



House of Commons
Committee of Public Accounts

Progress in tackling online VAT fraud

Forty-Ninth Report of Session 2017–19

*Report, together with formal minutes relating
to the report*

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The Committee of Public Accounts

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Committee reports are published on the [Committee’s website](#) and in print by Order of the House.

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Committee staff

The current staff of the Committee are Richard Cooke (Clerk), Dominic Stockbridge (Second Clerk), Hannah Wentworth (Chair Liaison), Ameet Chudasama and Carolyn Bowes (Senior Committee Assistants), Zainab Balogun and Kutumya Kibedi (Committee Assistants), and Tim Bowden (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6593; the Committee’s email address is pubaccom@parliament.uk.

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Summary

We reported in October last year that British business was being hit hard by overseas competitors not charging Value-Added Tax (VAT) when selling in the UK through online trading platforms. UK taxpayers have been losing between £1 billion and £1.5 billion a year from online VAT fraud. HMRC must do all it can to give UK businesses that play by the rules the level playing field they are entitled to and give out a clear message that the UK is not a soft touch for VAT fraudsters.

Since our report, HMRC has taken several steps to start tackling the problem and it is encouraging that over 27,000 new traders have become VAT registered in the last two years. However, HMRC still has a lot to do to check who these traders are and make sure it is collecting the right amount of VAT from them, as well as pursuing those who were already operating. We are concerned that too many traders are still not paying their fair share. We want to see that HMRC is rigorously checking compliance of newly registered overseas traders, that the Memorandum of Understanding on information sharing between HMRC and online marketplaces leads to worthwhile collaboration, that HMRC is looking at what further powers (e.g. to seize goods) would help it to enforce compliance, and that it is actively considering the pros and cons of other ways, such as collecting VAT directly at the point of sale (known as split payment), to address this problem. Concerns have also been raised by UK businesses about the future arrangements for VAT payments post-Brexit for goods entering the UK from the EU. RAVAS and VATFraud have highlighted the potential negative implications for future VAT arrangements when the UK leaves the EU. This only adds to the many challenges HMRC faces as we leave the European Union.

Introduction

Internet shopping, particularly through online marketplaces like Amazon and eBay, is now commonplace. Online traders on those marketplaces should charge VAT on their sales in the same way that they would on goods bought over the counter. The VAT rules require that all traders based outside the European Union (EU), selling goods online to customers in the UK, should charge VAT if their goods are already in the UK at the point of sale. But too many are not still doing so. HM Revenue & Customs' (HMRC's) latest estimate is that online VAT fraud and error cost between £1 billion and £1.5 billion in lost tax revenue in 2016–17. VAT fraud has a wider impact on the market, and creates unfair competition; sellers who do not charge the VAT that they should are able to undercut the prices offered by law-abiding UK businesses by up to 20%, forcing many to lay off staff or even go out of business. We have raised concerns several times before about how slowly HMRC has responded to this problem, most recently in the Committee's report in October 2017. Since then, several new HMRC compliance measures have come into effect: extended powers to hold online marketplaces jointly and severally liable for unpaid VAT of a business, arising from sales via that online marketplace; a requirement for online marketplaces to display a valid VAT number for their traders, when they are provided with one; a scheme to register fulfilment houses; and a Memorandum of Understanding to promote collaboration between HMRC and online marketplaces and greater sharing of information.

Conclusions and recommendations

1. **HMRC has taken some positive steps to tackle online VAT fraud.** But there remains much to do to embed new compliance measures and to ensure online marketplaces and sellers meet their VAT obligations fully. Since we last reported on online VAT fraud, in October 2017, several new measures have become available to HMRC to tackle online VAT fraud. HMRC now has extended powers to hold online marketplaces jointly and severally liable for the unpaid VAT of a business, arising from sales via that online marketplace. Online marketplaces are now required to display a VAT number for their traders, when they are provided with one. Online marketplaces are also required to ensure that VAT numbers displayed on their website are valid. HMRC has launched a Memorandum of Understanding (MoU) to encourage greater collaboration and sharing of information between online marketplaces and the Department. A fulfilment house registration scheme came into operation in April 2018 aimed at making it more difficult for non-compliant suppliers to trade in the UK and to help HMRC identify and tackle them more easily. There have been 27,500 applications to register for VAT from overseas online retail businesses since the new measures were announced. But this is a large pool and will need to be thoroughly vetted. HMRC has increased staff numbers working on this area but this is a big task. With the help of these additional measures HMRC expects to raise an extra £1 billion VAT revenue by 2023. We expect HMRC to implement the new measures robustly in its efforts to secure this revenue.

