
 - a. **Professional indemnity insurance:** standard PII policies for accountancy and tax advisory firms generally do not cover assumed third-party tax and customs debts. Expecting UK professionals to take on uninsurable, unquantifiable, and uncapped financial liabilities for high-volume overseas e-commerce sellers represents an unacceptable commercial risk that could threaten the solvency of the advising firm.
 - b. **Professional conduct and risk management:** ICAEW members are bound by strict ethical and risk management guidelines, including Professional Conduct in Relation to Taxation (PCRT). Taking on the joint liability of a remote, overseas entity with highly volatile, fast-moving supply chains directly conflicts with prudent client onboarding and risk assessment protocols. The ongoing due diligence required to safely monitor such clients would be prohibitively expensive to conduct, entirely negating the 'low value' nature of the trade.
46. Our core concern is not that the current proposals are unworkable in principle, but that they create a significant risk that reputable professional firms will decline to act as fiscal representatives in practice. The likely consequence is that legitimate overseas sellers find themselves unable to access the simplified LVI regime and are effectively excluded from the UK market – an outcome that would undermine the policy's broader objective of encouraging compliant cross-border trade. If reputable, regulated professionals refuse to provide this service due to the financial risks, the government risks creating a severe market failure or driving overseas sellers toward high-risk, unregulated umbrella entities.

47. To protect the revenue without creating this market access risk, HMRC should consult separately on alternative revenue protection mechanisms for non-established sellers. Two possible directions worth exploring are: requiring sellers to post financial guarantees or customs comprehensive guarantee bonds with HMRC before accessing the LVI simplification, similar in principle to existing duty deferment arrangements; and placing enhanced data reporting or withholding obligations on UK-regulated Payment Service Providers handling checkout transactions.
48. We recognise that each of these approaches raises practical questions of its own – including how guarantee levels should be calibrated in advance of known trading volumes, and what withholding rate could appropriately be applied before classification is complete – and we do not present them as fully resolved proposals. The design of a workable alternative mechanism warrants dedicated consultation with the professional services sector and the payments industry before the regime is finalised.

Question 19: For sellers/online marketplaces: What item level data do you routinely collect or generate for low value goods? For example, value, goods' description, buyer, weight etc.

Question 20: For sellers/online marketplaces: What data type, format and structure is this held in?

Question 21: For sellers/online marketplaces: How easy would it be for you to share the item level data with HMRC in advance of the goods being dispatched?

Question 22: For sellers/online marketplaces: What are the opportunities and/or challenges with sharing reference numbers with parcel operators/customs intermediaries/carriers, as set out in Figure 3.A?

Question 23: For parcel operators/customs intermediaries/carriers: With reference to paragraph 3.26 and Figure 3.A, do you envisage any opportunities and/or challenges with providing this data for LVIs through a new system?

Question 24: For parcel operators/customs intermediaries/carriers: What are the opportunities and/or challenges from receiving multiple reference numbers from sellers/operators of online marketplaces and consolidating these to provide data for an entire shipment? How could these be resolved?

Question 25: For parcel operators/customs intermediaries/carriers: Do you envisage any potential challenges with using these reference numbers to customs clear the goods by:

a. Including on the Goods Movement Reference (GMR) when using the Goods Vehicle Movement Service (GVMS) at roll-on/roll-off ports.

b. Submitting into the community service provider inventory system at inventory linked ports.

[If yes] How could these be resolved?

Question 26: For community system providers: CSPs would need to call out directly to a new LVI system to validate reference numbers to clear goods from their inventory systems. What impact would this have on your operations?

49. As a representative professional body, questions 19 to 26 relate to the physical and digital logistics of moving goods and are therefore not directly applicable to our members. We defer to the logistics sector, software developers, and Community System Providers (CSPs) on the technical feasibility of these specific proposals.

