



Councils and E-Commerce

The why, what and how of a Local E-Commerce Levy

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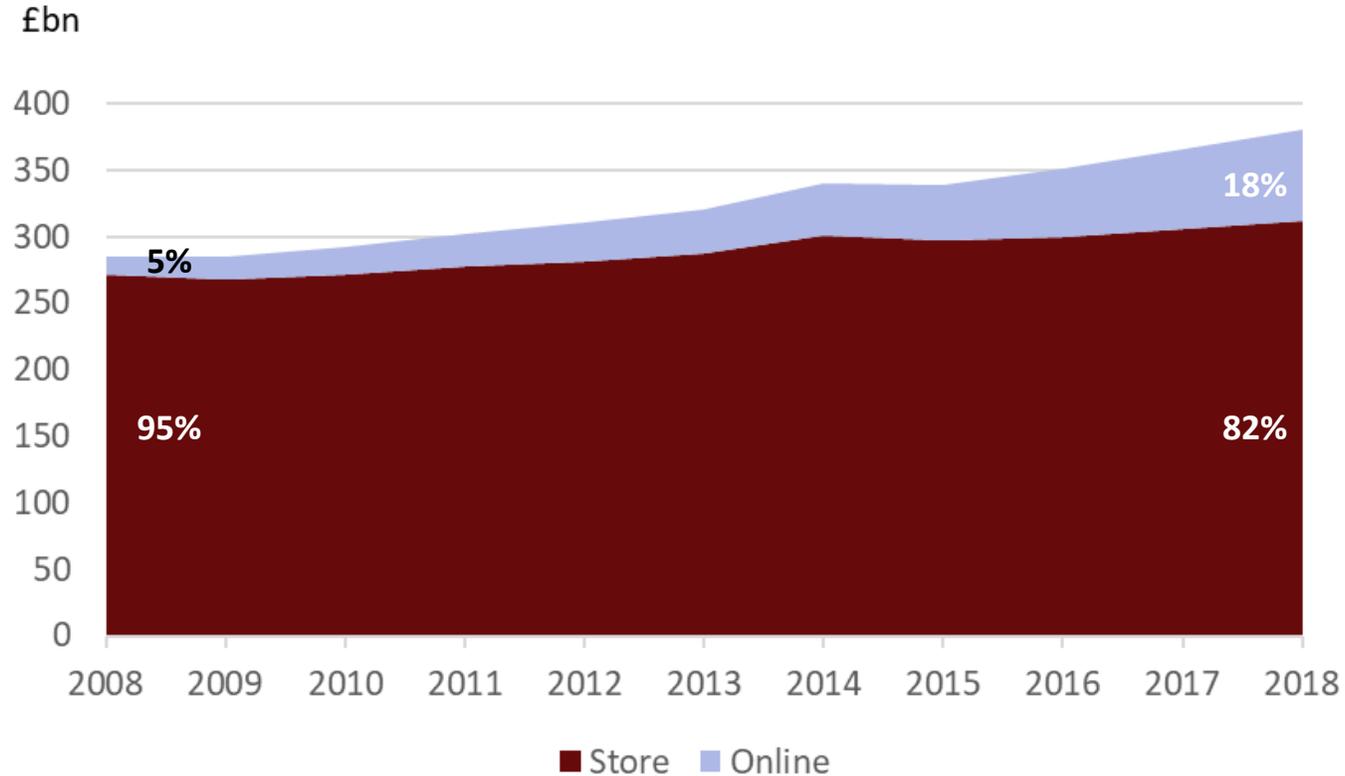
The content of this presentation

1. Why the focus on business rates and e-commerce?
2. Options for a Local E-Commerce Levy
3. Is a Local E-Commerce Levy a good idea?

Why the focus on business rates and e-commerce?

Store sales still dominate retail expenditure, but online sales are growing fast and accelerating

