



VAT on postal packages

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Generally imports into the EU are charged VAT, though EU VAT law requires Member States to exempt from VAT commercial consignments worth €10 or less. Member States may apply a higher threshold up to €22 – worth £18 – and the UK does this. For VAT purposes the Channel Islands lie outside the EU, and there have been concerns for some time that some UK retailers are taking advantage of low value consignment relief, as it is known, by selling goods over the internet VAT-free from subsidiaries based in Jersey and Guernsey.¹ It has been estimated that this practice costs the Exchequer around £80 million a year.²

In the past the Labour Government was reluctant to tackle this problem by cutting the threshold for imports, because of the extra demands this would place on HM Revenue & Customs, to calculate and collect VAT on a much larger number of parcels. As an alternative approach, it sought to persuade the authorities in both Jersey and Guernsey to discourage companies setting up this type of business, with some success.³ However, concerns remain about the exploitation of this relief, and the Coalition Government has stated that it is actively reviewing its operation.⁴

This note gives a short introduction to this issue.

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¹ For example, “Jersey to crack down on tax loophole”, *Financial Times*, 28 June 2005

² HC Deb 12 February 2009 c2147W; HC Deb 23 June 2009 c830W

³ *Budget 2007* HC 342 March 2007 para 5.142

⁴ HC Deb 15 September 2010 c1046W

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1 VAT relief for small commercial imports

VAT is charged on the supply of all goods and services made in the course of a business by a taxable person, unless they are specifically exempt. All businesses must register for VAT if their turnover of taxable goods and/or services is above a given threshold, which is currently £70,000.⁵ VAT is charged either at the basic rate - currently 17½% - or the zero rate.⁶ VAT is charged on the additional value of each transaction, and is collected at each stage of production and distribution. A business pays VAT on its purchases - known as input tax, and charges VAT on its sales - known as output tax. It will settle up with HM Revenue & Customs for the difference between the two. In the end the cost of the tax is borne by the final consumer.

VAT law in this country – in line with all other Member States – is based on European VAT law. Common criteria for the VAT base across all Member States were agreed in 1977, though this legislation was consolidated in a new principal EC VAT directive (2006/112/EC).⁷

Generally imports into the EU are charged VAT. VAT is normally due at the same rate as on the supply of those goods in the relevant Member State.⁸ Under European VAT law all Member States are required to exempt from VAT importations of commercial consignments of a total value not exceeding €10. Member States may, if they wish, exclude mail order goods from the €10 exemption – though the UK does not do this. The exemption does not apply to alcoholic products, perfumes and toilet waters, and tobacco or tobacco products.⁹ If they wish Member States may impose a higher limit up to €22 - which is worth £18. The UK does this.¹⁰ Obviously, setting the ceiling for low value consignment relief represents a trade-off. More tax would be collected if the limit was €10, but more Customs and postal staff would be needed to raise charges, to complete the necessary documentation and to control and enforce the collection of charges on many more consignments which no longer qualified for relief.

The £18 limit applies to goods purchased over the internet, but provision is made in EU VAT law for a higher limit to apply to gifts;¹¹ in brief, import VAT is not chargeable if the value of the gift is £40 or less, if the gift has been sent from one private person to another, if there is no commercial or trade element, and it is of an occasional nature only – say, for a birthday or anniversary.¹² These limits apply to goods that have been sent to the recipient, from someone outside the EU. However, for *travellers* coming into the EU, separate allowances are set for goods that they may bring in with them for their own use without paying tax or duty: limits are set for alcohol, tobacco and perfume products, as well as a general allowance for other goods, which is much higher than the limit for personal imports. Many shoppers buying goods over the internet have confused the two, and in October 2005 HM Revenue & Customs launched a campaign on this issue:

⁵ With effect from 1 April 2010 (HM Revenue & Customs Budget Notice BN45, 24 March 2010).

⁶ A reduced rate of 5% is charged on a small number of supplies, including the supply of domestic fuel & power.

⁷ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (OJ L 347, 11 December 2006). Article 131 of the Directive specifies those goods and services to be exempted from tax.