Recommendation: *HMRC should update us by March 2019 on progress in securing the additional forecast £1 billion VAT revenue through to 2023, including progress and outcomes on investigating non-compliant overseas traders, auditing the compliance of newly registered traders and their repayment of previously unpaid VAT.*

2. **Despite the new measures to tackle online VAT fraud, there are still limitations in HMRC's approach which hinder its ability to tackle non-compliant businesses.** Where overseas online traders suspected of committing VAT fraud hold stock in UK fulfilment houses HMRC could seize their stock to help ensure compliance. However, HMRC does not use this method in practice as it requires a warrant, and HMRC must meet a high threshold of evidence to get one. HMRC considers this approach is generally not cost-effective. HMRC is considering, with the Ministry of Justice, whether its seizure powers meet its needs or should be strengthened, or whether it could agree a streamlined set of powers. The Memorandum of Understanding to encourage greater cooperation between online marketplaces and HMRC is voluntary. Online marketplaces face no sanction for not signing and we doubt it will be effective unless it is compulsory. HMRC is consulting on a new way to collect VAT, known as split payment. This would allow the VAT to be extracted from online payments in real time. The Department believes this could significantly reduce the challenge of enforcing online seller compliance. However, even if this were an appropriate method, introduction of split payment is some way off.

Recommendation: *HMRC should assess the key constraints and challenges it faces in tackling online VAT fraud and identify any further measures necessary to overcome them, including any further legislative powers. HMRC should update us by March 2019.*

1 Embedding new compliance measures

1. We took evidence from HM Revenue & Customs (HMRC) in April 2018 as part of an inquiry into the Department's performance in a number of areas of its business.¹ This report covers issues raised at the evidence session specifically in relation to online VAT fraud. This report also follows up issues raised in our previous report on this subject, published in October 2017.²

2. Online sales attract VAT in the same way as goods bought in person. The VAT rules require that all traders based outside the European Union (EU), selling goods online to customers in the UK, should charge VAT if their goods are already in the UK at the point of sale. The sellers should be registered with HMRC and are required to submit regular VAT returns. However, some sellers from outside the EU who bring goods into the UK and store them in fulfilment houses are not charging VAT on those online sales. This may be due to deliberate fraud, a mistake, or because they do not understand the rules.³ HMRC's latest estimate is that online VAT fraud and error cost between £1 billion and £1.5 billion in lost tax revenue in 2016–17.⁴

3. The previous Committee first identified the problem of online VAT fraud in 2011.⁵ In our last report on this issue we concluded that HMRC had been slow to get to grips with the problem and was not yet doing enough to tackle it.⁶ In its written response to our last report HMRC set out that it had increased the level of resource deployed to tackle online VAT fraud and error to 171 staff. HMRC noted that it had also deployed 44 permanent and 22 flexible staff to form an Import Fraud frontline taskforce.⁷

4. HMRC now has a range of new measures to tackle the issue of online VAT fraud.⁸ These measures are: extended powers to hold online marketplaces jointly and severally liable for unpaid VAT of a business arising from sales via that online marketplace; a requirement for online marketplaces to display a valid VAT number for their traders, when they are provided with one; a scheme to register fulfilment houses; and a Memorandum of Understanding to promote collaboration between HMRC and online marketplaces, greater sharing of information, better online marketplace guidance for their sellers and a more effective response by online marketplaces to evidence of non-compliance.⁹ With the help of these new measures HMRC expects to raise just under an extra £1 billion by 2023, although it noted that it would be “a slog” to get that amount in on an ongoing basis. HMRC committed to provide us with a note of the additional revenue expected from the new measures over the next few years.¹⁰

1 Committee of Public Accounts, [Oral evidence taken on 30 April 2018](#), HC (2017–19) 972

2 Committee of Public Accounts, [Tackling online VAT fraud and error](#), First Report of Session 2017–19, HC 312, 18 October 2017