Question 27: Are you familiar with the UK Global Tariff (UKGT) schedule [Yes/No]

a. [If yes] What challenges, if any, would you face if you had to classify LVI goods to a 10-digit commodity code under UKGT?

b. [If yes] What would the time and cost (one off and recurring) be for you to classify LVI goods to a 10-digit commodity code under UKGT? How significant would this time/cost be relative to your total time and costs to trade?

c. [If no] What factors would impact your ability to classify LVI goods to a 10-digit commodity code under UKGT?

d. [If no] What do you expect to be the implications of having to classify LVI goods to a 10-digit commodity code under UKGT? Please consider possible impacts on your costs, volume of LVI trade and final consumer prices.

50. Yes. Many ICAEW members are highly familiar with the UKGT as part of their professional advisory, audit, and tax compliance roles.
51. The primary challenge of using the UKGT is the administrative disproportion of the requirement. While 10-digit classification is manageable for bulk commercial shipments, applying it to high-velocity e-commerce flows requires a level of technical expertise and granular product data that many small sellers simply do not possess. This is not an argument against placing the classification obligation on sellers – where it rightly belongs – but it does mean that without adequate tools and guidance, the risk of inadvertent misclassification will be high, particularly among smaller overseas sellers with limited customs expertise.
52. For our members' clients or businesses, the cost is not just in the initial software integration, but in the ongoing audit and disclosure work. Automated classification tools often fail to capture the nuances required at the 8- or 10-digit level – for example, distinguishing material composition or specific technical features. This necessitates regular professional intervention to mitigate the risk of misdeclaration penalties and ensures that any voluntary disclosures to HMRC are accurate.

Question 28: If the government provided a simplified tariff schedule, would you use it? [Yes/No]

a. [If yes] What would be the drivers behind you using this instead of UKGT?

b. [If yes] What would the impact on your time and cost (one off and recurring) be of using a simplified tariff schedule instead of UKGT?

c. [If yes] Would you pay a higher rate to access a simplified tariff bucket system?

d. [If no] Why wouldn't you use it?

53. We recognise that for high-volume, low-value e-commerce, the administrative burden of 10-digit classification can be commercially prohibitive. Our preference is to minimise interim solutions and move as directly as possible to full UKGT classification, using a flat-rate duty only as a short-term bridge.
54. If the government proceeds with implementing a simplified schedule, the 'most frequent rate' option may be appealing to many businesses, including small overseas sellers and marketplaces. It provides a pragmatic middle ground that offers certainty and speed without the punitive nature of a 'highest rate' bucket. For businesses with rapidly changing inventories of small items, the ability to apply a stable, predictable chapter-level rate would reduce the operational risk of misclassification errors.
55. However, the appeal of any simplified bucket system is fundamentally undermined by the imminent maturation of AI-driven classification tools. As detailed in our response to question 31, if businesses can accurately and quickly access a lower or preferential rate through the UKGT using HMRC's planned AI-assisted classification by 2028, the 'bucket' system becomes an unnecessary and outdated IT expense. We would only support the 'most frequent rate' bucket as a fallback if our proposed two-phased transitional approach (detailed in question 31) is rejected.

Question 29: What are your views on the illustrative simplified tariff schedule set out in Table 2? What would the specific impacts of this simplified tariff schedule be for your business?

56. If a simplified schedule is adopted, we view the 'most frequent' rate approach set out in Table 2 as a much more viable and equitable simplification for the majority of businesses.

57. For our members, this schedule offers a balance between administrative ease and fair taxation. By using a rate that represents the statistical mode of a category, the government avoids creating significant 'tax shocks' for consumers while still allowing businesses to bypass the complexities of 10-digit classification.
58. We recognise, however, that a bucket-based approach does not eliminate the risk of misclassification – whether inadvertent or deliberate – since the category boundaries themselves become the point of dispute rather than the 10-digit code. HMRC's compliance design should therefore include category-level risk profiling to identify patterns of systematic misassignment, particularly for goods that sit close to category boundaries or where the modal rate differs significantly from the rate that would apply under full UKGT classification.

Question 30: What are your views on the illustrative simplified tariff schedule set out in Table 3? What would the specific impacts of this simplified tariff schedule be for your business?