⁸ Detailed guidance is given in HM Revenue & Customs, [Imports - VAT Notice 702](#), April 2010.

⁹ Under articles 22 & 23 of EC directive 83/181/EEC

¹⁰ The limit was set at £18 by the *Value Added Tax (Imported Goods) Relief (Amendment) Order* SI 1995/3222, which amended item 8 to group 8, schedule 2 of the *Value Added Tax (Imported Goods) Relief Order* SI 1984/746 accordingly.

¹¹ Under EC directive 78/1035/EEC; this is implemented in UK law by SI 1986/939.

¹² For guidance see, HMRC, [A guide for international post users - Notice 143](#), April 2010

In recent years Customs officers have seen a dramatic rise in the number of packages on which Customs duty and import VAT is due. This reflects increasing levels of internet shopping - particularly from suppliers in the United States - and has led to complaints from the public, who are either unaware of the VAT and duty implications of internet purchases costing more than £18, or mistakenly assume that the £145 'passenger's allowance' applies.

People are often unaware that although the foreign sender may have completed the customs declaration form on the parcel, they are regarded as the importer of the goods. If anyone purchases goods over the Internet and the declaration is found to be false or misleading they may be liable to financial penalties or criminal prosecution. Furthermore the goods themselves will be liable to forfeiture. If in doubt about potential purchases, or have any questions about customs charges individuals should contact our National Advice Service (NAS) on 0845 010 9000.¹³

As noted, in 2005 the monetary limit for personal allowances was £145. In 2007 Member States agreed to substantially increase this limit, and, for travellers coming to the UK, the limit is now £390.¹⁴

In its guidance for postal users, the department explains how postal packages are examined, how duty and VAT are charged, and why the Post Office may also impose a handling fee:

Under international postal agreements the sender must complete a customs declaration ... which in most cases should be fixed to the package. The declaration includes a description of the goods, the value and whether they are gifts or commercial items ... We examine postal packages arriving in the UK from outside the EU for prohibited or restricted goods such as drugs, indecent or obscene material, weapons, endangered species and counterfeit goods, and to confirm the description and value stated on the declaration is correct. We also check the customs declaration to determine if customs duty, excise duty and import VAT is chargeable ...

Royal Mail provides several options for payment and they will inform you of the options available and the amounts payable when they contact you. A postcard or letter is usually delivered to your address, detailing the amount due and the options available for payment. Once payment has been made, the package may be collected from the post office or if you have paid on line/by phone you can arrange for it to be delivered ... If customs charges are payable upon importation, Royal Mail charge a handling fee to cover the costs for carrying out customs procedures paying any customs duties or VAT due and collecting it from you. If customs examination is required, or if information is missing from the declaration, Royal Mail open, repack and reseal the package. Royal Mail fees are itemised separately on the charge label and are collected at the same time as customs charges.¹⁵

The guidance also explains that the arrangements are a little different for packages from the Channel Islands:

UK Customs has special arrangements that allow some overseas traders to charge, collect and pay over to us the import VAT for goods purchased on the internet that

¹³ HM Revenue & Customs press notice NAT 39/05, *Online shoppers warned - 'don't let parcels cost you a packet'*, 17 October 2005

¹⁴ Directive 2007/74/EC set the limit at €430 from 1 December 2008. The sterling equivalent of this limit was updated from 1 January 2010 to £390 by SI 2009/3172.

¹⁵ [Customs Notice 143](#), April 2010 paras 2.1, 2.8 3.3, 3.5

would normally be chargeable at the time the goods are imported. These arrangements operate under Memoranda of Understanding (MoU) signed with certain overseas customs and postal authorities. The countries who have an MoU with HMRC are: Channel Islands, Hong Kong, Singapore and New Zealand. Overseas traders wanting to use this procedure must be authorised to do so by their authorities.

Once authorised, foreign businesses are issued with a unique authorisation number, which they must show on the customs declaration or packaging. Also they will include the statement 'Import VAT Pre-paid'. Where these arrangements are used you will not be charged a Royal Mail handling fee when you receive your package.¹⁶

2 Concerns about VAT avoidance

The Channel Islands are not part of the VAT territory of the EC – so the islands do not fall under European VAT law – although the islands are part of the EC's customs territory.¹⁷ As a consequence exports to the EC are liable to import VAT but not customs duty. Some UK retailers have taken advantage of the rules for low value consignment relief (LVCR) to sell goods over the internet from subsidiaries based in Jersey and Guernsey to UK consumers; if goods are worth £18 or less, the retailer may sell them VAT-free.

