



EXTENDING VAT ONLINE MARKETPLACE LIABILITY TO COMBAT NON-COMPLIANCE

Issued 17 August 2026

ICAEW welcomes the opportunity to comment on extending VAT online marketplace liability to combat non-compliance, published by HMRC and HM Treasury on 23 June 2026, a copy of which is available from this [link](#).

VAT non-compliance by some businesses trading through online marketplaces disadvantages compliant businesses and reduces VAT revenues. Therefore, ICAEW strongly supports the government's objective of tackling VAT non-compliance on online marketplaces, creating a fairer trading environment for compliant traders and small businesses.

However, ICAEW's considered opinion is that neither option in the consultation would achieve the government's objectives. A minimum platform threshold (MPT) would measure the wrong thing – platform-level turnover rather than turnover across all of a seller's channels – and so could not detect the disaggregation that causes the loss of VAT revenues. Although a VAT rate relief would mitigate the impact on small businesses, it would compensate them after the event, rather than keeping them outside the charge. Further, it would do nothing to address under-registration itself.

ICAEW proposes that the government considers defining the scope of the charge by reference to a credential issued by HMRC – a VAT registration number or a lightweight HMRC-issued marketplace identifier – rather than by turnover or establishment. Although this option may require significantly greater implementation effort than either of the options currently under consultation, we consider that the resulting benefits justify considering it alongside those options. The proposal is set out in full at Appendix 2.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

This response of 17 August 2026 has been prepared by ICAEW's 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.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 210,000 members and students around the world. 81 of the top 100 global brands employ ICAEW Chartered Accountants. 82% of FTSE 100 companies have an ICAEW member on their board. Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor more than 11,500 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

ICAEW notes that the consultation period is only eight weeks and coincides with the summer holiday period. Given the complexity and significance of the issues raised, gathering evidence, consulting affected parties and assessing practical implications within that timeframe has been challenging. A longer period would have allowed us to draw more systematically on the experience of our members trading through online marketplaces. We would welcome longer consultation periods (ideally 12 weeks) wherever possible, consistent with the Tax Faculty's seventh tenet for a Better Tax System that tax changes should be subject to open and meaningful consultation.

KEY POINTS

1. We recognise the concerns that have led to this consultation. VAT non-compliance by some businesses trading through online marketplaces disadvantages compliant businesses and reduces VAT revenues. We therefore support the government's objective of improving compliance. Our comments relate not to the objective itself, which we at ICAEW strongly support, but as to whether the options consulted on are the most effective way of achieving it.
2. Our considered opinion is that neither of the options consulted on resolves the problems identified in the consultation. Each option leaves the disaggregation of sales that drives the losses described by the government, and each would therefore require HMRC to continue relying upon retrospective compliance activity to identify businesses that should already be VAT-registered. In our view, if any option within the consultation is adopted, the same underlying issue is likely to re-emerge.
3. We therefore suggest an alternative at Appendix 2. Rather than determining liability by reference to establishment or platform-level turnover, the scope of the charge would be defined by a credential issued by HMRC. A VAT-registered seller would provide its VAT registration number and remain outside the deemed supplier regime. A business below the registration threshold could provide an HMRC-issued marketplace identifier. A seller providing neither would have VAT accounted for by the marketplace out of the total selling price.
4. Although we recognise that our alternative option may require significantly greater implementation effort than either of the options currently under consultation, we believe that it would both protect businesses below the registration threshold and enable HMRC to address disaggregation between marketplaces. Over time, increased automation, administrative efficiencies and familiarity with the process may reduce the burden on HMRC.
5. The behaviours described in the consultation are, in large part, failures to comply with existing VAT registration obligations. Before asking more of private businesses, the government should be satisfied that it has made full use of the data, powers and enforcement tools already available to HMRC. Whichever policy option is adopted, marketplace data already reported under the digital platform reporting rules (the Platform Operators (Due Diligence and Reporting Requirements) Regulations 2023, SI 2023/817, as amended) should be matched against VAT registration and company records and appropriate action taken where it appears that traders are not complying with their VAT obligations.
6. We do not consider that an MPT can achieve the consultation's objective. The difficulty is not administrative: a marketplace can readily determine a seller's turnover on its own platform. Rather, platform-level turnover is not the fact that determines whether a business should be registered for VAT, which depends on turnover across every channel through which that business trades.
7. Any approach that extends the deemed supplier rules to domestic sales of goods also creates a new population of repayment traders. Businesses caught by the threshold are, by definition, businesses that should already be VAT-registered. Bringing those sellers within the deemed supplier regime relieves their marketplace sales while leaving input tax recovery in place, creating repayment positions that we understand HMRC wishes to avoid.
8. A VAT rate relief mitigates the impact on smaller businesses but probably does so by compensating them after VAT has been accounted for by the platform on their sales, rather than by keeping those sales outside the charge, or by requiring the marketplace to make a liability decision. It requires, we expect, a single flat-rate proxy to stand in for businesses with widely differing cost structures and does not address under-registration itself.
9. Excluding second-hand goods from the regime would create a clear incentive for new goods to be presented as second-hand. A marketplace has no reliable means of testing such claims, creating new avoidance risks and boundary disputes.

10. Finally, we would ask the government to allow more time for consultation. This consultation was published on 23 June 2026 and closes on 18 August 2026. Consistent with ICAEW's seventh tenet that tax changes should be subject to open and meaningful consultation, we would normally expect at least 12 weeks for a consultation of this significance, particularly where much of the consultation period falls during the summer holidays.

ANSWERS TO SPECIFIC QUESTIONS

Question 1: What is your name or business/organisation's name?

11. ICAEW.

Question 2: Are you responding to this consultation as:

12. A representative body.

Questions 3 to 15 are not applicable as we are responding as a professional body.

Question 16: Please provide any further information about your organisation or business activities that you think might help us put your answers into context.

13. 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.
14. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 210,000 members and students around the world. 81 of the top 100 global brands employ ICAEW Chartered Accountants. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.
15. Our membership includes practitioners advising e-commerce and platform-based businesses, as well as businesses operating online marketplaces, and this response draws on that expertise together with ICAEW's ongoing engagement with reform proposals in this area. As a representative body rather than an individual business or marketplace operator, we are unable to answer questions that ask for organisation-specific data and have focused our response on the questions most relevant to our expertise.

Question 17: What suggestions would you offer for how the government could improve the current rules?

16. The current rules, which apply only to goods, determine the scope of online marketplace liability by reference to where a seller is established – a fact a marketplace finds genuinely difficult to verify, since a registered address or company record is not evidence of where a business is established in substance. The consultation proposes to determine scope instead by a seller's turnover on a platform. A marketplace can verify that easily, but it is not the fact that matters: liability to register depends on turnover across every channel a business uses, which no single platform can see. We set out the consequences of this at Question 19.
17. Our principal suggestion is that the government should stop defining the scope of the charge by reference to facts that marketplaces cannot verify, or which do not answer the question that matters, and define it instead by reference to a valid credential issued by HMRC. In outline: a VAT-registered seller provides its VAT number and remains outside the deemed supplier regime; a business below the registration threshold may apply to HMRC for a lightweight marketplace identifier and, if issued with one, remains outside the charge in the same way; a seller providing neither has VAT accounted for by the marketplace.
18. Appendix 2 sets out two variants of this approach, differing in whether a business below the registration threshold has a credential of its own, and explains why we prefer the version that

includes one. Every marketplace reports against the credential provided, giving HMRC a single reference against which to aggregate a seller's activity across platforms.

