



Briefing: HM Treasury proposals for an online sales tax

July 2020

Overview:

- HM Treasury is reportedly considering introducing an online sales tax. Two models are being considered. The first would introduce a 2 per cent levy on goods sold online and is expected to raise £2 billion. The second would be a mandatory charge on consumer deliveries for products purchased online.¹
- Both proposals would raise costs for consumers, conflict with changes to planning law reforms² and ignore changes in consumer behavior. The poorest and most vulnerable would also be more affected.
- The average household could see an extra £56 per year paid in tax because of a 2 per cent levy for online purchases.
- The poorest households could see an extra £20 per year paid in tax because of a 2 per cent levy for online purchases.
- The delivery industry suggests that a £2 delivery charge could be levied, or 3 per cent of the value of a £62 shop.³ If this was applied for a monthly delivery, households would pay an extra £24.

Tax receipts and shopping habits:

- Tax receipts have fallen substantially since the onset of covid-19. VAT receipts have effectively stalled since a payment deferral policy was introduced on 20 March. In total, HMRC receipts are £51.2 billion lower in the three months to the end of June 2020 compared to the second quarter of 2019.⁴ The total cost of the government's covid-19 measures is currently forecast to be £192.3 billion and public sector net borrowing to exceed £320 billion.⁵ The desire to ensure tax receipts hold up is an understandable response from the HM Treasury in light of this situation.
- Shopping habits have been altered to reflect recent restrictions. Internet sales as a percentage of total retail sales have increased from 19 per cent in February 2020 to 31.2 per cent in June 2020.⁶ The online grocery retailer Ocado saw its highest ever market share, hitting 1.7 per cent in the second quarter of 2020 thanks to sales growth of 42.2 per cent.⁷
- Such changes are already being reflected in planned future employment. Hermes (the delivery group) is creating 10,500 jobs and investing £100 million. It expects to carry 3.5 million parcels per day during the Christmas period, which is double the amount of 2019.⁸

¹ Swinford, S., Rishi Runak considers online sales tax in bid to save high street, *The Times*, 27 July 2020.

² Ministry of House, Communities & Local Government, *New laws to extend homes upwards and revitalise town centres*, 21 July 2020, www.gov.uk/government/news/new-laws-to-extend-homes-upwards-and-revitalise-town-centres, (accessed 27 July 2020).

³ Retail Technology Review, *Shoppers must say 'No' to new minimum charge on home deliveries, says ParcelHero*, 6 July 2020, www.retailtechnologyreview.com/articles/2020/07/06/shoppers-must-say-%E2%80%98no%E2%80%99-to-new-minimum-charge-on-home-deliveries,-says-parcelhero/, (accessed 27 July 2020).

⁴ HM Revenue & Customs, *Tax and NIC receipts: information and analysis (June 2020)*, 21 July 2020.

⁵ Office for Budget Responsibility, *Coronavirus analysis*, 14 July 2020, <https://obr.uk/coronavirus-analysis/>, (accessed 27 July 2020).

⁶ Office for National Statistics, *Internet sales as a percentage of total retail sales (ratio) (%)*, 24 July 2020, www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi, (accessed 27 July 2020).

⁷ Cherubini, E., *City snapshot: Grocery sales boosted online and convenience*, *The Grocer*, 23 June 2020, www.thegrocer.co.uk/supermarkets/city-snapshot-grocery-sales-boosted-by-online-and-convenience/645562.article, (accessed 27 July 2020).

⁸ This is Money, *Delivery firm Hermes to create more than 10,000 new UK jobs as it invests £100m following huge spike in online shopping*, 20 July 2020, www.thisismoney.co.uk/money/markets/article-8542039/Delivery-firm-Hermes-create-10-000-new-UK-jobs.html, (accessed 27 July 2020).

- Introducing a sales tax in order to preserve the high street in its existing form also runs counter to planned changes in government policy. The Ministry of Housing, Communities and Local Government recently committed to making it easier to quickly repurpose existing commercial and retail properties for residential use.⁹ An online sales tax to preserve the existing functions of the high street would actively inhibit such a change in planning policy.

