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By email

9 November 2024

Product Regulation and Metrology Bill – VAT Liability

I would like to thank you for your contribution to the debate during the second day of committee for the Product Regulation and Metrology Bill.

I wanted to follow up on your request for more information on the requirements for online marketplaces to be liable to VAT from overseas sellers operating on their platform. You have been a tireless champion on issues surrounding VAT for many years and I hope this letter will provide reassurance that the Government takes this matter seriously.

Since 1 January 2021 overseas sellers, or online marketplaces where they facilitate the sale, are required to be registered and account for VAT for supplies of low value imports of £135 or less. Where an overseas seller sells goods located in the UK at the point of sale via an online marketplace, the online marketplace is liable for the VAT for goods of any value.

The changes were introduced to:

- ensure a level playing field for UK high street and online retailers that might otherwise be undercut by overseas businesses selling VAT-free goods into the UK;
- ensure the continued flow of goods at the border by moving VAT collection from the border to the point of sale for low value imports; and
- improve compliance by making online marketplaces directly liable for VAT.

HMRC had previously introduced legislation in 2016 and 2018, which took steps towards making online marketplaces responsible for VAT losses as a result of fraud on their sites. Until the VAT rules changed in 2021, compliance for this customer group was mainly enforced using Joint and Several Liability (JSL) powers. These powers held online marketplaces jointly liable for any unpaid VAT of overseas sellers on their platforms. The recourse to being held jointly liable for the online marketplaces was to remove the non-compliant seller from their platform – preventing future non-compliance and any joint liability.

The introduction of online marketplaces liability rules in 2021 shifted the onus onto the online marketplaces to police sellers on their platforms and rendered the JSL rules defunct in all but a very small number of cases, as online marketplaces are now directly liable. VAT returns filed since 1 January 2021 by online marketplaces have shown a significant increase in the amount of VAT collected, which shows that the reforms are working. The Office of Budget Responsibility certified analysis estimates the changes will raise £1.8 billion per annum by 2026-27¹.

I hope I have been able to provide additional clarity and reassurance. I am copying this letter to all Noble Lords who spoke in the debate. I am also depositing a copy of this letter in the Library of the House.

Yours Sincerely,

A handwritten signature in black ink, appearing to be 'L. Leong', written in a cursive style.

Lord Leong CBE
Lord in Waiting (Government Whip)

¹ <https://www.gov.uk/government/publications/economic-and-fiscal-outlook-october-2021> (pg 227/228)