59. We consider that there may be limited appetite for the 'highest rate' schedule in Table 3.
60. If the rate is set at the highest possible level to protect the revenue, many businesses will likely find it commercially unviable compared to investing in automated 10-digit classification. This schedule also penalises the smallest businesses who are least able to use 10-digit classification and/or those selling the lowest-value goods.

Question 31: Are there any alternative simplified tariff bucket design options that the government should consider?

61. We strongly recommend that the government reconsiders the necessity of the simplified tariff bucket system entirely. Instead, we propose a two-phased approach: a transitional flat-rate duty to accelerate implementation, followed by a direct move to AI-assisted 10-digit UKGT classification.
62. The government currently intends to introduce the new LVI arrangements by March 2029 at the latest. This leaves a prolonged and risky regulatory gap compared to international competitors, notably the EU. A flat-rate duty (eg, a fixed charge per consignment) applied to all eligible consignments valued at £135 or less would radically simplify the initial IT build for both HMRC and OMPs. By temporarily removing the need for any commodity classification at the point of sale, this simplicity could feasibly allow the government to launch the LVI regime by late 2027, up to 18 months earlier than proposed and materially narrowing the window of UK vulnerability.
63. The viability of this approach is demonstrated by France, which introduced a flat-rate €2 charge per item category on low-value imports from 1 March 2026 – implemented rapidly and ahead of the EU-wide equivalent – showing that a simple, classification-light levy can be operationalised quickly when there is political will to act.
64. We note that HMRC's Transformation Roadmap proposes launching an AI-enabled service for the Online Trade Tariff in 2027/28. If this AI support is delivered as intended prior to the final implementation of the LVI reforms in 2029, the technical barrier to 10-digit classification should be significantly lowered.
65. The proposed 'bucket' system could therefore be an expensive and soon-to-be-outdated solution to a data problem that the government's own technology strategy aims to solve. Rather than forcing businesses and software developers to invest heavily in an interim 'bucket' logic engine, the government could use the flat-rate duty as a bridge and then transition the market directly to the full UKGT schedule once the AI-classification tools are fully deployed.

Question 32: Are there any additional Chapters that you think should be included in the simplified tariff schedule?

66. We do not have comments on specific additional chapters that should be included in the simplified tariff schedule. However, we would note that if a simplified tariff schedule is to be used, we recommend as many chapters as possible are included within it to avoid a fragmented schedule where, within a single order, some goods are included and some are not.

Question 33: When designing a potential simplified tariff schedule the government will have regard to the following factors as set out in Section 8(5) of the Taxation (cross-border Trade) Act 2018:

- a. the interests of consumers in the United Kingdom,**
- b. the interests of producers in the United Kingdom of the goods concerned,**
- c. the desirability of maintaining and promoting the external trade of the United Kingdom,**
- d. the desirability of maintaining and promoting productivity in the United Kingdom, and**
- e. the extent to which the goods concerned are subject to competition.**

Are there any additional factors which you think the government should have regard to when setting the tariff rates for the optional simplified tariff schedule?

67. There are no additional factors which we think the government should have regard to when setting the tariff rates for the optional simplified tariff schedule.

Question 34: If there are any international obligations that you consider may be relevant to the proposed positions set out in Chapter 4, please identify them here.

68. To ensure the new LVI arrangements remain compliant with global trade standards, we recommend the government focuses on the following primary frameworks:
69. WTO Trade Facilitation Agreement (TFA): Article 7.8 encourages members to provide for a de minimis threshold below which customs duties and taxes will not be collected. We note that the LVI reform sits in some tension with this principle, though the provision's "to the extent possible" qualification means this is not an absolute obligation and other WTO members have removed their own thresholds without formal challenge.
70. UK free trade agreements: most modern FTAs – for example, CPTPP and UK-Australia – include provisions to minimise the cost of cross-border e-commerce. As previously noted, the LVI system must not effectively 'tax' a business's right to access 0% preferential rates by making the standard declaration process (CDS) too expensive or complex compared to the simplified LVI route.

