Using clicks to create a fairer tax world

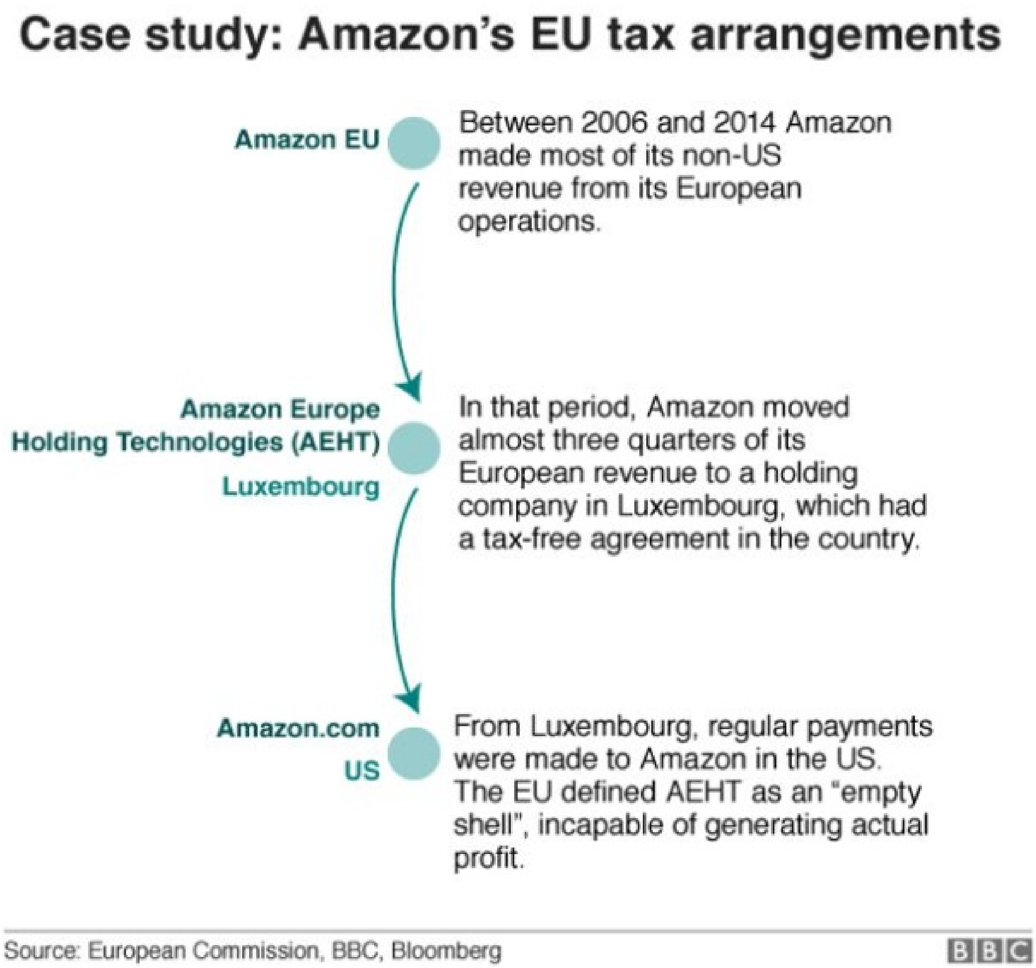
In August, 2018, Jeremy Corbyn announced his intention to introduce a Digital Licence Fee. The idea behind this tax would be to get the internet giants (Facebook, Apple, Amazon , Netflix & Google) to subsidise the BBC and remove the need for the corporation to keep coming back to the government to set a new licence fee.