3 Q 111; Committee of Public Accounts, [Tackling online VAT fraud and error](#), First Report of Session 2017–19, HC 312, 18 October 2017, para 3

4 [Correspondence from HM Revenue & Customs](#), 27 March 2018

5 Committee of Public Accounts, [Tackling online VAT fraud and error](#), First Report of Session 2017–19, HC 312, October 2017, para 9

6 Committee of Public Accounts, [Tackling online VAT fraud and error](#), First Report of Session 2017–19, HC 312, October 2017, para 2

7 [Correspondence from HM Revenue & Customs](#), 27 March 2018

8 Q 91

9 [Correspondence from HM Revenue & Customs](#), 27 March 2018

10 Qq 93, 94, 107. In a note to the Committee, dated 24 May 18, HMRC provided details of the expected yield for each year between 2016–17 and 2022–23, split between Budget 2016 measures (the initial measure for joint and several liability for online marketplaces and the Fulfilment House Due Diligence Scheme) and Budget 2017 measures (extensions to the joint and several liability for online marketplaces and the new measure covering the display of VAT Registration numbers).

5. We asked HMRC for an update on compliance and how much work would have to be done to reclaim unpaid VAT from newly registered traders.¹¹ HMRC told us that there had been 27,550 applications to register for VAT from overseas online retail businesses since new measures were announced in March 2016 up to the end of January 2018.¹² HMRC told us that all of those traders were registered and checked for compliance and that it was receiving additional VAT of £100 million.¹³

6. We also asked about progress in using HMRC's new joint and several liability measures. HMRC told us it had opened about 2,100 investigations into non-compliant overseas businesses selling via online marketplaces between September 2016 and the end of January 2018.¹⁴ HMRC told us that it had issued around 1,300 joint and several liability notices and identified and assessed some £120 million in compliance yield.¹⁵ HMRC committed to write to us with information on the number of joint and several liability notices issued to traders who were not listed on VATFraud.org or did not come through via RAVAS.¹⁶

7. We were concerned that “phoenixism” might be a problem in tackling online VAT fraud, where an online company closes, to avoid its VAT obligations, and then reopens under a different name. HMRC told us it was aware of the risk and was monitoring it, and that it was a general issue over and above VAT. HMRC said its intelligence suggested that online retailers with a good history would want to comply rather than use a phoenix company, as this would lead to the loss of their trader history.¹⁷

8. A submission to the Committee from RAVAS and VATFraud, groups representing UK traders, has alleged that HMRC believes much of the online VAT fraud is in fact due to ignorance of the rules.¹⁸ We pointed out to HMRC that ignorance of the rules was not an excuse for non-payment of VAT. HMRC told us that ignorance did not remove anyone's obligation to pay VAT. HMRC considered there were a range of different behaviours, from deliberate evasion through to unintentional error. These behaviours required different responses from HMRC. Where a trader was willing to comply but was ignorant or had found the system too difficult, steps like getting the online marketplaces to engage and communicate, and setting up HMRC's Chinese language website, would help. Fraudsters, on the other hand, required a different response from HMRC.¹⁹

11 Qq 88, 104

12 [Correspondence from HM Revenue & Customs](#), 27 March 2018

13 Qq 88, 105

14 [Correspondence from HM Revenue & Customs](#), 27 March 2018

15 Qq 89, 90, 105, 106

16 Qq 109, 110. VATFraud.org is a campaign set up by a group of UK eBay and Amazon business sellers. RAVAS (Retailers Against VAT Abuse Schemes) is an independent pressure group of UK retailers. In a note to the Committee, dated 24 May 18, HMRC stated “2,144 notices (or 83% of all notices) have been issued to date in respect of traders who were identified by HMRC activity and targeting. 407 notices have been issued to businesses that are listed on VATFraud.org. (or 19%).”