Question 35: What are your views on the concept and implementation of a handling fee on LVIs?

71. We are supportive of the concept of a handling fee, provided it is used strictly as a cost-recovery mechanism to fund the necessary administrative and enforcement activities of HMRC and Border Force.
72. In line with international standards, we believe any handling fee should be limited to the approximate cost of the services rendered. It should not be utilised as a general revenue-generating tool or as an additional 'hidden' tariff. For the system to be transparent and fair, the government should publish the evidence base used to determine that the fee level (e.g., 50p vs £2) accurately reflects the incremental cost of processing these low-value consignments.
73. To avoid unintended compounding effects, it is essential that any such handling fee is explicitly treated as a post-import domestic charge and does not form part of the customs value for the purposes of calculating customs duty or import VAT.
74. We strongly recommend that any such fee be levied on a 'per consignment' basis rather than 'per item'. Levying fees at the item level within a single parcel would create an

immense administrative burden for OMPs and would discourage order consolidation, which is essential for logistics efficiency and environmental sustainability.

75. We reiterate that even a modest fee can significantly affect the landed cost of very low-value goods. A £5 fee on a £20 item represents a 25% surcharge before an additional duty is even applied. We therefore suggest the government prioritises the lowest viable fee that achieves cost recovery, ensuring the UK remains a competitive destination for global e-commerce.

Question 36: Whether you import LVIs or not, what impact would a per consignment fee of £0.50, £2 or £5 (as illustrative costs) have on your existing business operations?

76. While ICAEW is a representative body, we anticipate the following impacts for our members' clients (both UK-based and overseas):
- a. At 50p, the primary impact is compliance and reconciliation. The cost for an overseas seller to account for a 50p fee, remit it to HMRC, and reconcile it in their accounts would probably exceed the value of the fee itself.
 - b. At £5, this would have a significant contractionary effect on LVI trade. For a direct seller of low-value components or craft items, a £5 fee (added to duty and VAT) may make the UK market commercially unviable.
77. Beyond the direct impact of the fee itself, UK businesses using third-party logistics providers should expect to face increased service costs in the short to medium term as providers invest in the systems integration and data-sharing capabilities required by the new regime. While these costs are not directly attributable to the handling fee, they form part of the total landed cost increase that businesses and ultimately consumers will absorb. This reinforces our recommendation that the handling fee itself should be set at the lowest level consistent with cost recovery, to avoid compounding an already meaningful increase in the total cost of importing low-value goods.

Question 37: Would the impact change if it was a per item or per 'product type' fee?

78. Yes, the impact would change substantially and negatively. Moving away from a 'per consignment' model would create a disproportionate administrative burden for OMPs and overseas sellers.
79. A 'per item' fee requires the seller's system to apply a separate calculation to every single line in a shopping basket. For an order containing 10 low-value items a 50p per-item fee would add £5.00 to the total, whereas a per-consignment fee would remain at 50p. This creates a 'multiplying cost' that punishes order consolidation – the opposite of what sustainable logistics should encourage.
80. A 'per product type' fee introduces a new layer of subjective classification. Businesses would have to determine if, for example, a pen and a pencil are the same 'product type' or two different ones. This creates a high risk of classification drift and would likely lead to frequent disputes between HMRC and taxpayers over the correct application of fees.
81. Since the 'deemed supplier' VAT model currently operates on a per-consignment valuation threshold (£135), introducing a per-item customs fee would break the 'valuation symmetry' between the two taxes. This would force businesses to run two entirely different logic engines for a single parcel, increasing the one-off and recurring software costs significantly.

Question 38: What (if any) changes would this approach lead you to make to your business operations?

82. We are not best placed to answer this question.

Question 39: Are there other ways you believe this fee could be designed?

83. If implementing a handling fee, we consider a per consignment fee to be the optimal design.

Question 40: Are there any other international obligations that you consider relevant to the proposed introduction of a fee on LVIs?