This is a wholly good idea but it does not solve the issue of the threat to bricks and mortar retailers from online traders. Apart from anything, online traders are good at concealing or distorting their turnover and profit, *see case study (right).*

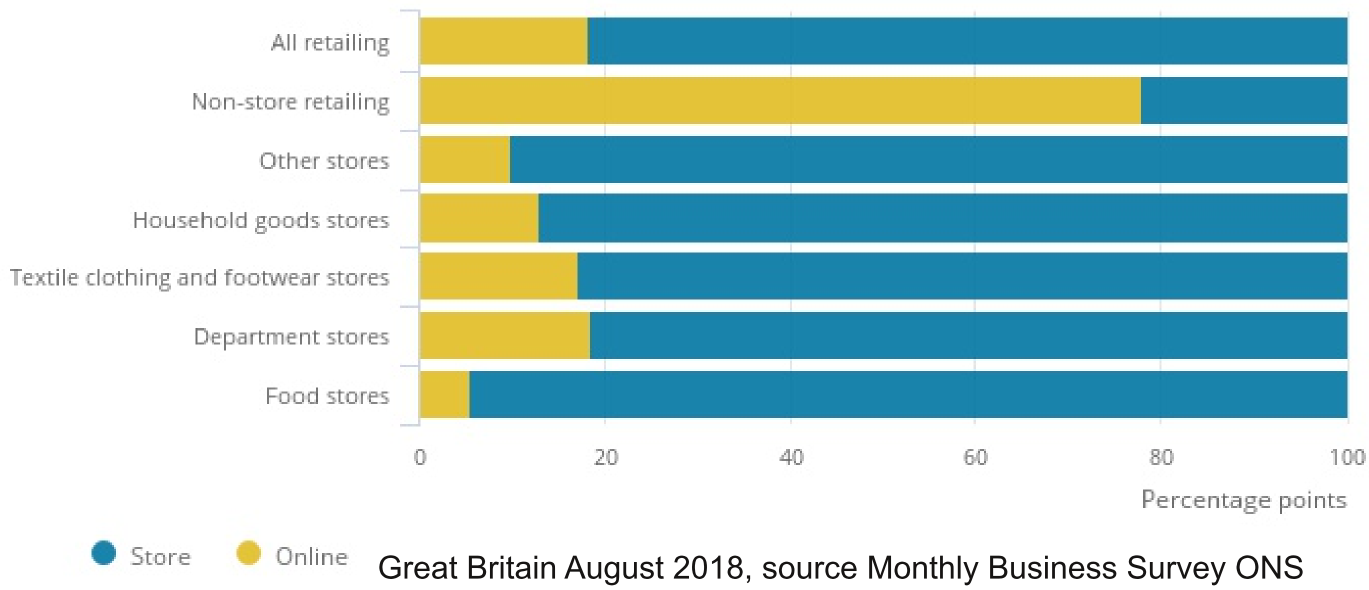
One of the most important aspects of business rates is that it is a tax that has to be paid. It is extremely hard for any large bricks and mortar retailer to avoid or evade it. To level the playing field we need an equivalent way to tax the online traders.

Click tax would be that equivalent. The idea is to get ISPs to bill internet giants for connections to their web sites. Online traders like Facebook can not disguise the number of clicks they get since it is a key aspect of their business model. They need the clicks to charge their

Continued.



Proportion of sales in stores and online in different retail sectors



Great Britain August 2018, source Monthly Business Survey ONS

Continued from previous page.

customers. Right now there are uniquely favourable circumstances for the introduction of click tax. Thanks to the Investigatory Powers Act all the required data is being collected. In addition to making the tax simple to introduce it also makes it easy to set it at an appropriate level (or appropriate levels, since some web sites, such as those run by gambling companies, might have a higher tax rate than others). Discover the total number of clicks on the web sites of internet giants (there would be little point in taxing the small fry) and then set the tax at the approriate number of clicks per penny in order to raise the sum required. Up until recently the main constraint holding back the introduction of click tax was the concept of Net Neutrality: the idea that no internet user should be prevented or slowed from going to any site. But America has recently abandoned its stance on net neutrality and Britain's withdrawal from the EU has probably removed any EU requirements.

