

Online Sales Tax: Policy Consultation

Joint response on behalf of the charity sector by the Charity Finance Group, Charity Retail Association, Charity Tax Group and National Council for Voluntary Organisations

19 May 2022

An Online Sales Tax (OST) could be an important means of rebalancing the taxation of the retail sector between online and in-store retail. The prospect of an OST was considered initially as part of the recent Fundamental Review of Business Rates in England which concluded that business rates are a vital component of the business tax mix and will not be abolished or radically overhauled, instead making their operation fairer and more effective for businesses.

The Review also promised a consultation to review the arguments for and against an OST which would raise revenue to fund a business rate reduction. As charity sector representative bodies, we are pleased to respond to this consultation and would be happy to engage with HM Treasury officials as the proposals develop.

Charities are committed to the principle of a fair tax system. They have an interest in these proposals in respect of online sales made by both charities and their trading subsidiaries.

In particular, we support arguments that alternative steps could be taken to breathe new life into high street retail sooner by simply (a) removing any limits on downward transition and (b) valuing premises for the 2023 Rating Revaluation reflecting the market conditions at 1 April 2021. Charity shops will ultimately benefit from greater footfall and a vibrant and diverse high street and from a lower rate burden for retailers as a whole. This solution would be simple, easier to introduce and could take effect sooner.

For charities, current online sales are limited, but this will be an area of growth in the future. According to the Charity Retail Association around 75% of charity retailers now sell online compared to 55% pre-pandemic. Also, for charity retailers selling online, online sales are becoming more important: in Q3 2019 online sales represented 1.63% of sales income for those selling online whereas in Q3 2021 this was 2.43%. It is important that if an OST is introduced the impact on charities is taken into account.

Charity shop activities generate revenue and benefits locally. Income generated by charity shops helps to fund important work supporting a range of beneficiaries and charity retail provides extensive employment and volunteering opportunities. For local economies, charity shops reduce store vacancy rates and keep high streets populated and busy and provide voluntary work experience. Successful charity shops are therefore an important component of a strong and thriving high street.

It is therefore welcome that the Government recognises the potential impact on charities and asks in the consultation at **Question 16**: *“Are there other types of entities or transaction types which should be out of scope of an OST e.g. online sales by charities, public bodies or consumer to consumer transactions?”*

In principle, **an exemption for charities would be appropriate in line with the rationale that already exists for other charity tax reliefs**. For example, business rates and VAT reliefs are available for charities who sell donated goods and we think that as a minimum sales of this type should be out of scope of the new tax. On the assumption that the charity would have to absorb the OST, less funding would be available to support the vital work of charities. Exempting all charity sales from an online sales tax would help avoid complexity where, for example, the purchase of a gift or service is combined with a charitable gift.

The design of the tax would be important. A flat rate fee would disproportionately impact lower value charity retail transactions compared to a percentage fee. Any OST should avoid the complexity associated with business rates. By keeping the tax simple, it would reduce the administrative burden on retailers and make the tax more difficult to avoid. If an OST is introduced the Government would need to consider whether minimum value/turnover thresholds need to apply to ensure that the tax is targeted correctly to avoid compliance burdens and costs (including for time and software).

Definitions and the detailed rules would prove important. As an example, in the charity sector it would be necessary to ensure that virtual gifts promoted by charities which are at their core donations should be exempted. In our view this should also apply to the sale of tickets for charity fundraising events. Similarly, we would appreciate assurance that sales that involve “click-and-collect” where goods are reserved but collected in person would not be caught by the tax. Any donation element involved in a purchase should be excluded. This should apply to donations collected by retailers as well as charities.

Charity retail represents a small but important part of the overall online and high street sales environment. We recognise the importance of understanding the wider pressures and trends in the retail market.

Existing business rates reliefs for charities are of key importance to our sector. We are concerned that streamlining the taxation of property and retail via an OST should not lead to unintended negative financial consequences for charities. Charities still pay over £400m a year in business rates and if further savings could be achieved by creating a fairer tax system that would be very welcome.

About us

For more information about this response please contact the Charity Tax Group Secretariat at info@charitytaxgroup.org.uk or on 02072221265.

The Charity Finance Group (CFG) inspires a financially confident, dynamic and trustworthy charity sector. It does this by championing best practice, nurturing leadership and influencing policy makers. Over 1,400 UK charities turn to CFG to develop their finance management knowledge and skills. Collectively, these charities manage £22bn of funds – a third of the charity sector’s income.

The Charity Retail Association (CRA) acts as the voice of charity retail in the UK and includes within its membership over 400 charity retailers who together run around 80% of the 11,200 charity shops in the UK. The CRA supports its members by lobbying on behalf of the sector, undertaking research activities and providing a wide range of guidance, training and knowledge sharing activities.

The Charity Tax Group (CTG) has over 1,000 members of all sizes representing all types of charitable activity. The organisation was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.

The National Council for Voluntary Organisations (NCVO) is the largest representative body for charities and voluntary organisations in England. NCVO has over 17,000 members ranging from large ‘household name’ charities to small community organisations. NCVO is also the national body for volunteering in England.