In evidence before the Treasury Committee in February 2005, the then Economic Secretary John Healey discussed the size of the revenue loss from this practice:

Q489 Norman Lamb: Mr Healey, could I just ask you while you are here about the important issue that has been raised by the Forum of Private Business about this practice of stores such as Tesco's and possibly Specsavers as well setting up operations in Jersey and selling to the domestic market in the UK DVDs, CDs and so on and managing to avoid payment of VAT and thereby managing to sell a CD for £8.90 or something, completely undercutting traders within this country. Do you first of all agree that that is unfair competition essentially and that it is something that has got to be addressed and attempts should be made to close down what looks like a loophole?

John Healey: Certainly it is the case that some countries are using what is in this country an £18 threshold for imports of goods from outside the European Union which if they are below that value do not attract VAT or customs duty. Now it is the case that some businesses are arguing that this is an avoidance, it is not illegal but it is an avoidance and it undercuts their ability to compete effectively in the UK market. It is also the case that this is at present leading to a not insignificant revenue loss of about £80 million a year ... As things stand at the moment, that is set to grow over the next few years to a couple of hundred million but on the other side we also see arguments from consumer groups that would like us not to reduce the threshold, as some businesses argue, but to increase it because of the benefits that would bring to the consumer. These are matters that, as you would expect, like other tax issues, we keep very carefully under review.¹⁸

¹⁶ *Customs Notice 143*, April 2010 para 3.4

¹⁷ under s 93 of *VATA 1994* & reg 136 of SI 1995/2518

¹⁸ *Fourth Report: Excise Duty Fraud*, 15 March 2005 HC 126 2004-05 Qs 489, 491 Ev 57. A subsequent PQ stated that £40m of the £80m loss was attributable to imports from Jersey (HC Deb 25 October 2005 c310W).

In February 2006 the All-Party Parliamentary Small Shops Group published a report on the long term prospects of the small retail sector, finding that among those giving evidence “there is widespread belief ... that many small shops across the UK will have ceased trading by 2015 with few independent businesses taking their place. Their loss, largely the result of a heavily unbalanced trading environment, will damage the UK socially, economically and environmentally.” One of the many issues the report discussed was the impact of VAT-free imports from the Channel Islands:

There are also rising concerns about the VAT loophole created by ... [LVCR] in the Channel Islands ... This VAT loophole is being exploited by large UK retailers who are simply channelling the orders through the island VAT free. The Internet has exacerbated this situation, as expressed by an Internet music retailing company: “It is affecting us to such a degree that -- we are a specialist retailer, but we cannot move into mainstream products because we could not possibly compete with the price...If they were to sell their products for no profit whatsoever, and you would sell yours at no profit, they would be still making money on the VAT margin.” Examples of retailers who are exploiting this loophole include Asda and Tesco. Both retailers are selling CDs for £8.99 and DVDs for £11.89. The normal online price of a CD is between £9.99 and £11.53. Consumers may benefit from this but there are wider negative effects. For example the impact of this revenue loss to the Treasury is enormous, an estimated £80m a year rising to £200m in the next few years.¹⁹

The Group recommended that, “the UK Government should immediately apply the lowest threshold applicable for the relief of low value consignments and permissible in the directive, which is currently 10 euros, (approximately £7) – this would eliminate the vast majority of exploiting trade almost immediately.”²⁰

At this time the Forum for Private Business also campaigned on the issue, arguing that the ceiling for LVCR should be cut to €10, or that the UK should obtain dispensation from the EU to close the loophole similar to one granted the Danish Government.²¹ In a report on VAT on e-commerce published in May 2006, the National Audit Office gave some details of the Danish arrangements:

Denmark currently provides relief from import VAT for imports of small consignments of a commercial nature from outside the EU. The Danish European Community reliefs limit is DKK80 (€10). The Danish Tax Authority found that some Danish publishing companies were re-routing the distribution of certain magazines and periodicals via a third country. Random checks showed that many consignments were printed in the EU, exported at a zero-rate of VAT to a country outside the EU (mostly the Åland islands²² and Norway) and from there sent to subscribers in Denmark free of import VAT, as each consignment was valued below Denmark’s European Community Relief limit. The Danish Tax Authority’s investigations in the first nine months of 2003 found that some 3.5 million magazines and periodicals were imported from the Åland islands, with an estimated loss of revenue of some DKK47 million, or around £4.5 million.

The Danish government obtained a derogation from the European Commission to remove the relief on magazines and its VAT law was changed accordingly from 1

¹⁹ All-Party Parliamentary Small Shops Group, *High street Britain: 2015*, February 2006 pp 38-9

²⁰ *op.cit.* p73

²¹ for example, “Letter: Treasury must plug this VAT loopholes”, *Financial Times*, 11 February 2006

²² Åland is an autonomous, Swedish-speaking region of Finland.

June 2005. The Danish Tax Authority is seeking a change in the EU rules to abolish the relief and introduce a new and simple VAT-collection system for small consignments, or if that is not possible a change of the EU rules allowing Member States to exclude certain goods such as magazines from the European Community relief for small consignments.²³

In March 2006 the authorities in both Jersey and Guernsey made moves to restrict the scope of this activity. In Jersey the Government stated that it would not issue new licences to allow UK companies to create Jersey-based distributors; some licences have been issued on an annual basis, although the *Financial Times* reported that some retailers had been granted licences with no time limit.²⁴ Similarly the Guernsey government announced it would not give planning permission for any new warehouses for distributors acting for UK retailers.²⁵

In their report on e-commerce cited above, the NAO did not make any formal recommendations about the level of LVCR, though it suggested that HMRC should do more work to ensure VAT is charged correctly on imports worth more than the de minimis limit:

9. On the payment of import VAT on goods ordered from outside the EU, some suppliers incorrectly describe or value the contents of commercial packages to take advantage of UK reliefs exempting from import VAT consignments valued below £18 or to reduce the amount of VAT due. While it is difficult to quantify the extent to which overseas suppliers seek to evade VAT on behalf of the recipient in this way, controls operated by Royal Mail and express carriers together with the Department's selective checks provide a safeguard which the Department views as proportionate to the VAT at risk. It could do further work to confirm that this remains the case. The Department is increasingly working in partnership with overseas organisations to operate checks at the point of dispatch on goods which are liable for import VAT. This is a more cost-effective way of ensuring the payment of import VAT, compared with operating checks at the time of importation into the UK. The Department has also run publicity campaigns to inform UK shoppers of the import VAT due on consignments ordered over the internet and these will assume greater importance if the growth in trade continues.

10. Around 45 million small commercial consignments are imported by post into the UK each year. Around half of the sales by value are from the Channel Islands where some UK-based retailers have set up business operations to take advantage of the UK reliefs in selling goods to UK customers ordering online. The Department accepts that the VAT reliefs may be claimed on this trade provided the goods are supplied by a business established outside the EU, and are imported by a private person or a business that is unconnected with the supplier. In Budget 2006 the Government announced that it is keeping under close review the way in which some UK businesses have restructured their activities to take advantage of the VAT-relief that applies to commercial consignments imported from outside the EU and will consider options for changing the relief if it continues. The States of Jersey Government has recently announced measures which are being implemented to curb the trade by UK-based retailers.²⁶

²³ National Audit Office, *VAT on e-commerce*, 26 May 2006 HC 1051 2005-2006 p12

²⁴ "Jersey cracks down on retailers exploiting loophole in VAT rules", *Financial Times*, 1 March 2006

²⁵ "Guernsey to turn away online retailers", *Financial Times*, 2 March 2006

²⁶ *VAT on e-commerce*, 26 May 2006 HC 1051 2005-2006 p6

3 Recent developments

In the 2006 Budget the Labour Government acknowledged that LVCR “costs the Exchequer around £85 million a year”, and that “if the relief continues to be exploited by businesses using offshore locations, the Government will consider changes to prevent this type of behaviour.”²⁷ One practitioner writing on the tax avoidance provisions contained in the Budget made the following observation:

But what is most notable is what has not been stopped. In particular, the abuse of Jersey and Guernsey for VAT purposes with goods shipped there one day being returned the next without VAT being charged has appeared to slip through the net this time. Maybe the government is relying on the pressure it has brought to bear on the governments of the islands in question to tackle or at least limit this abuse without further legislation being required, but it remains a surprise that such a blatant scheme has not been tackled when some very obscure arrangements attract attention.²⁸

In November 2006 Andrew Love put down an EDM on the issue, reproduced below:

That this House notes with concern the estimated £80 million or more of VAT lost to HM Treasury each year as a result of the use by major retailers in the UK and elsewhere of the Channel Islands as a location for selling CDs and DVDs ordered on the internet and previously imported into those locations from the UK for the specific purpose of returning them to customers in the UK without VAT being charged; believes that this practice undermines the credibility of the UK's VAT system, and the viability of the UK's independent music stores, all of whom are accountable for VAT on the sales that they make, threatens the livelihoods of the several thousand people who work in those stores and creates an environment in which compliance with the taxation laws of the UK is seen as an optional exercise; and calls on HM Treasury to take the necessary steps to curtail this activity, including making application to the European Union to reduce the value of goods which may be imported without VAT being charged to £7 from the current limit of £18.²⁹

The then Paymaster General, Dawn Primarolo, discussed the Government's options in a debate in Westminster Hall at this time:

Should the Government decide to reform the relief, a number of options will be available. We could reduce the threshold to £7, or we could seek a derogation from the European Commission to disapply the relief to imports from the Channel Islands; or we could disapply the relief specifically to CDs and DVDs from the Channel Islands. Various combinations of those and other options will be available. In deciding which options to use, the Government will need to consider not only the impact of small UK retailers but the knock-on effects on other stakeholders and larger suppliers.

The Government will have to consider the effect that changes may have on the costs to business. For example, the Royal Mail and similar express carriers would be

²⁷ *Budget 2006* HC 968 March 2006 para 5.107. Answers to a series of PQs at this time simply stated that the Government was keeping the matter “under close review” (eg, HC Deb 6 July 2005 cc 438-9W; HL Deb 20 July 2005 c 258WA; HC Deb 25 October 2005 c310W; HC Deb 7 November 2006 c1048W).

²⁸ Richard Murphy, “Budget 2006 : The anti-avoidance non-event”, *Accounting Web.co.uk*, 22 March 2006. Mr Murphy has continued to criticise LVCR on his Tax Research blog – see, for example, “[Why the Channel Islands' VAT wheeze is illegal and has to stop](#)”, 9 July 2010.

²⁹ EDM 305 of 2006-07, *VAT on CDs and DVDs*, 27 November 2006. 35 Members signed the Motion. A similar EDM which Mr Love put down the previous Session (EDM 2668 of 2005-06) attracted 67 names.

responsible for the carrying and delivery of such packages and would incur additional costs in collecting charges from those receiving the packages. Of course, consumers and businesses would face an increase in the cost of goods purchased, not only in respect of increased VAT but from charges that those carriers would incur when clearing packages through Customs. Indeed, the Government, who are responsible for collecting it, would then have to increase charges as a response. The Government take the view that we need to balance all of those interests.³⁰

The Minister also explained that both Jersey and Guernsey had taken some action to reduce this type of export to the UK, although she called it “disappointing”:

Jersey announced earlier this year that UK companies operating in the CD and DVD market through third party suppliers based in Jersey would need licences to run their businesses, and that those without a licence would be required to obtain one. Such companies would be granted time-limited licences, and our understanding is that such licences will not be renewed after 28 February 2007. The state of Guernsey is unable to apply a similar rule, but it will no longer encourage new UK companies to set up and operate through third parties. Frankly, both proposals are disappointing.³¹

