

# The Telegraph

## It won't be Amazon paying the price of an online sales tax

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The British people can be an ungrateful bunch. Asked which industries they held positive sentiments towards during the pandemic, a recent Kekst CNC survey found pharmaceuticals and online retail trailed only essential food retail as the most popular sectors of the economy.

So how would the public reward them for their valued Covid-19 performance? By throwing new taxes on their activities.

In an admittedly leading question that implied “industries” themselves bear the burden of tax hikes, online sellers headed up a list of sectors the public would prefer HMRC pillaged when Covid-19 is over. A massive 56pc said web retailers should be taxed more to pay down debt – 10 percentage points above even banks. The pharmaceutical sector was fourth, behind only online retail, the financial sector and big tech.

Lest we think that this is just about some desire to tax the “windfall” experienced by sectors fortunate to benefit from Covid-19, note that a similar tax-raising sentiment wasn't expressed for supermarkets. No, what we have here is a disconnect of appreciation: the public acknowledges these industries have delivered vaccines and made life more comfortable during the pandemic, but would prefer their activities were taxed more heavily afterwards.

This poll is being pushed in Westminster by Boris Johnson's new town-centric allies as evidence of the wisdom of a new online sales tax. The Government has flown the kite on a 2pc tax on all online retail sales before. Its supporters believe this would be popular with “red wall” voters, because it provides an incentive for more in-person shopping, which is seen as crucial to reviving high streets and town centres in struggling areas.

Let's leave aside for a minute that the public will be less keen on the tax once it is explained it will raise prices for them, hitting hardest the disabled and busy professionals most dependent on online shopping. Let's ignore too that it's difficult to see how incentivising driving to shop in person fits with the Government's environmental objectives. Does the economic case for an online sales tax intervention stand up? It's difficult to argue “yes”.

The role of government should not be to favour businesses providing products in a particular way, but to protect competition as a process. To use taxes to try to prevent new business forms acquiring market share is especially damaging when consumers' preferences are shifting sharply towards them. Internet sales grew from 7.1pc of total retail sales in January 2010 to 20.1pc in January 2020 even before the pandemic hit. Punters are voting with their clicks.

We saw how futile it was attempting to insulate the British mining sector from cheaper imported natural gas and how this made the eventual reckoning all the more painful. To repeat that mistake by punishing online sellers for structuring their businesses and improving package logistics to offer lower consumer prices would be an act of folly.

Now some argue that an online sales tax is a necessary counterweight to “level the playing field” between online and in-store retailers, the latter of which are burdened more heavily by business rates. Amazon reportedly paid a total of just £63m in business rates last year, critics say, “despite” sales of nearly £9bn. That rates bill is comparable to perhaps fewer than 10 shops in the West End, supposedly showing the scale of the tax burden Amazon “avoids.”

But such comparisons are facile. Amazon and others structure their businesses precisely to avoid the high fixed costs associated with inner-city rents and rates – a business practice, of course, afforded to all retailers. That online sellers have built tax-efficient out-of-town warehouses to store products to provide cheaper goods is a feature, not a bug, of retail competition.

Indeed, to pretend this business model is some unfair advantage requiring correction is akin to saying that we need an extra tax on e-books to reflect that they avoid the costs of printing. Or believing that energy produced by wind should be taxed more to compensate for its unfair advantage of not facing the safety costs associated with nuclear. Business rates may be a bad tax in need of reform, but that is a totally different issue.

In fact, an online sales tax will harm, not enhance, competition. Its advocates think they are striking out for the little guy against internet giants. But accounting for and managing an online sales tax will be much easier and less costly for Amazon than smaller online competitors, including, of course, high street stores, many of which have only recently made costly investments to expand their web footprint as footfall sinks.

In many other sectors too, online marketplaces such as Amazon and Etsy facilitate competition by providing very small businesses an opportunity to peddle their wares in a global bazaar. To the extent that an online sales tax deters internet shopping, such small sellers will suffer as demand falls somewhat.

Politicians, of course, would say that high streets bring broader social benefits beyond shopping. They want to tilt the deck because they see town centres as important hubs in their own right and think their decline can drag down an area’s economic potential.

The answer, however, is surely not to level-down by tearing at ecommerce through taxation, an approach doomed to fail. Instead, a levelling-up approach would remove barriers to a sustainable adjustment for these hubs, such as by reforming planning laws to allow high streets to transform into zones for restaurants, bars and entertainment.

The idea that an online sales tax will bring back Sixties-style high streets is a false promise. Let’s be more grateful for innovation and lower prices.