

Response to HM Treasury Consultation on Online sales tax

About The Booksellers Association

The Booksellers Association (BA) welcomes the opportunity to give its views on HM Treasury's consultation on an Online sales tax. The BA is a trade organisation, representing over 95% of bookshops in the UK and Ireland, and exists to support, advise, and work with its members to create excellent products and services for booksellers. As of April 2022, the BA has 851 business members, with 3,839 outlets, including 1027 independent bookshops (figures for UK, excludes Ireland). Our members' shops are integral to their local high streets and communities, bringing a wealth of social, cultural, and economic benefits. BA members cover a range of bookselling businesses, including specialist bookselling chains such as Waterstones/Blackwell's; independent bookshops; community bookshops; Bookshop.org; large high street chains such as WH Smith, and supermarkets.

Bookshops function as vital placemaking destinations, attracting customers and visitors who in turn spend in neighbouring retail and hospitality settings. They will play an enhanced role in supporting our high streets as they seek to chart a post pandemic recovery. It is important to note that bookshops have innovated and reinvented themselves as multi-channel retailers whatever their size, responding to customer need especially in their local communities, using for example click and collect as well as innovative delivery schemes. E-commerce though is not the reason they exist; bookshops primarily exist to serve their communities and to bring the joys and benefits of books and reading to all age groups.

In preparing this response the BA has surveyed its members, so this response represents feedback across a range of business sizes, models, and locations. Member views vary on the question of an online sales tax, however several distinct themes of concern and strongly held reservations about the OST emerged. We were grateful for the opportunity to discuss the consultation with the HMT OST consultation team and a selection of BA members at the roundtable meeting on 27 April.

Key Points:

- There is a strong consensus across the BA membership that the OST does not remedy the fundamental inequalities and flaws of the current system of business taxation, especially as it impacts bricks and mortar retail. It could inadvertently add to those disadvantages.
- Instead, what is required is a fundamental and bold reform of the system of business rates and wider business taxation. The OST as proposed does not address that fundamental need. The UK needs a modern fit for purpose system of business taxation.
- Fairness and shared responsibility should lie at the heart of any system of taxation. BA members hold strongly to these values and look to ensure that all businesses operating in the book selling market do so too.
- However, it is important that the alternatives and modifications to business rates are explored and so we welcome HM Treasury undertaking this consultation.
- A distinct risk of an OST is that it introduces greater complexity into an already complex system. For many BA members, the operation of exemption thresholds - for example when completing tax returns - could add to administrative burdens and therefore the costs of doing business. So, the operation of exemption thresholds with no/minimal reporting requirements would need to be core features, if any OST was to be introduced.
- For large scale bookselling chains who would only receive limited benefit from the £2m OST exemption threshold, there are other considerations (not least around introducing a level playing field in the competition with the global online giants), which means they are inclined

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to support an OST, provided it genuinely did help to address business taxation inequalities versus the pure online operators.

- The risk of new taxes hobbling the recovery of the high street by inadvertently stifling innovation, especially for SMEs, should be a key consideration. As a society we need policies to help prioritize the process of rebuilding our high streets in the coming years. There is a risk that an OST could undermine this by negatively impacting full-service businesses (i.e., businesses which combine bricks and mortar and digital operations).
- There is a risk that an OST could act as a disincentive to small retailers to invest further in developing their online sales presence, especially if it entailed any cumbersome administrative requirements.
- Taxes set at initially low headline rates can over time increase substantially - Insurance Premium Sales tax is one example. A consequent concern is how would that be avoided with any OST?
 - What safeguards would there be to avoid thresholds not keeping pace with inflation, and so time acting to cover businesses with modest turnover levels?
 - And what safeguards are there to ensure any OST remains at 1 or 2%?
 - How would designations of online sales be overseen to ensure UK originated sales also register for OST purposes and are not shifted overseas to avoid paying the tax?
- So, if an OST was introduced, exemptions and a reasonably set threshold (such as the £2m outlined in the consultation document), would be vital requirements. This was a strong and consistent theme in the survey feedback from BA members. This should apply to both predominately bricks and mortar businesses as well as startup/smaller scale on-line businesses, such as Bookshop.org. For the latter category their role in supporting independent physical retailers is worth noting.
- If an OST was introduced it should apply to all goods sold on-line, including books. This approach reflects the importance our members attach to the need for public policy to start addressing the unequal competitive playing field enjoyed by Amazon in the selling of books.
- There is a risk that the OST becomes a de facto consumer tax, especially if global on-line operators and marketplaces seek to avoid absorbing the cost of the OST.

Points relating to both Scope and Design (questions 1-31)

- A consistent strand of feedback from BA members was that their on-line sales capability helps to support them to remain on the high street. Consequently, it is important that bookshops are not penalised for their investment and innovation in digital. Our members want to innovate and digital is essential to that e.g., organising e-tickets to physical events like author signings, as well as the more obvious 'click and collect' transactions.
- Members expressed significant concern that an OST would be avoided by the global on-line operators and strong scepticism over its ability to curb the tax avoidance of the major online players. For any OST system to be credible and to build enduring support, it is essential that online operators like Amazon pay this tax, and do not pass it onto their customers and suppliers. Amazon especially have prior form in gaming the system to minimise tax payments, and there is no reason to expect different this time.