19. This is not a novel mechanism. The EU's VAT in the Digital Age reforms introduce a comparable deemed-supplier model for platforms facilitating short-term accommodation rental and passenger transport, under a new Article 28a of the VAT Directive: a facilitating platform becomes the deemed supplier unless the underlying seller can show it is already accounting for VAT itself – either because it is VAT-registered and self-declares, or because it is covered by the EU's cross-border SME scheme introduced from 2025. The UK has no equivalent cross-border SME mechanism, and the current proposals are, in any event, confined to goods rather than services. But the underlying logic transfers: a mechanism that lets a business demonstrate to a third party that its non-registration is legitimate, rather than simply unverified. The marketplace identifier we propose performs that function for UK goods sales, in a system that has no cross-border SME scheme of its own.
20. This suggestion would move each judgement, that the current and proposed rules require, to the party equipped to make that judgement. Establishment ceases to matter, because an overseas seller providing no credential simply has VAT accounted for by the marketplace. Disaggregation between platforms becomes visible to HMRC, which is the only party that receives data from every marketplace. Artificial separation between connected businesses can be tested through checks on directors and bank details before a credential is issued, rather than left undetectable as it is today. And several difficulties raised elsewhere in this consultation, including the treatment of margin scheme goods, the flat rate scheme (FRS) and the creation of repayment traders, largely fall away, because they arise only when registered businesses are brought within the deemed supplier regime.
21. We recognise that this approach would not capture a business that combines significant marketplace and non-marketplace sales and would not eliminate deliberately fraudulent applications for a credential. Neither limitation is unique to this suggestion: no option considered in this consultation looks beyond marketplace activity, and HMRC's data and enforcement powers would in any event remain the proper means of pursuing dishonesty at the point of application. We also recognise that, once issued, a credential could itself be misused unless properly secured – a risk that has affected other EU credential-based mechanisms. Appendix 2 sets out the validation approach we propose to guard against this.
22. We recognise that a marketplace identifier would require investment by HMRC, and that it may take longer to implement than the options currently set out in the consultation. Whether that investment is justified is a matter for the government's assessment of the relative costs and benefits of the approaches available to it. In our view it is the only option we have identified that simultaneously protects businesses below the registration threshold and allows HMRC to address disaggregation between marketplaces. We set it out in full at Appendix 2, including the checks we envisage, the validation and safe-harbour arrangements marketplaces would need, and a comparison of two variants of the approach.

Question 18: As the proposed policy change could have varying impacts on specific sectors, please state any sector specific impacts you anticipate following the proposed rule change.

23. Delivered food:

- a. On the consultation's own account, this sector carries much of the measure's purpose, with hundreds of millions of pounds of VAT estimated to be lost annually through non-compliance in delivered hot food alone. It is also, as the consultation acknowledges, the sector facing the largest adjustment, since platforms hosting only UK businesses had comparatively little to implement for the 2021 reforms and would be building this capability essentially from the beginning. We would encourage the government to give particular weight to lead time, phased implementation and sector-specific guidance here, and to recognise that the businesses selling through these platforms are predominantly small restaurants and takeaways for whom VAT is already a significant compliance burden.

- b. It would also be wrong to assume that everything sold through these platforms is standard-rated. Orders routinely combine hot food with cold drinks, desserts or other items that are not standard-rated, raising apportionment questions that have themselves been the subject of recent litigation. Question 15 itself also refers to the fact that food delivery platforms increasingly facilitate grocery and convenience sales, which are not catering at all and to which ordinary liability rules apply. A marketplace accounting for VAT on these supplies would be determining liability across mixed baskets, and the accuracy of existing rate distinctions must be preserved or the volume of incorrect VAT accounted for is likely to rise rather than fall. The treatment of delivery charges, service charges and tips will need to be addressed explicitly, as will the interaction between any deemed-supply rule and the agent or principal analysis already used to determine, from the contractual relationships between platform, restaurant and customer, who is the true supplier for VAT purposes.

24. General online retail:

- a. Members with direct experience tell us that selling across three or four marketplaces alongside a business's own website is entirely routine, albeit with turnover often concentrated on one platform. This matters for threshold design: the pattern an MPT would need to identify is also the pattern of ordinary commercial behaviour, and a platform-level threshold cannot distinguish between the two.

25. Second-hand and margin scheme goods:

- a. If VAT-registered sellers are brought within the deemed supplier regime, the impact on this sector would be significant. A marketplace cannot know the price at which a dealer acquired its stock, and so cannot calculate the margin on which VAT is properly due. VAT would instead be accounted for on the full selling price, with the seller correcting the position later through its own return. Members tell us this would create material cash-flow and reconciliation burdens. We address this further at Questions 24 and 25.

26. Small and specialist marketplaces:

- a. Sector impact should be read to include the marketplace sector itself. A policy design requiring marketplaces to make case-by-case determinations of seller status, establishment or product liability is far more burdensome relative to scale for a specialist platform than for the largest operators. Members developing marketplace capability have told us this could represent a genuine barrier to entry and reduce competition between platforms as an unintended consequence.

27. VAT-registered businesses selling through more than one channel:

- a. A group not targeted by these proposals, but significantly affected by them, is the large population of VAT-registered businesses that sell through marketplaces alongside their own websites, shops or other channels. These are businesses already accounting for VAT correctly, with no connection to the non-compliance the measure addresses. Under the proposals they would nonetheless need to account for VAT differently depending on the channel through which each sale is made, running two parallel treatments across a single product range: the ordinary rules for direct sales, and the deemed supplier rules for marketplace sales. In practice this means separating sales by channel in their accounting systems, reconciling VAT accounted for by the marketplace against their own records, and managing the resulting differences in their returns and cash flow. Members have told us this would involve significant systems changes and cost for businesses that are not the intended target of the reform. Larger businesses may have the capacity to absorb this; smaller VAT-registered businesses selling through a mix of channels face the same structural problem with considerably less capacity to deal with it.

28. Several of these impacts follow from bringing VAT-registered businesses within the deemed supply, and from requiring marketplaces to determine a seller's status for themselves. The approach at Appendix 2 avoids both. For VAT-registered businesses

selling through more than one channel it removes the difficulty altogether, since a business providing its VAT registration number remains outside the deemed supplier regime and continues to account for VAT on all its sales in the same way.

Question 19: What are your views on the MPT as a policy option? If the MPT is set at the VAT threshold, how else could non-compliant smaller businesses be addressed?