In 2017/18 the total non domestic rate collection in England was £23.8 billion and a further £945 million was collected in Wales. Non domestic rates has to be paid by both industry and retail sectors. In total, then, we need to have a click tax that produces about a quarter of non-domestic rates (surveyors Altus Group estimates that the retail element of non-domestic rates is a shade more than 25%). That works out at about £6.3 billion.

The ratio of clicks to bricks and mortar spending reached a record 18.4% in August 2018 (source: ONS). So the target should be to produce a click tax that is about 20% of £6.3 billion (or £1.26 billion).

In December, France announced that it planned to introduce a levy on tech giants. French finance minister Bruno Le Maire predicted this new tax would raise €500m in 2019, a relatively small sum in the great scheme of things. But the French have significant problems so they may find it politic to just dip a toe in the water. For a start opposition is expected from the Americans, who may not like the Europeans taxing their corporations. Secondly to introduce a tax EU rules require member state unanimity and Ireland (where several of the tech giants have their European HQs) is expected to oppose the tax.

It is possible that the Conservative's EU withdrawal deal may include a requirement that effectively prevents Britain from introducing a tax on internet companies. However Bruno Le Maire told journalists in December that France would introduce the tax come what may. Presumably the UK could do the same.

In 2018 the European Commission proposed a 3% tax on the revenues of large inernet business. The Commission has said it wants to tax companies where they are based. The French government's decision to go ahead unilaterally makes it clear that not everyone is pleased with the progress the commission is making.

The UK, Spain and Italy are all working on different versions of a digital tax. Philip Hammond announced in the 2018 Budget that there would be consultations designed to create a digital services tax to be introduced in April 2020.The Organisation for Economic Cooperation and Development is also drafting a proposal for a new international scheme that would regulate taxation on tech firms.

But even if a turnover or profit tax is introduced, a government might still have a click tax.

Right now retailers pay VAT and Corporation Tax as well as Business Rates.

Net Neutrality

In 2019 a unique set of circumstances has arisen that makes it possible to introduce click tax. Up until recently the idea that ISPs could block or slow down connections has been regarded as completely unacceptable. The principle of net neutrality (if you click there you go there, without let or hindrance) has been regarded as one of the pillars of the internet. Not any more. In June the US Federal Communications Commission repeal of rules that banned ISPs from interfering with internet traffic, came into force.

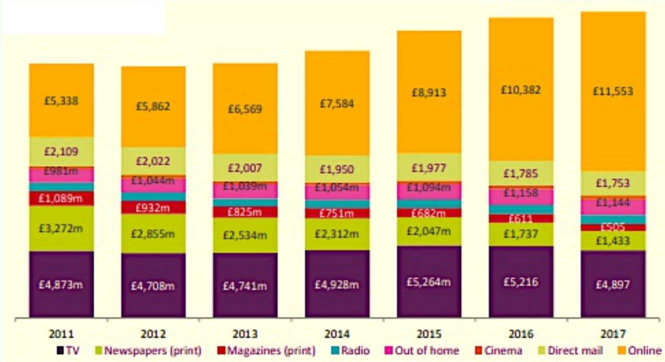
In Europe, the Body of European Regulators for Electronic Communications, issues guidance that effectively maintains net neutrality in the EU. BEREC has carried out research suggesting that consumers are in favour of net neutrality but what this amounts to is that people don't like to have their internet running slower or more awkwardly than it might. Since the idea of click tax is to get the ISPs to charge the big internet companies what amounts to a connection fee, consumers are hardly likely to complain. It is highly unlikely they will notice.

After March 29 when Britain withdraws from the EU, the country will presumably be free to determine its own policy on net neutrality.

However, there remains the issue that ISPs might attempt to make a profit out of the charges they make. It is often said that the internet wants to be free (at least as far as the consumer is concerned who is really 'the product' for the internet giants). ISPs might potentially make enough money to give their services to consumers free of charge, or at much lower prices. This would probably not be a good thing since it would make it much harder for new internet start ups.

The fees startups would have to pay to ISPs might well be be prohibitive. One way round this would be to get the ISPs to bill the internet companies but make them send the money straight to HMRC.