17 Q 108

18 RAVAS and VATFraud ([HPR0001](#))

19 Q 111

2 Limitations in HMRC's approach

9. Despite the new measures to tackle online VAT fraud, there are still limitations in HM Revenue & Customs' (HMRC's) approach which hinder its ability to tackle non-compliant businesses. The Memorandum of Understanding to promote collaboration between HMRC and online marketplaces could be a valuable measure but HMRC told us that at the moment it is only voluntary and, at the time we took evidence, only two online marketplaces had signed up.²⁰ HMRC said that it fully expected online marketplaces to sign the Memorandum of Understanding and share data. HMRC noted that the main sanction would be public visibility of the fact that online marketplaces have either not signed the agreement, or if they had but are not complying with it, that they would be removed from the agreement, so that they could not claim to be a signatory when they are not living up to it.²¹

10. Where overseas online traders suspected of committing VAT fraud hold stock in UK fulfilment houses HMRC can seize their stock to help ensure compliance. However, HMRC told us that such activity is difficult as it needs a warrant and a high threshold of evidence to get one. HMRC has two seizure powers. One is under Customs legislation, for example, in some fulfilment houses where, if HMRC finds that goods have been mis-declared, it has the right to seize them. HMRC told us it also has a right of access to goods, under bailiff legislation, if there is an unpaid debt, which it thought is probably more relevant. For example, if HMRC makes VAT assessments, and those assessments are unpaid, HMRC can see if there are goods that it can take to help pay the debt.²²

11. HMRC explained that its powers are greatest where the goods are held in the debtor's own premises. Where goods are held in a fulfilment house belonging to a third party, under current UK law, HMRC told us it has to seek a warrant to gain access to the premises, so it becomes a less viable way of doing things. HMRC told us it has never issued a notice to Amazon to seize the third-party goods belonging to a seller in respect of whom HMRC has issued a joint and several liability notice. HMRC explained that such an approach is not part of its compliance method for tackling this risk because, as its powers currently stood, it is not a practical way of making a meaningful difference. HMRC told us it is engaging with the Ministry of Justice about whether its powers are sufficient or whether it needs greater powers, or a streamlined set of powers. HMRC undertook to send us an assessment of what new powers it needed and whether that would require primary or secondary legislation.²³

12. HMRC is consulting on a new way to collect VAT, known as split payment. The consultation ends on 29 June 2018.²⁴ Split payment would allow the VAT to be extracted from online payments in real time. The Department believes split payment could significantly reduce the challenge of enforcing online seller compliance.²⁵ We wondered whether the benefits of split payment would outweigh the costs. HMRC noted that it was "pushing the envelope globally" with this idea and that some parties thought HMRC was

20 Qq 79–82

21 Q 87

22 Q 97

23 Qq 97, 98, 100–103

24 Qq 95, 96

25 HM Revenue & Customs, [Alternative method of VAT collection – split payment: consultation document](#), March 2018, para 1.6

pushing it too far. HMRC believes the right way of testing the split payment mechanism is to consult and see whether it is operable. With the consultation ending in June, we expect HMRC to be able to update us at future evidence sessions.²⁶

Formal minutes

Wednesday 20 June 2018

Members present:

Meg Hillier, in the Chair

Bim Afolami	Shabana Mahmood
Sir Geoffrey Clifton-Brown	Anne Marie Morris
Chris Evans	Bridget Phillipson
Caroline Flint	Lee Rowley

Draft Report (*Progress in tackling online VAT fraud*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 12 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-ninth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 25 June 2018 at 2.30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 30 April 2018

Question number

Jon Thompson, Permanent Secretary, and **Jim Harra**, Second Permanent Secretary, HM Revenue & Customs

[Q1-197](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

HPR numbers are generated by the evidence processing system and so may not be complete.

- 1 HM Revenue and Customs ([HPR0004](#))
- 2 HMRC ([HPR0003](#))
- 3 RAVAS and VATfraud ([HPR0001](#))
- 4 Sage Plc ([HPR0002](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)

Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)
Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools' finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898
Thirty-Second Report	Cyber-attack on the NHS	HC 787
Thirty-Third Report	Research and Development funding across government	HC 668
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687
Thirty-Fifth Report	Rail franchising in the UK	HC 689
Thirty-Sixth Report	Reducing modern slavery	HC 886
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699
Thirty-Eighth Report	The adult social care workforce in England	HC 690
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880

Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696
Forty-First Report	Government risk assessments relating to Carillion	HC 1045
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929
Forty-Fourth Report	Reducing emergency admissions	HC 795
Forty-Fifth Report	The higher education market	HC 693
Forty-Sixth Report	Private Finance Initiatives	HC 894
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691
Forty-Eighth Report	Exiting the EU: The financial settlement	HC 973
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347