Distributional effects and illustrative cost changes:

- Many of the largest retailers responded to covid-19 by increasing delivery slots and setting aside a high proportion for the elderly and vulnerable. Waitrose initially put aside one quarter of their delivery slots for such customers.¹⁰ Other supermarkets – who do not ordinarily deliver groceries – have introduced essentials boxes for this group of people.¹¹
- Households who rent also spend relatively more on non-discretionary items than those who own outright or have a mortgage. These items include housing and food costs. Since lockdown measures were introduced in March 2020, renters have spent 61 per cent of their usual weekly budget on essentials. This compares to 52 per cent for those who own outright or have a mortgage.¹²
- Those in private rented sector households are relatively poorer compared to those who own outright or have a mortgage. In 2018-19, 22 per cent of those in the private rented sector were in receipt of income related benefits. This compares to 9 per cent who own outright and 3 per cent with a mortgage.¹³
- For those in the lowest decile of household incomes, a two per cent online purchase levy would be particularly damaging. The poorest 10 per cent of households lost 44.3 per cent of their gross income to direct and indirect taxes in 2018-19¹⁴, an increase from 43.2 per cent in 2017-18.¹⁵
- The lowest decile income group spent on average £32.80 a week on food and non-alcoholic drinks in 2018-19. If it is assumed that 31.2 per cent of grocery shopping is done online, the total food bill over a year would be £532.15. With a 2 per cent levy, this would come to £542.79.¹⁶
- Across all income deciles, the levy would equate to £20.08 per year for each household (spending £1,004.27 online before the imposition of the tax).
- The lowest decile income group spent on average £73.60 a week on food and non-alcoholic drinks, clothing and footwear, household goods and services, and miscellaneous goods and services in 2018-19. If it is assumed that 31.2 per cent of that shopping is done online, the total

⁹ Ministry of House, Communities & Local Government, *New laws to extend homes upwards and revitalise town centres*, 21 July 2020, www.gov.uk/government/news/new-laws-to-extend-homes-upwards-and-revitalise-town-centres, (accessed 27 July 2020).

¹⁰ Butler, S., Waitrose to set aside quarter of delivery slots for elderly shoppers, *The Guardian*, 27 March 2020.

¹¹ Aikman, I. *Coronavirus supermarket latest: Tesco ditches one-way aisles*, 16 July 2020, www.which.co.uk/news/2020/07/supermarkets-coronavirus-latest/, (accessed 27 July 2020).

¹² Office for National Statistics, *More than one-fifth of usual household spending has been largely prevented during lockdown*,

www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/morethanonefifthofusualhouseholdspendinghasbeenlargelypreventedduringlockdown/2020-06-11, (accessed 27 July 2020).

¹³ Department for Work and Pensions, *Family Resources Survey: financial year 2018/19: tenure data tables, table 3.5*, 26 March 2020,

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/874520/frs-tenure-data-tables-2018-19.xlsx, (accessed 27 July 2020).

¹⁴ Office for National Statistics, *Effects of taxes and benefits on household income: financial year ending: 2019: table 2a*, 23 June 2020,

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014>, (accessed 27 July 2020).

¹⁵ Simpson, D., *The tax burden on households*, TaxPayers' Alliance, 30 May 2019, www.taxpayersalliance.com/the_tax_burden_on_households_2019, (accessed 27 July 2020).

¹⁶ Office for National Statistics, *Family spending workbook 2: expenditure by income: table A4*, 19 March 2020, www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome, (accessed 27 March 2020).

food bill over a year would be £1,194.10. With a 2 per cent levy, this would come to £1,218.¹⁷

- Across all income deciles, the levy would equate to £56 per year for each household (spending £2,800.30 online before the imposition of the tax).
- The delivery industry suggests that a £2 delivery charge could be levied, or 3 per cent of the value of a £62 shop.¹⁸ If this was applied for a monthly delivery, households would pay an extra £24.

¹⁷ Ibid.

¹⁸ Retail Technology Review, *Shoppers must say 'No' to new minimum charge on home deliveries, says ParcelHero*, 6 July 2020, www.retailtechnologyreview.com/articles/2020/07/06/shoppers-must-say-%E2%80%98no%E2%80%99-to-new-minimum-charge-on-home-deliveries,-says-parcelhero/, (accessed 27 July 2020).