UK advertising spend: 2017 (£m)



Source: *AA/WARC Expenditure report April 2018.*
Note: *Figures represent spend, not revenue. Online advertising revenue has been removed from TV, newspapers, magazines and radio to remove any double counting between online and the aforementioned categories. Figures have been adjusted for CPI (2017 prices).*

Collecting the data

The Investigatory Powers Act of 2016 requires ISPs to keep a record of all web sites visited by their clients for 12 months. The Government calculated that this would cost them £175m, though ISPs said this was an under-estimate.

Given that click tax is a method of getting the ISPs to collect money from the giants, it might be acceptable to let them pass on the costs of collecting the data to the internet companies.

This might make the ISPs less resistant to introducing click tax. Some may even welcome it.

The data collected by ISPs is probably sufficient to base click tax on, but UK internet users might be able to avoid having their traffic monitored by using an encrypted service or a foreign ISP. Both these options involve some technical knowledge and cost. Since click tax is not levied on the consumer, it's unlikely that many will attempt to avoid it. However, it might make sense to have a separate tax on VPN (Virtual Personal Network) providers (perhaps £30 or so per customer).

It is possible that a future Labour government may change or even repeal the Investigatory Powers Act.

The Act is seen as a way of legalising the surveillance regime revealed by Edward Snowden.

It might, however, be possible to require the ISPs to continue to collect the data in an anonymised form (with names of all clients redacted) even if the Investigatory Powers Act was largely discarded.

Saving the high street?

Click tax is unlikely, on its own, to transform the prospects of bricks and mortar retailers. The changes going on are far too deep seated and of an entirely different scale.

However, it could make a contribution and give retailers more confidence in the future. It could also be used to stem widespread tax evasion or avoidance.

At present platforms like Ebay & Amazon do not charge VAT and consumers can get a nasty surprise when products they think they have paid for, get held up in the post and they get a bill from the tax office. But most items, particularly low priced goods, get through without paying tax at all.

Organisations that refuse to levy British taxes could face a higher rate of Click tax.

Super click tax could also be levied on gambling organisations. Britain has a highly deregulated gambling industry thanks to sweeping changes made to the betting duty system in a Gordon Brown budget.

Chancellor Brown was lobbied by a gambling industry that complained about competition from internet based bookies who did not pay UK tax. Click tax levied at the right rate could level the playing field and allow a return to a more protected gambling regime. This is important because there has been an epidemic in problem gambling. Self exclusions, where gamblers voluntarily ban themselves from gambling, have increased from 11,000 (April 2008 to March 2009) to 42,000 (April 2017- March 2018) according to the Gambling Commission.

But this is simply the tip of the iceberg since the number only includes self exclusions and only those who havee excluded themselves in the 12 month period. It does not include long standing problem gamblers or those who have, for whatever reason, failed to take the self exclusion route.

In August 2017 the Guardian ran a report suggesting that there were 400,000 problem gamblers and two million are addicted or at risk of developing a problem. Tracey Crouch, the Tory MP for Chatham where I live, recently recently resigned as Sports Minister in protest at a delay in implimenting a substantial limit to fixed odds betting terminals.

Crouch got her way and the Chancellor of the Exchequer reversed course on FOBT. It was not enough and too late. The amount that British gamblers lose on FOBTs has increased by 73% since 2009, from £1bn to £1.8bn (source Guardian, August 31, 2017).

The Gambling Commission says there were 52,543 employed in traditional betting outlets, 15, 226 in casinos and a further 12,348 in bingo halls, as at March 2018. That amounts to about two employees for every new problem gambler self excluding themselves.

Quite clearly the new betting regime did not protect bricks and mortar betting establishments from their online competitors. According to the gambling industry GGY (which is its measure of revenue) of remote gaming operators increased from £816m (April 2008/March 2009) to 5,351m bigger than the entire gambling industry was in 2008/9 if you exclude the National Lottery (which was £2.5bn in 2008/9 and about £3bn in 2017/8).