29. We do not think an MPT can achieve the government's primary objectives of addressing non-compliance. A marketplace can readily verify a seller's turnover on its own platform – most already do so for commission purposes – and switching liability at a threshold is no harder than the position any business already faces on crossing the VAT registration threshold, provided the rules on timing, refunds and cancellations are clear. The difficulty is that platform-level turnover is simply not the fact that determines whether a business should be registered for VAT. That depends on turnover across every channel a business uses (and across all of the business' activities) which no single marketplace can see.
30. A non-compliant business selling £89,000 through each of three marketplaces has taxable turnover of £267,000, and is already required to register – but no platform threshold is triggered, and no VAT is accounted for on any of those sales. The same is true where what is in substance one business is presented as two, each trading below the threshold. Neither is a loophole created by this measure; both are existing non-compliant businesses, invisible to a marketplace because a marketplace can only see the sales on its platform and has no way of knowing that a seller trades elsewhere or that two of its sellers are connected. An MPT set at £90,000, or at any lower positive figure, leaves this gap open regardless of the level chosen.
31. This points to a wider question about where responsibility for verification should sit. Establishing whether a seller is trading legitimately means knowing what it sells elsewhere, whether it is connected to other businesses, and whether its stated position matches its tax history. That requires access to tax records, company records and cross-platform data, together with powers to compel evidence where the picture is incomplete. Those are attributes of the state, not of a commercial intermediary. Marketplaces can fairly be asked to collect tax and to validate a credential against a service HMRC provides; they should not be asked to work out who is trading honestly. A design that requires them to do so does not make the verification more reliable; it relocates the consequences of its failure onto a party that could not have prevented it.
32. A threshold set by reference to turnover also has a further consequence the government has separately said it wishes to avoid. Sellers caught by any positive threshold are, by definition, businesses that should already be VAT-registered. Deeming a marketplace to be the supplier of their sales relieves their supply to the platform from VAT, leaving them with input tax and no corresponding output tax on that channel – leaving the seller in a repayment position. We address this further at Question 31.
33. On the second part of the question, if the government sets the threshold at £90,000, the resulting gap should be closed through better use of the data HMRC already receives, rather than left open. Matching seller-level data reported by marketplaces under the digital platform reporting rules against VAT registration and company records should identify a proportion of the businesses whose turnover exceeds the registration threshold despite remaining below the MPT on each platform used, for pursuit through existing tools including joint and several liability notices. We would note, however, that this reporting is annual and retrospective, and that a marketplace established outside the UK is not required to report to HMRC directly at all. This could be addressed by extending the UK's digital platform reporting rules to require non-UK-established marketplaces facilitating UK sellers to register and report directly to HMRC – mirroring the "Non-Union Platform Operator" registration requirement under the EU's equivalent regime (DAC7) – rather than relying solely on indirect exchange of information from other jurisdictions.
34. A more complete answer, in our view, is to define the scope of the charge by reference to a credential issued by HMRC rather than by turnover. Because every marketplace would

report against the same credential, HMRC could aggregate a seller's activity across platforms and identify both forms of disaggregation described above, which no threshold at any level allows a marketplace to do. We set this out at Appendix 2. We would add that a threshold-based measure would, in our view, leave the government consulting again on the same problem within a few years, because the behaviour that drives the losses would continue undisturbed beneath it.

Question 20: What are your views on an MPT set lower than the existing VAT registration threshold, and would you be supportive of such a policy if the funds raised were used for improvements to the business rates system for high street businesses?

35. A lower MPT would catch more non-compliant businesses than an MPT of £90,000, but it would not resolve the underlying problem and would introduce new ones. It remains possible to spread sales across a sufficient number of platforms to sit below any positive figure, so the disaggregation gap identified in our answer to Question 19 persists at any MPT above zero.
36. At the same time, every positive MPT carries the cliff-edge and administrative burdens described in that answer: marketplaces must track each seller's per-platform turnover and switch liability on and off as the threshold is crossed. Sellers face an incentive to bunch below it.
37. A lower MPT also applies marketplace VAT collection to some businesses trading below the VAT registration threshold while leaving otherwise identical businesses outside it, depending solely on how their sales happen to be distributed across platforms. Two businesses with the same total turnover can therefore face different treatment despite being in the same economic position, which is difficult to justify as a matter of tax policy.
38. For the reasons given at Question 19, we do not think a lower positive MPT resolves the fundamental weakness of a threshold-based approach. Nor, in our view, would a zero threshold: it would bring every seller's marketplace sales within the deemed supplier regime irrespective of VAT registration status, which maximises rather than avoids the repayment-trader consequence described above, and removes the protection for businesses below the registration threshold altogether. If the government's objective is to ensure VAT is accounted for on the sales by businesses that should be registered, we suggest an alternative at Appendix 2 which does not depend on measuring turnover at platform level at all.
39. On the second part of the question, ICAEW does not consider that the case for this measure, or the appropriate level of any threshold, should depend on the use to which the resulting revenue is put. The design of the measure should be assessed on its own merits: a well-designed measure requires no such justification, and a poorly designed one would not be made sound by it. We would encourage the government to determine the design independently of any specific spending commitment.
40. That said, we recognise the pressures facing high-street businesses and would separately welcome meaningful reform of business rates. ICAEW also supports, as a matter of principle, improving compliance and raising revenue efficiently so that reliance on more economically distortive taxes can be reduced. Our position is not that the objective of supporting the high street is unwelcome, but that sound tax design and decisions about the deployment of revenue are properly kept separate.

Question 21: If you are a UK business under the VAT registration threshold, how would a scheme such as this affect the impact of the overall policy for you? Would it make you more or less likely to voluntarily register for VAT?

41. A VAT rate relief would undoubtedly mitigate the impact on businesses below the registration threshold compared with imposing full VAT collection with no protection at all.
42. However, whether it fully removes the incentive to register voluntarily depends on how generous the relief is. If the relief is set below the average input VAT incurred by a business, some businesses may still conclude that voluntary registration is commercially preferable. If it is set above the average input VAT incurred, it creates a risk of over-compensation. That is a distortion, and, more significantly, it gives a business approaching

the £90,000 threshold a positive reason to remain deliberately unregistered in order to retain the relief, rather than registering as the level of its turnover requires.

43. It follows that the relief cannot be calibrated by reference to average input tax alone. If an unregistered seller ends up in the same position as a registered one, nothing discourages a business from remaining, or presenting itself as, unregistered. In our view a relief of this kind would need to be set slightly below the input tax a registered business would in fact recover, so that registration remains the better option for any business able to carry it. That is a narrow window: set materially below, and the relief fails in its purpose of protecting the smallest businesses; set at or above, and it rewards staying outside the VAT system. We make the point to show how difficult the calibration is, not to suggest that it can be solved.
44. We therefore question whether a single flat-rate credit can accurately reflect the position of the diverse businesses likely to be affected. We would also note that a relief of this kind addresses the financial impact of VAT being accounted for on a seller's sales, but not the underlying question of whether that seller should have been registered for VAT in the first place. A marketplace has no means of verifying a seller's aggregate turnover, so a business that should be registered could continue to benefit from the relief simply by presenting itself as unregistered and not registrable. Monitoring for this would depend on HMRC matching data reported under the digital platform reporting rules against registration records – the same aggregation problem discussed at Question 19, and one that arises regardless of how the relief is administered.
45. An approach that keeps businesses below the registration threshold outside the charge altogether, rather than compensating them afterwards, would avoid both difficulties. We set out such an approach at Appendix 2.

Question 22: For all respondents, what would the administrative impacts of implementing such a scheme be?

46. A VAT rate relief would reduce the financial impact of the proposed reforms on businesses with a turnover below the VAT registration threshold, but it would introduce administrative complexity for HMRC, online marketplaces and businesses themselves. This answer addresses those impacts on the assumption that the government wishes to pursue a relief of this kind.
47. The consultation does not specify exactly how a rate relief would operate. It refers to New Zealand's approach, from which we infer a mechanism under which the marketplace applies the standard rate and returns a proportion to the seller. HMRC has separately indicated at public events (including the Online Marketplace Liability Public Forum) that a variant applying a lower rate directly to marketplace sales is also under consideration. The administrative impacts described below arise under either, since none of them depends on how the relief is delivered; where a point applies only to one variant, we say so.

Impacts for HMRC

48. The principal task is setting and periodically reviewing the credit percentage so that it reflects the genuine average input VAT incurred by unregistered sellers of the goods concerned. This is not a one-off calculation: cost structures change, and HMRC would need to commit to a published review cycle, in the way FRS sector percentages are kept under review, together with a process for handling disputes where a business considers the relief does not reflect its position.
49. New Zealand operates a comparable mechanism for listed services, including food delivery, since April 2024: the marketplace collects GST at the standard rate, remits part of it to the tax authority, and passes the remainder to an unregistered seller as a flat-rate credit. The New Zealand rate was calculated by reference to the average input tax recovered by GST-registered suppliers of the same kind of service, rather than being set as an arbitrary figure, and we would encourage HMRC to adopt an equivalent evidence-based methodology if it pursues this option, drawing on the same kind of sector data that underpins the percentages used in the existing VAT FRS.