In the 2007 Budget it was noted that the Jersey authorities had made a commitment “in discussions with the Government, to limit the activities of companies continuing to operate on the island, with the associated revenue loss to the Exchequer” and that the UK remained in “discussion with the Guernsey authorities on this issue.”³² Nevertheless Members continued to raise concerns about the cost of this relief, and its impact on certain sectors, such as independent music retailers and specialist health food stores,³³ while the department increased its estimate of the cost of LVCR, as noted in a written answer in June 2008:

Mrs. Dean: To ask the Chancellor of the Exchequer (1) what recent estimate he has made of the value of (a) food supplements and herbal remedies and (b) recorded music and films imported annually from the Crown dependencies without the imposition of value added tax under the low value consignment relief scheme; and what assessment he has made of the effect of this trade upon mainland specialist high street retailers; (2) what estimate he has made of the tax foregone by the Exchequer as a result of the provision of low value consignment relief from value added tax for personal imports from Crown dependencies; for what reasons the relief is provided; and if he will make a statement.

Jane Kennedy: The relief reduces administrative costs for businesses, HM Revenue and Customs, the authorised postal carrier (Royal Mail), express carriers and consumers by removing the requirement to pay VAT on large volumes of low value packages.

As set out in PBR 2006 the total cost of the low value consignment relief is estimated at around £90 million. HMRC tentatively estimates that around three quarters of this cost is attributable to imports from the Crown dependencies.

Although HMRC collects data on the total aggregate value of goods imported from many companies in the Crown dependencies these data are not broken down into

³⁰ HC Deb 1 November 2006 cc 145-6WH.

³¹ HC Deb 1 November 2006 cc 145WH.

³² *Budget 2007* HC 342 March 2007 para 5.142

³³ For example, EDM 1767 of 2007-08, 11 June 2008: 25 Members signed this motion.

individual products such as food supplements and herbal remedies or recorded music and films.

As the then Paymaster General said on 1 November 2006, Official Report, column 146WH, it is not clear that the competitive pressures on small retailers are solely or even mainly related to the VAT relief enjoyed by offshore online retailers. It is difficult to disaggregate the effect of the relief from other factors, such as the substantial growth of supermarket sales, and rapid technological change in the case of the market for audio-visual products, which are increasingly sold in download form over the internet. The Channel Islands authorities have, however, applied their regulatory powers to prevent the establishment of new businesses on the Islands where these are simply attempting to take advantage of the relief, and in the case of Jersey have required several businesses to leave.³⁴

In January 2009 Janet Dean raised the issue in an adjournment debate: part of her speech is reproduced below:

The Channel Islands authorities have misled officials and Ministers by suggesting that they are cleaning up their act and preventing further relocations for the purposes of tax avoidance. Yet information supplied to me by the independent CD and DVD sector suggests that Jersey is now the fulfilment base for Asda, Play.com, CD101 and BlahDVD. Tesco, which was excluded from the island in 2006, is now reportedly operating again through a Jersey-based fulfilment business, TheHut.com. HMV and Amazon, under a sister company name of Indigo Starfish, operate out of Guernsey.

The trend of major corporate names shifting their fulfilment to the Channel Islands continues, and the only benefit of the so-called tighter regime is to guarantee additional business for the operators already there. Many of the goods in question are actually manufactured in the UK, shipped to the Channel Islands and then moved back to the mainland through the mail. The sole purpose of that manoeuvre is tax avoidance. Like the Minister, I am a believer in the benefits that competition can bring to consumers, but that competition is unfair and in some cases illegal. It can have no public policy justification.³⁵

In response the then Financial Secretary, Stephen Timms, gave details of the action that had been taken to discourage companies from exploiting the relief:

Following discussions with UK officials in 2006, Jersey and Guernsey issued policy statements making it clear that they are opposed to the growth of so-called third-party facilitators on the islands. Those facilitators exist to provide logistical services to UK-based companies, enabling them to benefit from the relief by exporting UK-originating goods through the islands without making any investment in establishing wider real economic activity there. The islands' authorities recognised that that was damaging to their international reputation and credibility and undermined the UK tax base. The policy statement issued by the States of Jersey introduced a licensing regime for companies and facilitators supplying goods by post to UK consumers. Companies supplying CDs and DVDs were granted only a 12-month licence and, at the end of that period, the licences were not renewed, so a number of companies were required to leave the island: my hon. Friend mentioned a couple of them. She also said that one or two had come back in a different form; that is news to me, and I will investigate it tomorrow.

