

UK Amazon sellers hit by badly designed digital tax

UK third party sellers on Amazon face increased costs due to a poorly designed Digital Tax that misses it's supposed target.



STIRLING, UK, October 21, 2020 /EINPresswire.com/ -- badly designed tax, applied in April 2020 by UK Chancellor Rishi Sunak, is set to penalise small online retailers.

As reported by The Times on Wednesday 14th October, the tax being criticised by The British Independent Retailers Association and by at least one Conservative Peer is the new "[digital services tax](#)". Introduced to address what the UK government sees as large online businesses

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failing to pay their fair share of corporation tax, it appears to have unintended, damaging consequences for UK based online retailers selling on the Amazon Marketplace.

Importantly the new tax relates to services supplied, not goods sold. That distinction ensuring large UK online retailers are not subjected to a new tax on online sales generated from their own websites.

However, third party sellers on the UK Amazon Marketplace pay a fee to the marketplace based largely on a variable sales commission – in other words they pay for services which fall under the new regime. As you would expect Amazon will pass those new costs on to the seller.

The result is a situation which increases the costs for the small retailer but not Amazon, themselves a retailer and often a competitor to the retailers on their marketplace. In essence the UK government's new tax misses it's intended target and hits it own retailers.

The new 2% digital services tax is seen as an interim measure while international agreement is sought on how best to tax large scale internet businesses operating across territories – businesses such as Facebook, Google and Amazon. The UK and other European countries are working with the OECD (The Organisation for Economic Cooperation and Development) to define the new tax rules, however the US has pulled out of those negotiations.

Alex Ogilvie, Director at [Seller Dynamics](#), a marketplace management company that manages

sales for third party retailers on platforms such as Amazon said, “the online world and the Amazon marketplace in particular, is extremely competitive. Any increase in the costs for third party sellers will hurt. Rather than implement a fair system, agreed internationally, the UK has introduced a tax that penalises its own UK retailers. It demonstrates the need for the UK to work with all the big online businesses to come up with something that is actually workable. It seems disingenuous for the UK government to criticise the likes of Amazon, when this digital services tax only highlights how poorly the government understands online retail.”

The Amazon marketplace provides online retailers a hugely valuable portal to sell on, and by Amazon’s own figures, half the sales on it are from third parties. Sales on the platform have soared following the travel and high street restrictions put in place to help manage the Covid-19 pandemic. Online retailers are attracted to it because of its significant reach and because there is no capital outlay for infrastructure. Instead a monthly fee is charged in addition to commission type fees which vary depending on the category of the product being sold, 15% is not uncommon.

The proposition from Amazon has resulted in many online retailers deciding to either not build their own websites or to only invest in them in a modest manner. Amazon also provide warehousing and fulfilment services, allowing online retailers to outsource sales and deliveries almost completely. For many retailers Amazon has been compelling.

The importance of the Amazon marketplace to independent online retailers should not be underestimated and the imposition of the digital services tax is likely to be extremely unpopular as costs are seen to rise.

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