Impacts for online marketplaces

50. The relief requires systems capable of identifying which sellers qualify. It should apply only to sales by sellers who are not VAT-registered and are not registrable. Where a seller is VAT-registered, the marketplace should account for output VAT in the ordinary way, with the seller continuing to recover its input VAT through its own return as now; no credit should arise in that case, since the seller already has a proper mechanism for input recovery. Establishing that a seller is registered is straightforward: the seller provides its VAT registration number and the marketplace validates it against HMRC's 'Check a UK VAT number' service, as many marketplaces already do. The difficulty runs the other way. Nothing in that process tells a marketplace whether a seller that has not provided a number is genuinely unregistered.
51. That matters, because a relief of this kind gives a registered business a direct financial reason to withhold its VAT registration number and present itself as unregistered. Responsibility for testing that assertion would sit with the marketplace, which has no means of doing so, rather than with HMRC, which holds the register. Any relief along these lines would therefore need to be supported by the standardised HMRC validation service we describe at Appendix 2, and by a clear statement that a marketplace acting on a validated response is not liable for VAT on the seller's sales due to the seller's misrepresentation. Even then, the scheme depends on the honesty of the seller in a way that a credential-based approach does not, because under that approach a seller that provides nothing is simply within the charge.
52. Marketplaces would also need to adapt settlement processes. They already apportion gross receipts between their own commission and the seller's proceeds, and VAT remittance would be required under any deemed supplier model. What a relief adds is a further per-transaction element: calculating the credit, applying it to the seller's settlement, and reflecting it in seller statements and reporting. A lower-rate variant would avoid that additional element, since the reduced rate would simply be applied at the point of sale, which is a genuine administrative simplification. Under either variant the build itself is a one-off burden, distinct from the ongoing burden of an MPT, which would instead require per-seller turnover tracking and liability switching. It would not be entirely one-off, however: each revision to the rate or percentage would require settlement systems to be reconfigured and transactions either side of the change date to be handled correctly, so the published review cycle described above carries a recurring cost for marketplaces as well as for HMRC.

Impacts for businesses

53. For businesses, the scheme should ideally require nothing at all: no registration, no returns, no calculations, with the credit arriving automatically through marketplace settlement. Any version requiring an unregistered seller to claim, calculate or report would forfeit much of the relief's value. A business that would prefer genuine input recovery to a flat-rate approximation retains the option of voluntary registration, and the scheme should be designed to preserve that choice rather than obstruct it.

Conclusion

54. Taken together, we consider that the ongoing complexity of designing, calibrating and reviewing a relief mechanism, the settlement changes required of marketplaces, and the residual under-registration risk described above should be weighed against alternatives that determine a seller's position at the point a credential is provided, rather than through an approximation applied after the event. We set out such an alternative at Appendix 2.

Question 23: What other options could you suggest for reducing the impact on the smallest UK businesses?

55. We agree with the objective underlying both the MPT and the proposed VAT rate relief: businesses trading below the VAT registration threshold should not be drawn into the VAT system simply because they sell through an online marketplace. The question, in our view, is not whether those businesses should be protected, but how that protection should be provided.

56. One option would be to define the scope of the charge by reference to a credential issued by HMRC. A VAT-registered business would provide its VAT registration number to the marketplace and remain outside of the deemed supplier rules. A business trading below the registration threshold could apply to HMRC for a lightweight marketplace identifier (provided to the marketplace) and, if issued with one, likewise remain outside of the charge. A seller providing neither credential would fall within the deemed supplier rules and VAT would be accounted for by the marketplace.
57. We consider this approach preferable to both an MPT and a VAT rate relief. Unlike a platform-level threshold, it enables HMRC to aggregate activity across marketplaces and identify businesses whose sales have been artificially fragmented. Unlike a VAT rate relief, it does not require the government to determine a flat-rate proxy for input tax recovery across businesses with widely differing cost structures. It therefore avoids the risk of some businesses being under-compensated and others being over-compensated.
58. A marketplace identifier would also preserve the practical effect of the VAT registration threshold. Businesses below the threshold would remain outside VAT registration, face no VAT return obligations and recover no input tax, just as they do today. At the same time, HMRC would obtain a consistent identifier against which marketplace activity could be aggregated and analysed.
59. We recognise that an identifier would require an initial investment by HMRC. Whether that investment is justified depends on the government's assessment of the relative costs and benefits of the available approaches. In our view, the additional cost of an identifier should be weighed against the fact that it is the only option we have identified that simultaneously protects businesses below the registration threshold and allows HMRC to address disaggregation between marketplaces.
60. If the government wishes to pursue a VAT rate relief, we would regard it as a mitigation rather than a solution. Such a relief reduces the impact on smaller businesses, but it does so by compensating them after VAT has been accounted for on their sales. It is preferable, in our view, to identify those businesses that should remain outside the charge in the first place. We set out how this might work at Appendix 2.

Question 24: How would the different options for second-hand goods impact your business? How would you address these impacts?

61. We agree that applying ordinary online marketplace liability rules to second-hand margin-scheme goods raises particular difficulties. The marketplace does not know the purchase price of the goods being sold and therefore cannot determine the seller's margin. As a result, it is not capable of calculating the correct amount of VAT due under the second-hand margin scheme at the point of sale.
62. Excluding second-hand goods from the regime altogether would avoid the practical problem, but it would leave a substantial category of transactions outside the policy and create new opportunities for avoidance and boundary disputes. We address those risks at Question 25, and are cautious about treating exclusion as a complete answer.
63. Equally, requiring the marketplace to account for VAT on the full selling price is difficult to reconcile with the policy intent of the second-hand margin scheme. The scheme exists because a dealer in second-hand goods is ordinarily unable to recover input tax on acquiring them, whether because they were bought from a private individual or from another source where VAT is not charged and recoverable. Taxing the full selling price rather than the margin would therefore tax value against which no input tax was ever recoverable.
64. If registered margin-scheme businesses are to remain within the scope of online marketplace liability, some form of correction mechanism appears unavoidable. A marketplace can determine the sale price but cannot determine the seller's margin. In those circumstances, the only practical way of preserving the effect of the scheme is for the marketplace to account for output VAT on the full value initially and for the seller to make a subsequent adjustment in their own VAT return based on the actual margin realised.

65. We recognise that such an approach would create significant practical difficulties. Members have highlighted concerns about cash flow, reconciliation burdens, systems changes and increased risk of error. These are genuine drawbacks and should not be understated.
66. There is also a category of seller for whom the correction mechanism does not work at all. A business that is not VAT-registered has no return in which to make the adjustment. Such a business is outside the second-hand margin scheme in any event, since the scheme is available only to registered businesses, but the practical result under the proposals is that VAT would be accounted for on the full selling price of second-hand goods with no mechanism of any kind to reflect that no input tax was recoverable when they were acquired. Unless businesses below the registration threshold are kept outside the charge, or second-hand goods excluded altogether, that outcome is unavoidable, and it falls on precisely the sellers least able to absorb it.
67. If the government chooses to bring VAT-registered margin-scheme dealers within the deemed supplier regime, we do not currently see a practical alternative that both preserves the intended effect of the second-hand margin scheme and keeps those transactions within the scope of the policy.
68. The better outcome, in our view, is to avoid creating the problem. If VAT-registered businesses remain outside the deemed supplier regime, a margin-scheme dealer continues to account for VAT on its margin exactly as it does today, and no correction mechanism is required at all. The same is true, under the variant we describe as Option B, of a business below the registration threshold that holds a marketplace identifier: its sales remain outside the charge, so the difficulty described above, of a seller with no return in which to make an adjustment, does not arise for it either. We set out an approach that would achieve this at Appendix 2.