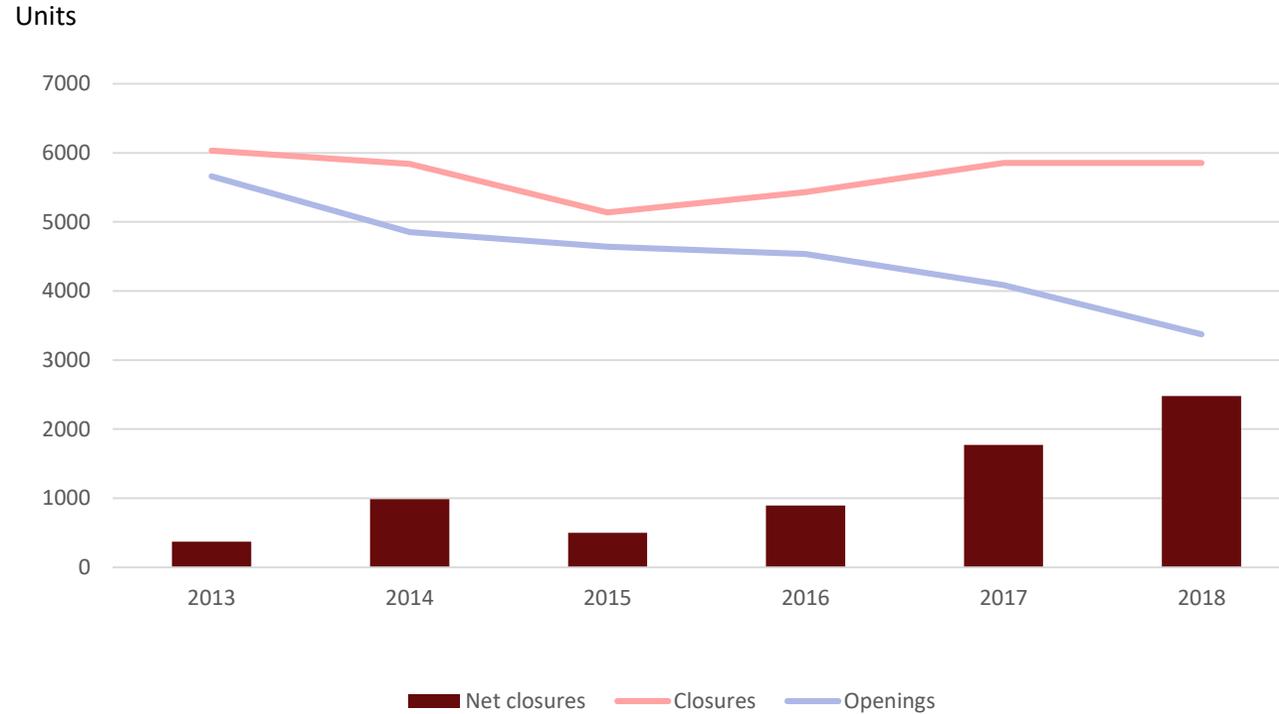
All retailing expenditure, store vs online



Source: ONS

The effect on the high-street

Store closures and openings, multiple retailers (those with more than five outlets nationally)



Source: Local Data Company

Top types of shops closing:

- Banks
- Pubs
- Estate agents
- Discount stores
- Fashion shops

Top types of shops opening:

- Barbers
- Beauty salons
- Vaping stores/tobacconists
- Restaurants and bars
- Café/Tearooms

However, vacancies are not rising: 12.5% in the first half of 2013 and gradual decline to 11.2% in the second half of 2017

Options for a Local E- Commerce Levy

Options for a Local E-Commerce Levy (1)

We identified three options for a Local E-Commerce Levy:

- Embedding a Local E-Commerce Levy in the business rates system.
- Introducing a standalone Local E-Commerce Levy on e-commerce sales.
- Assigning the VAT revenue arising from e-commerce to local areas.

Options for a Local E-Commerce Levy (2)

All options face the following common implementation issues:

- **Collection and administration.** New tax collection and administration infrastructure would need to be built for any form of an e-commerce levy.
- **Reliefs, allowances and incentives.** These reliefs and allowances could, for example, reduce the burden of a levy on selling specific products, on specific sectors, or on those e-commerce businesses that already have a significant business rates bill.
- **How 'levelling the playing field' of tax would work in practice.** If the intention of an e-commerce levy is to reduce the tax burden for one group of businesses and increase it on another group of businesses, there is a risk of creating perverse outcomes.
- **Redistributing revenues.** A central feature of the current system of local government finance is the redistribution of revenues based upon the relative resources and needs of councils (a system that is currently being reviewed by the government).
- **Political opposition and public opinion.** Our assessment is that business lobby groups would generally be against the idea of an e-commerce levy, highlighting the additional complexity and increased tax burden that would arise.

Options for a Local E-Commerce Levy (3)

- **Embedding a Local E-Commerce Levy in the business rates system.**

There are three options:

1. Apply a unique multiplier to e-commerce businesses.
2. Set a levy as a proportion of e-commerce sales.
3. Enable councils to impose an additional levy on certain businesses.