³⁴ HC Deb 18 June 2008 c992W

³⁵ HC Deb 27 January 2009 c272

Since 2007, the Jersey authorities have refused to grant a licence to any new company operating in the CD and DVD market and wishing to relocate from the UK to Jersey. Equally, any new company wanting to relocate to Jersey is required to obtain an operating licence before it can start trading. The Jersey authorities have stated their strong presumption that licences will not be granted when there is no investment in the wider economic activity on the island. Following the withdrawal of licences, only one big company supplying CDs and DVDs from the island to the UK remains; it is a company that has been based in Jersey for quite a long time ...

As far as Guernsey is concerned, I understand that the authorities there cannot introduce a licensing system similar to the one in Jersey because of the constraints of the local constitution. However, the Guernsey authorities have adopted a policy statement quite similar to that of their Jersey counterparts and used other available powers, including planning controls and employment permits, to limit the growth of activity on the island that involves the exploitation of the relief by UK-based companies. Guernsey has made it clear to a number of UK companies involved in music retailing, including those that have been forced to close their Jersey operations, that it does not wish to see them establish activities on the island ...

As a consequence of the measures taken by the Channel Island authorities, we believe that the growth in the music sector there since 2006 has been curtailed. Of course the position might change, and my hon. Friend suggested developments that might lead to such a change, but that was the case at least until very recently. Certainly the exponential growth in the cost of the relief that some feared has not materialised, despite the rapid growth in internet shopping.³⁶

He went on to reiterate the disadvantages to cutting the LVCR ceiling to the €10 minimum:

If the Government decided to reform the low-value consignment relief, a number of options would be permitted under European Community law. We could reduce the threshold to the minimum level of €10 or seek a derogation from the European Commission to remove the relief from specific goods such as health products or CDs and DVDs, or from imports from certain countries. However, although some retailers might benefit from such a change, the knock-on effects on others would have to be considered. If the threshold of the relief were reduced to the lower limit, it is estimated that up to an extra 50 million small parcels a year would be subject to VAT. That would require substantially increased resources at Her Majesty's Revenue and Customs for calculation and enforcement of import taxes. ...

There would be an increase in the cost of goods, not only from the addition of the VAT, but from charges applied by the carriers for clearing packages through customs, and the associated need, in many cases, to travel to a mail delivery office to make payment. All that is on the assumption that goods would continue to come in from the Channel Islands.

We are also concerned that any restriction that we apply to the current threshold, or derogations against specific goods or exporting countries, could encourage businesses to reroute their low-value goods, quite legally, through other European Union countries that maintain the higher relief threshold. For example, it would be possible to send goods from the Channel Islands to France, from France to the UK and, because France still had the higher threshold, it would not be too difficult to reproduce the benefits of the current arrangements for companies that export directly from the Channel Islands to the UK. Once goods have been given customs clearance

³⁶ HC Deb 27 January 2009 cc 275-6

in the European Community, they can move between Community countries without restriction. A specific example would be goods sourced from Switzerland going through Italy or Germany to other member states.³⁷

Since then, there have not been any major developments in this area, although in July 2010 the new Coalition Government announced that it was 'actively reviewing' the operation of LVCR:

Sajid Javid: To ask the Chancellor of the Exchequer if he will bring forward proposals to end the sale of goods worth less than £18 free of value added tax by companies based in the Channel Islands to customers in the UK.

Mr Gauke: The Government are actively reviewing the operation of the VAT relief on imports from outside the EU, known as Low Value Consignment Relief. In assessing the case for change, the Government will take into account the need to balance often conflicting considerations including the impact on consumers, UK businesses and Royal Mail and other parcel operators, as well as the overall fiscal position and the practicality and cost of enforcing any changes to the operation of the relief.³⁸

To date no further details of this review have been published.

³⁷ HC Deb 27 January 2009 cc 276-7

³⁸ HC Deb 13 July 2010 c661W