84. We highlight that the proposed handling fee must adhere to the disciplines set out in WTO TFA Article 6, which clarifies and improves the long-standing principles of GATT Article VIII. Specifically, Article 6.2(ii) of the TFA allows for fees that are not linked to a specific operation provided they are 'closely connected to the customs processing of goods'. However, the overarching obligation remains that such fees must be limited to the approximate cost of services rendered and must not be used as a general fiscal tool.

Question 41: What impact would a unified system for accounting for customs duty and VAT on LVIs have on your business?

85. A unified 'one-stop' accounting system would represent a major improvement over the current fragmented model. By allowing businesses to calculate, report, and remit both VAT and Customs Duty through a single digital return (likely via an evolved version of the Import One-Stop Shop (IOSS) or a new HMRC-specific LVI portal), the government would significantly reduce the 'cost per transaction' for small-value trade.
86. For our members, the primary benefit would be reconciliation. A unified system would ensure that the valuation base and currency exchange rates used for VAT and Duty are identical. This eliminates the 'penny differences' that currently affect customs accounting and makes quarterly audits significantly more straightforward.
87. For direct overseas sellers – those not using an OMP – a unified system is the only viable path to high compliance. If a seller has to log into two different systems or file two different datasets for a single £20 parcel, they are far more likely to simply stop selling to the UK or bypass the rules entirely. A single 'LVI Return' is a powerful tool for voluntary compliance.

Question 42: Where customs duty and VAT collection on LVIs are integrated within a single new system, would your business still need to maintain a UK VAT registration (e.g. to account for other VAT liabilities), and if so, what impact would accounting for VAT separately through two different systems have on your business?

88. There would be no direct impact on ICAEW as a professional body.

Question 43: Where VAT is chargeable on the value of the supply of goods, including the amount of customs duty, how feasible would it be to calculate that VAT at the point of sale (taking into account that the customs duty would also be calculated and collected at the point of sale by the same business)?

89. The calculation of VAT on a duty-inclusive value is technically feasible for most OMPs and sophisticated direct sellers. However, its success depends on simultaneity. The system must be able to determine the correct customs duty rate in real time before the final VAT calculation is triggered.
90. Our primary concern is the risk of 'cascading tax errors'. If the customs duty is incorrectly calculated (e.g. due to an HS code classification error), the VAT calculation becomes automatically incorrect. Under the 'deemed supplier' model, the OMP or seller is then liable for the shortfall on both taxes. This creates a high compliance risk that many businesses may mitigate by applying the 'highest rate' bucket, unintentionally inflating prices for UK consumers.
91. Customs Duty and VAT often use different 'official' exchange rates. For point-of-sale feasibility, the government should mandate a single, unified exchange rate for LVI imports to ensure the duty and VAT calculations remain in sync throughout the quarterly accounting period.

Question 44: For non-UK-established businesses: In order to use the new LVI customs arrangements, how would a requirement to appoint a fiscal representative who is jointly and severally liable for your customs and VAT debts arising from LVIs impact your business?

Question 45: For UK-established businesses: Would you be prepared to act as a fiscal representative of a business if that means being held jointly and severally liable for the VAT debts of that business arising from LVIs?

92. Please see our response to question 18.

Question 46: Where goods are cleared into the UK using standard import customs arrangements and subject to customs duty collection at the point of importation:

a. What impacts on your business would there be if the UK maintained a model where VAT collection takes place at the point of sale?

b. What impacts on your business would there be if the UK moved to a model where import VAT collection takes place at the border?

c. How do you think the VAT due should be collected and accounted for?

93. Maintaining the current point-of-sale model (as established in January 2021) provides the highest level of certainty for businesses. They have already invested heavily in the software and internal controls required to manage point-of-sale VAT.

94. Reverting to border-based VAT collection for standard imports would be a regressive step and we therefore recommend maintaining the point-of-sale model for LVI, as it has proven effective since 2021.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as [TAXGUIDE 4/99](#).