Gamblers used to face betting duty of 6.75% (paid by bookmakers) which was passed on to punters as a 9% tax. Restoring the betting duty would not solve the problem on its own. For a start there is a huge tail of problem gamblers many with wrecked lives who cause huge problems to the NHS and social services.

But click tax would enable a return to a more controlled form of gambling regulation. Gamblers may think twice before laying their money out, if they know they are to be taxed.

The Guardian

Number of problem gamblers in the UK rises to more than 400,000

Gambling Commission report finds more than 2 million people are addicted to gambling or at risk of developing a problem

'The temptation is always there': readers on the rise of problem gamblers in the UK

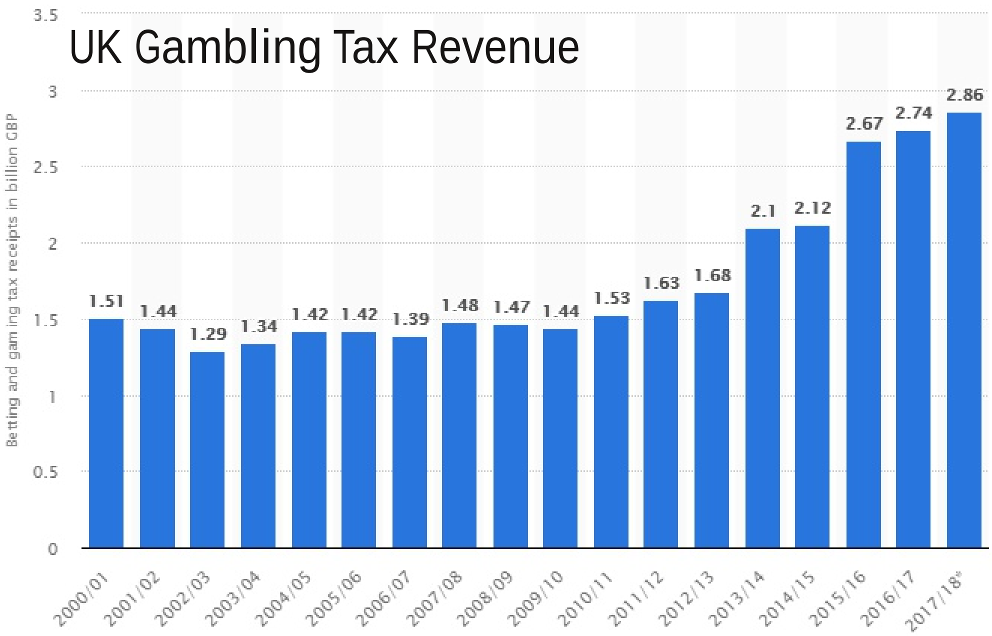
Rob Davies

Thu 24 Aug 2017 18.57 BST

Gambling

The Gambling Acts of 2005 and 2014 have resulted in an effective tax rate of between 17.5 and 21.2% (the rate varies each year). This per centage is the tax rate compared to what the gambling industry calls GGY, that is Gross Gambling Yield (how much the operator actually makes). It is not easy to work out tax rates from the Gambling Commission web site. Whilst tax has increased by about a billion and a half, online gambling has jumped from about £800m in 2008/9 to £5.35 billion in 2017/18.

This graph has been lifted from from statista.com. https://www.statista.com/statistics/284338/betting-and-gaming-united-kingdom-hmrc-tax-receipts/



The size of it

There are four major ISPs plus some smaller specialist operators (satellite, for example) and between them they have something like 20 million customers. The four are: BT (Plus net, EE), Sky Broadband, Virgin Media and TalkTalk.

To raise £1.26 billion ISPs would need to charge about £63 for each customer.

According to the Advertising Association something like £16.7 billion was spent on online advertising in 2017 (the latest figures available at January 2019), an exraordinary £835 per ISP account.