Question 25: If second-hand goods are excluded from OMPL, what risks remain around misrepresentation of goods as second-hand?

69. We think the risk of misrepresentation is real and likely to be significant, for two reasons.
70. First, a marketplace has no reliable means of verifying whether an item is genuinely second-hand. It can record what a seller declares at the point of listing, but it has no way of checking that declaration against the seller's actual purchase history, and no equivalent, for example, of the checks it might apply to determine the business' establishment or identity. A seller wishing to have goods treated as excluded need only describe them as second-hand.
71. Second, and perhaps more importantly, the exclusion would create a clear financial incentive for a seller to describe new goods as second-hand. Where the price difference between an equivalent new and second-hand item is modest relative to the VAT that would otherwise be due on the full selling price, a seller of new, or some refurbished, goods has a straightforward incentive to list them as second-hand: the saving in VAT is likely to exceed any discount a genuinely second-hand description would be expected to command.
72. Much depends on how "second-hand" is defined for this purpose. Eligibility for the second-hand margin scheme turns on how goods were acquired rather than on their condition: broadly, on whether VAT was chargeable and recoverable on the purchase. That is not a fact a marketplace can observe. The point is illustrated by a business that buys used clothing in bulk from private individuals for resale, which is an established model in that sector. Some of that stock will be unworn and still carry its original tags, and it is properly second-hand for margin scheme purposes because no VAT was chargeable when it was acquired. A business that had instead bought new (eg, end of season) stock from a wholesaler or retailer, recovering the VAT charged to it, would be selling goods that are not second-hand at all. The two listings would be indistinguishable: the same description, the same condition, the same price. The difference lies entirely in the seller's purchase records, which the marketplace never sees. Members with direct experience of retail platforms have told us that the price differential between new and used versions of the same goods is frequently smaller than the VAT differential an exclusion would create, and marketplaces

commonly grade listings across several condition tiers between new and visibly used, so the boundary would need to be drawn with care wherever it fell.

73. We do not think excluding UK-registered businesses from applying the second-hand margin scheme when selling through an OMP, as an alternative to excluding second-hand goods altogether, avoids this difficulty. It resolves the marketplace's practical problem, in that VAT would simply be charged on the full price, but it does so by removing the margin scheme's benefit specifically from the online channel, creating a further distortion between a dealer's online and offline sales of the same stock, and reintroducing the cash-flow and reconciliation concerns we describe at Question 24.
74. If the government wishes to retain some form of exclusion despite these risks, we would suggest that any definition of "second-hand" for this purpose should be as objective and evidentially verifiable as possible, and that HMRC should consider requiring a seller to retain and be able to produce evidence of the item's provenance, comparable to the recordkeeping a business is already expected to maintain to support a second-hand margin scheme claim. This would not eliminate the risk, but it would give HMRC and marketplaces something more concrete to test than the seller's own description.
75. This difficulty does not arise where VAT-registered businesses remain outside the deemed supplier regime. A margin-scheme dealer that provides its VAT registration number continues to account for VAT under the scheme as it does today, whether the goods it sells are new or second-hand, and the marketplace is not required to test the description at all. Under Option B the same is true of a business below the registration threshold holding a marketplace identifier: its sales sit outside the charge whatever the condition of the goods, so no incentive to misdescribe them arises and no marketplace is asked to test the description. We set out such an approach at Appendix 2.

Question 26: What would the administration impacts of implementing the policy options outlined be to your business?

Question 27: How long would it take you to implement the changes that would be needed to administer this policy?

76. These questions are addressed to online marketplace operators. As a representative body rather than an OMP, we are not able to answer on behalf of any specific platform's systems, costs or implementation timeline.
77. We address the administrative implications for marketplaces generally at Question 18, and set out the validation, revalidation and safe-harbour arrangements we consider necessary to make any credential-based approach administrable as set out at Appendix 2.

Question 28: What might be the additional costs to your business as a result of this policy?

Question 29: How long would it take you to implement the changes outlined in this policy proposal?

Question 30: How do you think that this proposal would affect your goods pricing decisions, cashflow and influence how and where you sell?

78. Questions 28 to 30 ask about the costs, timeline and pricing decisions of individual VAT-registered businesses trading through online marketplaces. As a representative body rather than a business affected by this measure, we are not able to answer these questions from our own experience, and would not want to speculate on figures or timelines that should properly come from businesses and their advisers directly. We draw attention below to two points of general application which are relevant to the design of the policy regardless of any individual business's position.

Question 31: How would the zero-rating of supply to OMPs impact your VAT accounting practices? Would you be in a net repayment position?

79. Zero-rating the supply from a VAT-registered seller to an online marketplace puts that seller's input tax and output tax out of balance on the affected sales, because input tax on costs continues to be incurred while no output tax arises on marketplace sales. Depending on the proportion of a business's turnover transacted through marketplaces, this is likely to

move many businesses that are currently in a payment position into a net repayment position, and to increase the repayments due to those already in one. Repayment traders commonly move to monthly returns to manage cash flow, so the effect on HMRC is felt in both the volume of claims to be verified and the frequency with which they arrive. This follows from triggering the charge by reference to turnover, which necessarily brings VAT-registered businesses within the deemed supply. An approach which leaves them outside it would avoid the difficulty; we set one out at Appendix 2.

Question 32: Do you operate the VAT FRS? If so, what impact would losing access to the scheme to continue selling through an OMP have on your business?

80. The proposed rules do not work for FRS users, a point we understand HMRC and HMT also recognise. The scheme's flat-rate percentages are calibrated on the assumption that a business accounts for output tax on its sales in the ordinary way. If marketplace sales instead became zero-rated supplies to the marketplace, an FRS business would lose that simplification for a significant part of its turnover: it would need to separately identify and exclude marketplace sales from its flat-rate calculation, track two different accounting treatments across its sales, and potentially reassess whether the scheme remains worthwhile at all — eroding the administrative simplicity the scheme exists to provide.
81. Under the approach we set out at Appendix 2, this difficulty does not arise: a VAT-registered business remains outside the deemed supplier regime by providing its VAT registration number, so its marketplace sales continue to be treated, and included in its flat-rate turnover, exactly as they are today.

Question 33: If the OMP were to account for VAT on your behalf, would your business preference be to register for VAT voluntarily or would you implement a different commercial approach?

Question 34: What might be the additional costs to your business as a result of this policy?

Question 35: How long would it take you to implement the changes outlined in this policy proposal?

82. Questions 33 to 35 ask about the commercial preferences, costs and implementation timeline of individual non-VAT-registered businesses trading through OMPs. As a representative body rather than a business affected by this measure, we are not able to answer these questions from our own experience, and would not want to speculate on figures, timelines or commercial decisions that should properly come from businesses and their advisers directly.
83. We would note that the premise of Question 33, that a business may be driven to register for VAT voluntarily in order to mitigate the impact of a marketplace accounting for VAT on its behalf, is most acute under a design that offers no protection to businesses below the registration threshold, and is reduced but not eliminated under an MPT or a VAT rate relief. A business that registers only to escape an adverse consequence of this measure, rather than because registration otherwise suits it, is not making a neutral commercial choice. An approach that keeps such businesses outside the charge removes that pressure altogether, and we set one out at Appendix 2.