The biggest issues with these options are issues related to complexity and fairness.

- **Introducing a standalone Local E-Commerce Levy on e-commerce sales.**

More straightforward and it is clear what is being taxed.

Again, there are issues around a level playing field and the location of tax.

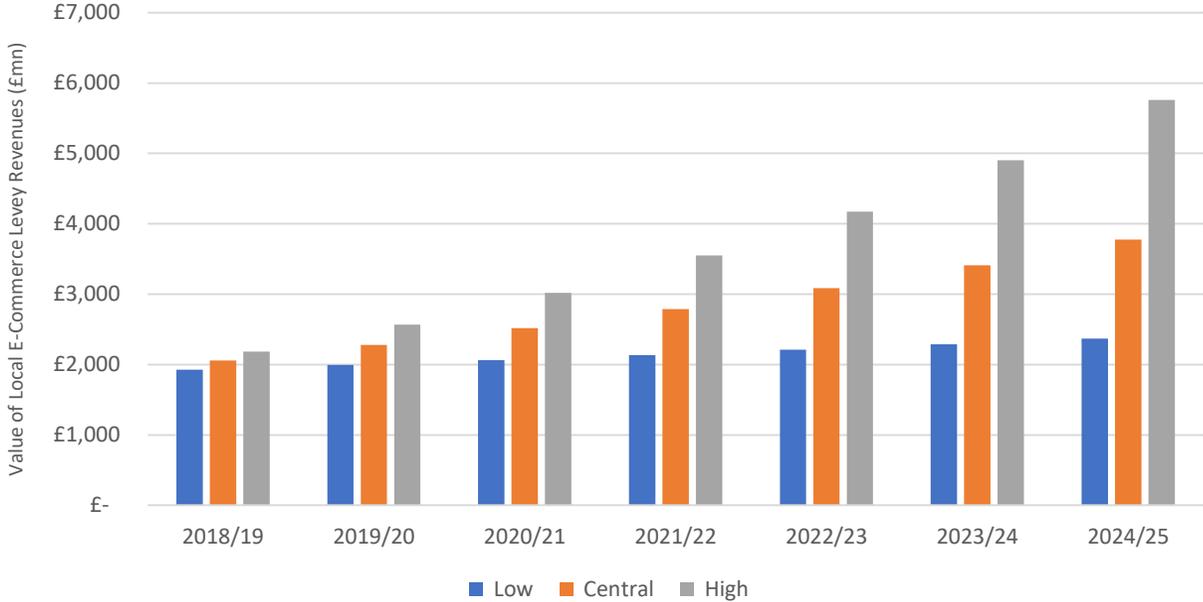
- **Assigning the VAT revenue arising from e-commerce to local areas.**

Cuts out complexity, is simple to understand.

Does not address the level playing field argument directly.

How much would a Local E-Commerce Levy raise?

Value of total Local E-Commerce Levy revenues at a rate of 1.5% (on low, central and high sales growth scenarios)



Our estimate of the amount of VAT revenue attributable to e-commerce sales is 15.8%, which would – at its maximum – mean that under a system of assignment in 2018-19, local areas would be redistributed a portion of £19.9bn.

Is a Local E-Commerce Levy a
good idea?

Broad findings from our research

E-commerce is causing a fast, structural change to our bricks and mortar economy

This fast, structural change to our economy is:

- i. Far from over
- ii. Causing significant disruption to high streets and people's lives
- iii. However, it is mainly driven by e-commerce, not the level of business rates:
 - Business rates have risen faster than inflation and are higher for predominantly high-street businesses (recent Treasury select committee report).
 - However, economic evidence suggests that the impact of business rate increases will be muted for tenants because rents usually adjust.
 - Business groups point out that many businesses are both online and offline, and therefore take decisions across their whole portfolio of taxes.

Specific conclusions from our research

- There is a strong argument for longer-term funds to enable Local Authorities to deal with the consequences of e-commerce for their high streets
- There are two viable options for a fiscal mechanism to help our high streets:
 - i. Local E-Commerce Levy on a proportion of e-commerce sales** – would face opposition including from some business groups representing high-street businesses.
 - ii. Assignment of VAT revenues arising from e-commerce to local areas** – simple, but would be unlikely to be supported by HM Treasury.
- Potential revenues from a Local E-Commerce Levy are not insubstantial

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