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- Those BA members who favoured adopting an OST (subject to the contingencies outlined above), did so because of a strong belief in the need to rebalance the burden of business taxation.
- If an OST was introduced, BA members attached great importance on not having to register if their business is below the threshold. This would help to alleviate the concerns felt by most members (whose overall turnover, let alone their online turnover, would fall comfortably within the cited £2m annual online turnover threshold), over administrative and tax reporting burdens. In the experience of members from registering for VAT across different EU jurisdictions, for example, is just how complex and challenging in practice it can be to extract bespoke filtered data from 'WooCommerce', and 'Shopify', from member shop systems to fulfil regular reporting requirement.
- Consequently, an element which stimulated significant BA member concern is the prospect that shops would need to do lots of complex reporting/checking of transactions by order method, product type just to ascertain that they had no/very little OST to report. A "don't even register until you're at the threshold" approach would negate this as most BA members certainly won't need to do much monitoring to be safe in the knowledge, they are turning-over less than £2m of qualifying online transactions. It was reassuring to hear at the 27 April roundtable with HMT, that it is envisaged that below £2m of annual online turnover there would be no reporting requirements.
- In the survey responses BA members expressed strong concerns about the potential risk of double taxation, plus additional administrative burdens. For example, dealing with an OST offset (i.e., proving business operates within the threshold) would be another administrative headache for BA members.
- A perception was that this tax as proposed (recognising that details about design are not currently available) would be far too complicated and would therefore risk make an already complex system worse.

Responses to specific consultation questions – Chapter Two: Scope

Question 1 - Would you favour a tax for all 'remote' sales or just a subset of 'online' sales? and Question 4 -Should click and collect be exempted? If so how?

- Click and collect should be exempt – as the on-line element is the same as a phone order – simply a way of reserving a book at their local bookshop.

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- An OST transaction should not be one which results in a visit to a bricks and mortar shop for the customer to collect their goods. This extends to any transaction which involves human interaction, over the phone, face to face, or e-mail, as they are not pure online purchases.
- The flair and innovation of BA members in running events e.g., where an author speaks at a bookshop hosted event, has been a notable factor in driving the bookshop renaissance. Sometimes these events are ticketed with a small amount charged to cover running costs. Many of these tickets are purchased online in advance. BA members raised the following points:
 - Would an OST be levied on such events?
 - We do not believe levying an OST on to these purchases (i.e., event tickets) would be appropriate and could act as a disincentive to the running of these events (risking the many benefits such events bring nearby retail and hospitality settings).
 - Also, the administrative elements, if an OST applied, would need to be carefully delineated, between for example, tickets sold online and those sold ‘on the door’ at the actual event. This additional administration could bring extra costs to what is a non-online service, so such purchases should be exempt from any OST.

Question 5 – Should an OST be applied to all goods? Are any exemptions necessary? If so, what are these and why?

- If an OST was introduced, it should apply to all goods sold on-line. Clearly this would therefore include books (which are of course currently and crucially zero-rated for VAT). This opinion reflects the importance our members attach to the need for public policy to start addressing the unequal competitive playing field enjoyed by Amazon in the selling of books. This unequal playing field is in large measure driven by the burden of business rates which put our members at a competitive disadvantage to global online players like Amazon.

Responses to specific consultation questions – Chapter Three: Design

23: Would either a flat fee or a revenue approach have a greater distortive impact on consumer behaviour?

- Flat fees could be harmful in the context of bookselling because of the smaller ticket values involved, so if introduced OST should be revenue based.

Question 27: What would be a reasonable OST threshold and allowance to set in order to protect small businesses while also making sure that the OST generates sufficient tax revenues?

- If an OST was to be introduced the BA would be strongly in favour of establishing a threshold to ensure it is not damaging to small businesses. This would apply to the great many of our members who have invested in ensuring they can offer their customers a digital offering which often interacts closely with their high street presence. Without this component, the idea of

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an OST does not win the majority support of our membership who engaged in this consultation.

- A wider risk is an OST introduces greater complexity into an already complex system (referring here to business taxation including the system of business rates).

Question 31: Can you provide insight into the overall burden to administer all systems and processes required to support an OST?

- Given most of the products sold by our members are VAT exempt, the administration of any OST is likely to involve additional costs (unless the exemption threshold was designed to ensure minimal reporting requirements). How much is almost impossible to tell at this stage, particularly for our larger chain members whose online turnover will exceed the £2m annual threshold.
- However, it is worth pointing out that the creation and running of such systems (to support an OST), would imply additional costs arising from paying for any software necessary to administer collecting the OST.