That would mean an effective tax rate of 7.5%. Hardly onerous. Of course, advertising is only one factor. Gambling and direct sales (Ebay, Amazon) would also generate Click Tax so the effective tax rate could be much lower than 7.5% yet still raise £1.26 billion.

The level set for click tax at £63 per customer might seem quite high, but in the great scheme of things this is a very modest amount; and, of course, the customers do not actually have to pay. According to a ***Which*** Report, released in January 2019, customers who fail to haggle with their ISPs, can be paying £500 more than new users of exactly the same broadband and tv package. ***Which*** found that the average loyal Virgin Media customer was paying £960 a year, £576 more than the cost of Virgin's basic bundle (see Independent Business News January 11, 2019).

To reiterate, no customer should ever have to pay their ISP more as a result of click tax; but these figures give an overall perspective and show how small a contribution an average of £63 per customer is. This is true both in terms of the amount of money the ISPs are charging for broadband connections and the revenues generated by internet giants.

Online has half the total advertising market & is growing fast

Adspend 2017 (£m)		2017 v 2016	Forecast 2018	Forecast 2019
Internet	£11553	+14.3%	+9.8%	+8.2%
Mobile	£5,223	+37.3%	+22.5%	+17.2%
Total UK	£22,190	+4.6%	+4.8%	+4.5%

Source: AA/WARC Expenditure Report, July 2018

**Note the mobile total is also included in the overall figure (above) for Internet advertising.*

Textual note

Many of the statistics in this summary apply to England & Wales. Others apply to the whole of the UK. If this is a problem I'd be happy to revise the document. However, I think the case it is making works well despite some statistical idiosyncracies.

Contact

Jonathan Brind, 15 Grove Road, Chatham ME4 5HS
Phone 079149 76706
Email j@brind.co.uk

Sources

https://www.aljazeera.com/news/2018/12/france-impose-tax-internet-tech-giants-181217145310966.html
US officially repeals net neutrality rules https://www.bbc.co.uk/news/technology-44438812
Body of European Regulators for Electronic Communications https://berec.europa.eu/eng/netneutrality/
https://www.theguardian.com/uk-news/2018/oct/29/online-gambling-cigarettes-wine-hit-by-sin-taxes-increase
https://www.theguardian.com/commentisfree/2017/sep/29/gambling-addiction-labour-tom-watson-2005-levy
https://www.theguardian.com/politics/2018/aug/22/jeremy-corbyn-labour-leader-tax-tech-giants-subsidise-bbc-licence-fee
https://www.theguardian.com/society/2017/aug/24/problem-gamblers-uk-gambling-commission-report
Gambling Watch UK https://www.gamblingwatchuk.org/news/uk-news/139-are-we-seeing-a-backlash-against-liberalised-commercial-gambling
Gambling Commission https://www.gamblingcommission.gov.uk/news-action-and-statistics/Statistics-and-research/Statistics/Industry-statistics.aspx
https://www.bbc.co.uk/news/technology-44438812
Ofcom Communications Market Report (August 2018)
Labour's betting reforms a step forward in tackling UK's problem gambling epidemic (Care.org.uk Press Release 20 Sept 2018)
UK Gambling Tax graph from statista.com https://www.statista.com/statistics/284338/betting-and-gaming-united-kingdom-hmrc-tax-receipts/
ISP Review https://www.ispreview.co.uk/index.php/2016/11/controversial-new-uk-internet-snooping-bill-approved-mps.html
Ministry of Housing Communities & Local Government: National non-domestic rates collected by local authorities England 2017-18
TV and broadband customers 'facing £700 loyalty penalties' (Jan 11, 2019) https://www.independent.co.uk/news/business/news/tv-broadband-customers-loyalty-penalty-sky-virgin-media-a8722011.html
Advertising Association AA/Warc adspend figures Q1 2018 https://www.adassoc.org.uk/2018/07/uk-advertising-spend-achieves-record-for-q1-2018/
https://www.aljazeera.com/news/2018/12/france-impose-tax-internet-tech-giants-181217145310966.html