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. A clear statutory basis ensures legitimacy, accountability, and public trust in the tax system.
2. **Certain.** As far as possible, the application of tax rules and compliance processes should be certain. Taxpayers should not normally need to resort to the courts to understand how the rules apply to their affairs.
3. **Simple.** The tax system should be easy to understand for all taxpayers and advisers. Complexity undermines trust, creates unfairness, and discourages compliance.
4. **Easy to administer.** Tax liabilities should be straightforward to administer for HMRC, agents, and all taxpayers. Taxes should be designed to work effectively in a digital environment, while administration must remain accessible to those with limited digital capability.
5. **Properly targeted.** Anti-avoidance rules and other targeted measures should be proportionate, clearly defined, and carefully scoped to achieve their policy objective without undermining simplicity or certainty. Poorly targeted measures add complexity and uncertainty, harming compliance.
6. **Stable.** Changes to the tax system should only be made when clearly justified by economic, social, or environmental goals. Transparent, purposeful reforms build confidence and move the system toward greater coherence and long-term stability.
7. **Subject to proper consultation.** Other than in exceptional circumstances, tax changes should be subject to open and meaningful consultation. Adequate time for stakeholder input improves policy quality, practicality, and public trust.
8. **Regularly reviewed.** Tax rules, reliefs, and policy-driven interventions should be subject to regular, transparent review to assess whether they remain relevant, effective, and aligned with current policy goals. Outdated or unjustified provisions should be reformed or repealed to maintain coherence.
9. **Fair and accessible.** The tax system should be fair and accessible in design and in operation, ensuring equitable treatment of taxpayers. Revenue authorities must exercise their powers proportionately, and all taxpayers should have timely access to HMRC assistance, independent appeal, and redress.
10. **Efficient.** The tax system should raise revenue in a way that minimises unnecessary distortions, compliance burdens, and resource misallocation. While all taxes affect behaviour to some degree, tax design should avoid cliff edges, unintended incentives, or inefficiencies that reduce economic wellbeing unless these serve a clearly defined policy aim.

For more information, please see [Ten Tenets for a Better Tax System | ICAEW](#)

APPENDIX 2

AN IDENTIFICATION-BASED APPROACH TO ONLINE MARKETPLACE LIABILITY

Purpose of this appendix

This appendix sets out in fuller detail the alternative approach referred to in our answers to Questions 17 to 25 and 31 to 35. It is offered as a constructive contribution rather than a finished scheme, and we would be glad to work through the practical design with HMRC and HM Treasury.

The principle

The current rules determine the scope of online marketplace liability by reference to where a seller is established. That is a fact a marketplace finds genuinely difficult to verify: it can check the documents a seller supplies, but a registered address or a company record is not evidence of where a business is established in substance.

The consultation proposes to determine scope instead by reference to a seller's turnover on a platform. Here the difficulty is different. A marketplace can verify this fact easily; it already holds the transaction data. The problem is that platform-level turnover is not the fact that determines whether a business should be registered for VAT. That depends on turnover across every channel a business sells through (and including all other business activities carried out), which no single marketplace can see, however accurately it counts its own sales.

Both rules therefore fail to address the problem, but for different reasons: the first asks marketplaces to verify something they cannot establish, and the second asks them to verify something that, however easily established, does not answer the question that matters. HMRC does not face either difficulty. It holds company, banking and tax records, it receives data from every platform, and it has the powers to require evidence and to investigate.

We therefore suggest that the scope of the charge should be determined by reference to something a marketplace can establish reliably, and which does answer the question that matters: whether the seller has provided a valid credential issued by HMRC. Each of the judgements that would otherwise fall to marketplaces moves to the party equipped to make it, and the marketplace's obligation reduces to validating a credential and applying a clear rule.

This is not a novel mechanism. The EU's VAT in the Digital Age reforms introduce a comparable deemed-supplier model for platforms facilitating short-term accommodation rental and passenger transport, under a new Article 28a of the VAT Directive: a facilitating platform becomes the deemed supplier unless the underlying seller can show it is already accounting for VAT itself – either because it is VAT-registered and self-declares, or because it is covered by the EU's cross-border SME scheme introduced from 2025, which extends a business's domestic VAT registration threshold to sales made in other member states. The UK has no equivalent cross-border mechanism – there is only the single domestic registration threshold – and the current proposals are, in any event, confined to goods rather than services. But the underlying logic transfers: a mechanism that lets a business demonstrate to a third party that its non-registration is legitimate, rather than simply unverified. The approach below performs that function for UK goods sales, in a system that has no cross-border SME scheme of its own.

The common architecture

Both of the options described in this appendix share the same structure:

- A seller that provides a valid credential remains outside the deemed supplier regime and accounts for its own VAT position in the ordinary way.
- A seller that provides no valid credential falls within the deemed supplier regime, and the marketplace accounts for VAT on that seller's sales at the rate applicable to the goods.
- Marketplaces report sales against the credential provided, giving HMRC a single reference against which to aggregate a seller's activity across platforms.

The options differ only in what counts as a valid credential.

What both options achieve

Establishment misrepresentation ceases to confer an advantage. A business not established in the UK is required to register from its first taxable supply, so an overseas seller either registers, in which case it is within HMRC's reach, or provides no credential, in which case the marketplace accounts for the VAT. No marketplace is required to determine where any seller is established.

Registered sellers do not become repayment traders. This follows directly from triggering the charge on identification rather than turnover. A registered business remains outside the deemed supplier regime, so its supplies through marketplaces are not taxed by the marketplace and it does not hold input tax with no corresponding output tax. This matters for HMRC as well as for the businesses concerned: repayment traders commonly move to monthly returns to manage cash flow, so a design that creates them at scale multiplies both the volume of claims to be verified and the frequency with which they arrive. We discuss this further at Question 31.

Existing difficulties largely fall away. Because registered businesses stay outside the charge, the treatment of margin scheme goods and the interaction with the FRS do not arise for those sellers at all. A second-hand dealer operating the margin scheme is registered, provides its VAT number, and continues to account for VAT on its margin as it does today. We discuss this at Questions 24 and 32.

Aggregation across marketplaces becomes possible. Reporting against a consistent credential allows HMRC to identify sellers whose marketplace activity, taken together across platforms, indicates a registration obligation, and to act on it. This reaches disaggregation between marketplaces; it does not extend to sales made outside marketplaces altogether, a limitation we address under 'Limitations' below.

The policy choice

The question the government must decide is whether businesses trading below the VAT registration threshold should have a credential of their own.

Option A – identification by VAT registration number only

Only a VAT registration number counts as a valid credential. Every seller that is not VAT-registered falls within the deemed supply, and the marketplace accounts for VAT on its sales.

Option B – identification by VAT registration number or marketplace identifier

A business trading below the registration threshold may apply to HMRC for a lightweight marketplace identifier, issued after appropriate checks. A seller providing either a VAT registration number or a valid identifier remains outside the deemed supplier regime.

What the choice turns on

	Option A	Option B
Capture of non-compliant sellers	Very high. Every seller that is not registered is caught, without exception.	Very high. Every seller that does not have a valid credential is caught, without exception.
Repayment traders	None created.	None created.
Compliant registered businesses	Protected from being undercut by non-compliant businesses.	Protected from being undercut by non-compliant businesses.
Compliant businesses below the threshold	Not protected. Their sales bear VAT, or they register voluntarily.	Protected. Their sales remain outside the charge, with no compliance obligation.

	Option A	Option B
Detection of artificial separation between connected businesses	Checks at application allow connected sellers to be identified.	Checks at application allow connected sellers to be identified.
Demands on HMRC	No new registration system required but many more registered businesses.	A one-off build, offset by better data and no additional repayment claims.

Option A is superficially the more watertight against non-compliance, because it admits no exceptions: every seller that provides no valid credential is caught. Option B introduces a credential that must be applied for, and any credential can be applied for dishonestly, which is why the checks described under 'The marketplace identifier in detail' below matter. Set against that, Option A achieves its completeness by capturing compliant businesses alongside non-compliant ones. Option B, by contrast, provides HMRC with a verified identity for businesses trading below the registration threshold, together with information that may assist in identifying connected businesses, repeated applications linked to common directors or bank accounts, and other indicators of avoidance or phoenix behaviour.

Which option is preferable

Option A is a legitimate choice, and we do not think it should be dismissed. It uses a mechanism, the VAT registration number, that already exists and is already checked. It protects the Exchequer's revenue and compliant registered businesses, and it could be implemented using existing systems. If the government's priority is to secure those outcomes as reliably and quickly as possible, Option A achieves that. This protection depends, however, on extending the UK's reporting rules to non-UK-established marketplaces, as we recommend elsewhere in this response – without that, a seller could suppress its UK sales simply by trading through platforms outside the current reporting net.

What Option A does not do is protect a business below the registration threshold that is legitimately unregistered. As explained above, such a business would face a choice between accepting that VAT is accounted for on sales that would not otherwise bear it, or registering voluntarily and taking on obligations, including digital record-keeping and quarterly returns, that Parliament has determined businesses at that level of turnover need not carry. In practice we would expect many to conclude that voluntary registration was commercially unavoidable, regardless of whether they would otherwise have chosen to remain outside the VAT system.

Which of these matters more is, in our view, a question for the government to answer, since it depends on how the objectives set out in the consultation are weighted against one another. If the priority is revenue protection, the protection of compliant registered businesses, and a workable scheme built on existing mechanics, Option A meets it well. If the priority is that businesses below the registration threshold should not be drawn into VAT obligations, or the practical effect of registering, simply because they sell through a marketplace, Option A does not achieve that, and only Option B does.

The consultation itself proceeds on the basis that businesses below the registration threshold should continue to benefit from that threshold, and proposes the MPT and the VAT rate relief as means of preserving that outcome. Taken at face value, that suggests the government has already given weight to the objective Option A does not meet. On that basis, we think Option B better reflects the consultation's own stated priorities, though we recognise that Option A would still represent a significant improvement on the options currently proposed, for the reasons given at 'Assessment against the consultation's objectives' below.

The EU reaches a similar point by a different route, permitting member states to exclude businesses using the special scheme for small enterprises from the deemed supplier regime rules altogether. The UK has no equivalent cross-border scheme, and – more importantly for this purpose – no equivalent certification mechanism by which a small business can demonstrate to a

third party that its non-registration is legitimate. A credential is needed here to achieve the same effect, if that is the outcome the government wishes to secure.

The marketplace identifier in detail

This section applies to Option B.

Application

A UK-established business trading below the registration threshold could apply to HMRC for a marketplace identifier. We would envisage the application capturing:

- the legal and trading name of the business, and its unique taxpayer reference or national insurance number;
- the registered or principal business address;
- the names and dates of birth of directors, members, partners or the sole trader (or equivalents for other entities); and
- the bank account into which marketplace proceeds are paid.

Checks before issue

The value of the identifier lies substantially in the checks that precede it. We would envisage HMRC:

- matching the applicant against Companies House records to confirm it is a genuine, identifiable UK-incorporated company, and treating UK incorporation as conclusive of UK establishment for this purpose – mirroring the approach already taken for UK corporation tax residence, rather than requiring a separate substance-based establishment enquiry;
- cross-checking directors, addresses and bank details against other applicants and existing registrations, to identify nominally separate sellers that are in substance one business; and
- checking directors against recent insolvency and enforcement history, to reduce the risk of the credential facilitating phoenix behaviour.

Much of this is capable of being done against information HMRC already holds. Under the digital platform reporting rules, marketplaces already report seller identity details, including tax reference numbers, addresses and payment account information, on an annual basis. The identifier need not therefore be conceived as a new registry built from nothing; the checks would in large part be a matching exercise against data HMRC already receives, and against its own self assessment, corporation tax and VAT records.

These checks should be capable of substantial automation for straightforward applicants, with manual review reserved for applications raising a specific risk indicator. We would encourage HMRC to publish a service standard for issue, so that the identifier is genuinely quicker to obtain than VAT registration and does not itself become a barrier to trading.

What the identifier is not

It carries no return obligations, no filing requirements and no input VAT recovery. A business wanting to recover VAT on its costs still registers for VAT in the ordinary way. This distinction should be stated expressly in legislation and guidance, so that the identifier is not misunderstood, or mis-sold by third parties, as an alternative form of VAT registration.

Crossing the registration threshold

Because marketplaces report against the identifier, HMRC would be able to see when a business's aggregate turnover across platforms approaches or exceeds the registration threshold, and to prompt registration at the appropriate point.

It is important to be clear where responsibility sits during this period. Monitoring aggregate turnover, and registering when the threshold is crossed, should remain matters between the business and HMRC, exactly as they are today. A marketplace should be entitled to rely on the status of the credential as shown on HMRC's register at the time of the supply, and should not be liable, retrospectively or otherwise, for VAT on supplies made while a credential was valid. If a business crosses the threshold and does not register, that is a compliance failure by the business, to be pursued by HMRC using the aggregated data the scheme itself produces. Any other allocation would require marketplaces to monitor turnover they cannot see, which is precisely the flaw we identify in the MPT at Question 19.

Refusal, revocation and appeal

The scheme should provide for HMRC to refuse an application where checks reveal a material risk indicator, with reasons given; to revoke an identifier where evidence subsequently emerges that it is being used to facilitate non-compliance, returning that seller to the default treatment; and for a review and appeal route equivalent to that available for VAT registration decisions.

Features required under either option

A standardised validation service. HMRC should provide a single service against which every marketplace validates credentials in the same way. Without this, each platform designs its own interpretation of the rules, and the compliance cost falls disproportionately on smaller and specialist platforms that lack the resources of the largest operators. A common service is what makes this approach workable at any scale.

Periodic revalidation. Verification cannot be a single event at onboarding. A business's circumstances change, and a credential issued on the basis of checks at one point in time may not reflect the position later. Revalidation should be capable of being automated, whether by periodic batch checking against the validation service or by notification where a credential's status changes, rather than requiring marketplaces to conduct manual reviews. The rules should specify the frequency, where responsibility sits, and what a marketplace must do when a credential ceases to be valid.

A statutory safe harbour. A marketplace that has validated the prescribed credential through the mechanism HMRC specifies, and has carried out any prescribed periodic checks, should not carry liability for VAT arising from a seller's misrepresentation that it had no means of detecting. Without this, platforms face open-ended exposure for information they cannot independently verify, which is not a fair or workable basis for a collection obligation.

Treatment of unidentified sellers. Where no valid credential is provided, the marketplace should account for VAT at the rate applicable to the goods, not automatically at the standard rate. We recognise the argument for a standard-rate default: the sellers concerned are the least likely to provide reliable product data, and rate determination is a real burden. We do not think it would be right, for three reasons. Liability is a matter of law rather than of the seller's credential status, so charging 20% on zero-rated goods such as books, children's clothing or cold food would require those supplies to be deemed standard-rated, which is a substantive change in liability rather than an administrative simplification. It would mean customers paying VAT that is not legally due on the goods they have bought. And it would make the rate turn on a platform's data capability rather than on what is being sold, so that identical goods bore different VAT depending on where they were listed. We would also note that this is not a new obligation in kind. Under the 2021 rules, marketplaces already determine the applicable rate for goods sold by overseas sellers. The change is one of volume rather than of principle, and the volume should be modest under Option B, since sellers of zero-rated and reduced-rated goods have a clear incentive to provide a credential, whether a VAT registration number or a marketplace identifier, rather than leave the marketplace to determine the rate for them.

Genuinely occasional sellers. The digital platform reporting rules already exclude occasional sellers, broadly those making fewer than 30 sales and receiving no more than around £1,700 in

profit in a year. Aligning the scope of marketplace liability with that existing boundary would keep the most casual activity outside the regime altogether, using a definition that marketplaces have already implemented rather than introducing a further test.

Assessment against the consultation's objectives

	Addresses non-compliance	Protects non-registered businesses	Raises revenue from non-compliance	Workable and fair to implement
MPT at £90,000	No – cannot see turnover across platforms or connected businesses	Yes, but only by not reaching them at all	Only where businesses sell over £90,000 on any one platform	Workable, but creates a permanent repayment-trader population
Option A	Yes, without exception	No – businesses below the threshold left worse off than today	Yes	Workable; no new repayment traders; no new HMRC system
Option B	Yes, and allows connected businesses to be identified before trading	Yes – sales remain outside the charge, with no compliance obligation	Yes	Workable; no new repayment traders; requires investment by HMRC

We should be clear about how these compare, because a preference for Option B, on the reasoning above, should not be read as a reason to prefer an MPT over Option A.

Option A and the MPT fail on different objectives, but not to the same degree. Option A achieves the consultation's primary purpose: a business disaggregating its sales is, by definition, not registered for VAT, so it has no number to provide and is caught on every platform it uses. The MPT does not achieve that purpose at any level, and cannot be adjusted into achieving it, because the information a marketplace would need does not exist on its side of the boundary. Option A also avoids creating a population of repayment traders, which every threshold-based option does.

We would also question how much protection an MPT really offers the businesses it is said to protect. It shields compliant small businesses from VAT on their own sales, but leaves them competing against non-compliant sellers who continue to price below them, which is the harm this consultation exists to address. Option A removes that undercutting but does so by applying marketplace VAT collection to businesses Parliament has chosen not to require to register. Only Option B protects them from both.

Implementation

This section sets out how either option might be implemented, if the government were to adopt this approach. Which of the two it selected would on the priority it gives to the objectives discussed under 'The policy choice' above; what follows applies to Option B specifically, and to the position of businesses below the registration threshold if Option A is adopted instead.

A marketplace identifier would require an IT build. We recognise that this will cost money and it may take longer to implement than the options currently set out in the consultation. We are not in a position to say whether commencement should be deferred until it is available, because that depends on how long it would realistically take to deliver. A short delay would be preferable to introducing a regime that leaves compliant businesses below the registration threshold worse off in the meantime. A longer delay, during which the losses identified in the consultation continued to accrue and compliant businesses continued to be undercut, would be a different proposition. We would welcome an indication from HMRC of the realistic timescale for delivering a credential of this kind, since an informed discussion about transitional arrangements is difficult without it.

If the government decides not to pursue an identifier, we would ask that it says so openly that it has weighed the objective of protecting businesses below the registration threshold against the cost of meeting it and has decided, on balance, not to meet it. What we would not support is treating the identifier as something to be added later. An interim regime that brings compliant businesses below the registration threshold into the charge, on the basis that they will be released once a credential has been built, would be the worst of both worlds. Those businesses would face the choice between bearing VAT on their sales and registering voluntarily long before any relief arrived; many would register; and the reform, when it came, would reach them too late to be of use. The government's actual position on this question should be reflected in the design from the outset rather than settled by default.

Where interim protection for those businesses is needed, one bridge would be a threshold below which a marketplace would not account for VAT on the sales of a seller holding no VAT registration number. We should be clear that this is a way of softening the problem rather than solving it, and that it involves the same trade-off we identify at Question 19. Set high, it protects more small businesses but allows more disaggregation to continue beneath it. Set low, it captures most disaggregation, since spreading a substantial turnover across enough accounts to stay below a low threshold becomes impractical, but it protects only the very smallest businesses and, in doing so, prompts the voluntary registrations the government has said it wishes to avoid. If a threshold of this kind is used, we would expect it to be set at a high level. That produces a limited result, reaching only the most egregious cases, but it is the version that does least damage to compliant small businesses, and a measure that is openly partial is preferable to one presented as complete. The right level depends on how long the arrangement is expected to run and on evidence about the distribution of seller turnover, which HMRC is better placed than we are to assess. What matters is that the trade-off is made explicitly, and that the arrangement is time-limited.

The following applies to both options. It is worth saying, though, that under either of them a marketplace accounts for VAT only on the sales of sellers who provide no credentials. The population of affected transactions is therefore far smaller than under the options set out in the consultation, and several of the difficulties raised there, including margin scheme goods, the FRS and the creation of repayment traders, do not arise for any seller holding a credential. What remains, for that residual population, is the ordinary work of determining liability correctly. For that we would ask the government to provide detailed technical specifications well ahead of implementation, including worked examples covering mixed baskets, promotions and vouchers, refunds and partial refunds, and sellers whose credential status changes mid-period; to consider phased implementation or a pilot rather than a single commencement date; and to provide a transitional period during which penalties are reduced or not applied, so that businesses and marketplaces can identify and correct errors in genuinely new processes.

Limitations

We appreciate that our proposed approach has some limitations.

Neither option would eliminate determined evasion. Under Option B, a seller could obtain a credential dishonestly through false identities, straw directors or nominee arrangements. The claim we make is narrower: that responsibility for detecting fraudulent credentials would rest with HMRC, which has the data and the powers to do it, rather than with marketplaces, which have neither, and that the checks would take place before trading rather than after the loss has occurred with negligible chances of recovery of the tax debt.

Neither option addresses phoenix behaviour by businesses that are already VAT-registered, since checks would apply at the point a credential is issued.

Neither option captures businesses that combine marketplace and non-marketplace sales. Aggregation reaches a seller's activity across marketplaces, because every marketplace reports against the same credential. It has no visibility of sales made through a business's own website, in person, or through any other channel. A business selling, for example, £50,000 through an

identified marketplace account and a further £50,000 through its own website would have aggregate taxable turnover above the registration threshold, and a registration obligation that neither the marketplace nor this scheme's aggregation would reveal. We do not think this is a weakness specific to our suggestion. None of the options considered in this consultation, including the MPT at various levels and the VAT rate relief, look beyond a business's marketplace activity, and none would detect this pattern either. It reflects a boundary of what a reform confined to online marketplaces can achieve.

We would note one partial mitigation. Under either option, HMRC would for the first time hold a reliable identity for every business trading through a marketplace at any scale, rather than only for those it happens to select for enquiry. A seller identified as having significant marketplace turnover is a natural and inexpensive starting point for a basic check of whether that business also trades through its own website or other channels, in a way that is not available under the status quo. This does not close the gap, but it gives HMRC a lead where at present it has none.

Option B requires investment by HMRC at a time when the department is under pressure. We make the case for investment in HMRC's systems and capacity more widely; but we would also observe that, against annual losses estimated in the hundreds of millions, the cost of a one-off build of this kind should be recovered many times over, and that it reduces rather than adds to HMRC's ongoing administrative burden by avoiding a permanent population of repayment claims. We would also weigh the cost of doing this once against the cost of doing it twice. The options set out in the consultation leave the disaggregation that drives these losses in place, and we would expect the government might be consulting again on the same problem in due course. An approach built on identification would not need to be revisited in the same way.