

**Securing VAT/GST revenues from  
low value e-commerce imports**

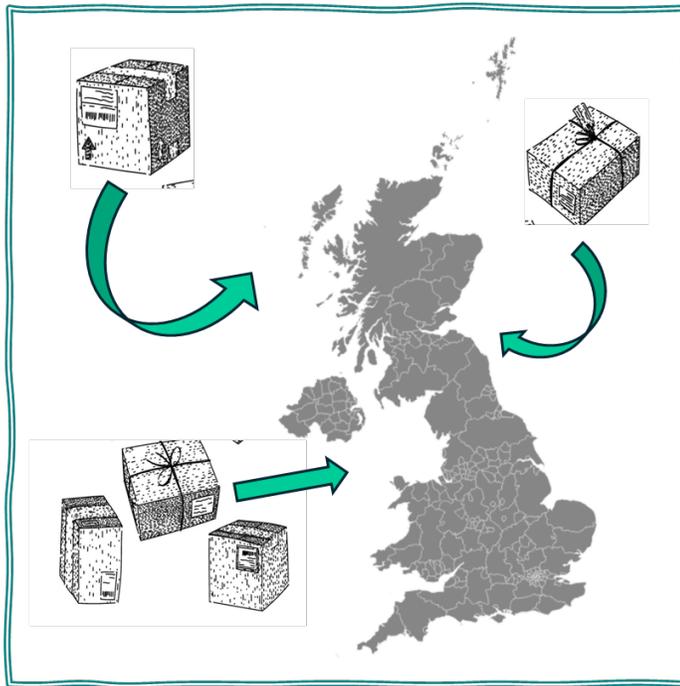
# **The UK's Fulfilment House Due Diligence Scheme**

**Kshama Purohit**



**HM Revenue  
& Customs**





## Total value of UK imports of goods

12 months to October 2025 – **£620 billion**

- In 2016 this was £440 billion

# The background – rise of e-commerce

More companies are buying and selling online than ever before, including across borders, opening up new **compliance risks**.

More elaborate **supply chains** and the rise of **non-established taxable persons** that sell to UK consumers further complicate the landscape.

Value of imports of goods and services was **31.8% of UK GDP** in 2024, according to the World Bank – goods imports alone represent around 20-25% of UK GDP.



# The Fulfilment House model

- Exist to facilitate global e-commerce supply chains
- Hold stock owned by third parties, pick and pack individual items to fulfil to end customers
- Vast quantities of stock stored in locations across the UK to meet consumer expectations of next day delivery
- Commercially operated warehouses

# Compliance challenges

The growth of e-commerce has led to FH becoming more prominent with vast quantities of stock stored in locations across the UK to meet increasing consumer demand.

Overseas businesses would **import goods in bulk**, pay import VAT and duty and store them in UK based FHs



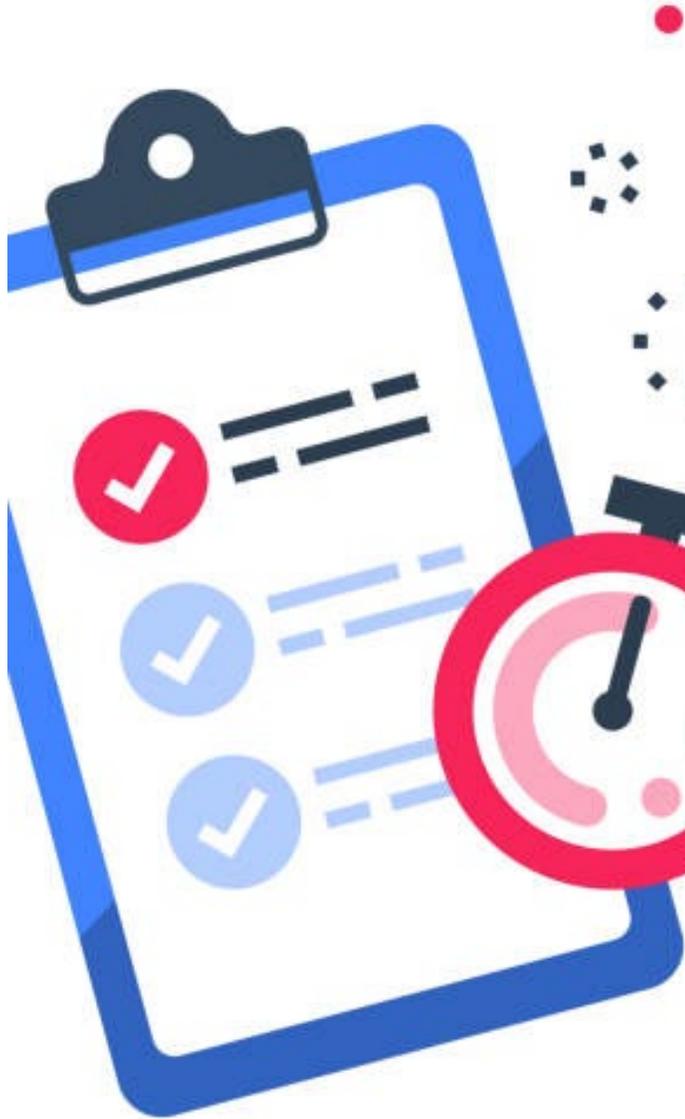
At the point of sale, overseas businesses would **not charge UK VAT**



This would lead to **VAT losses** and an **unfair competitive advantage** compared to UK-established businesses

Another challenge was finding out **who owned what goods** being stored in FHs





# What is the Fulfilment House Due Diligence Scheme (FHDDS)?

- **FHDDS** was introduced by the Finance (No. 2) Act 2017 and effective from **April 2018** following a consultation exercise.
- It was part of a package of measures to **combat VAT fraud** and non-compliance in **cross-border e-commerce**.
- It places **obligations** on UK-based fulfilment houses that store goods for overseas sellers.
- The scheme creates a **legal definition** of a fulfilment house and requires such businesses to be **approved** by HMRC before trading.



# How does FHDDS work in practice?

## Application Process

- **Apply** online via the Government Gateway before starting operations.
- HMRC conducts a **fit and proper check** on the business, directors, and shareholders.
- **HMRC decision:** approval (with or without conditions) or rejection.

## Public Register

- Approved fulfilment houses are listed on a **public register** on GOV.UK.

## Due diligence obligations for fulfilment houses

- Verify customers' **VAT registration** or exemption.
- Maintain **detailed records:** customer details, stock and import entry numbers.
- **Report** any non-compliance by their customers to HMRC.
- Notify HMRC of **changes** in business details.



# The compliance perspective...

The scheme brings **transparency** to supply chains and **makes it harder** for non-compliant overseas businesses to trade in the UK.

In case of non-compliance, for example unapproved FHs and approved FHs where there are record-keeping failures, HMRC can:

- use powers ranging from fiscal **penalties** to **seizure of goods** for non-compliance;
- use **suspension or removal** from the register for failure to comply;
- pursue **criminal prosecution** for serious breaches.

Although FHDDS does not, by itself, prevent any fraud from occurring, it provides HMRC transparency on the supply chains for both customs and VAT purposes, and an efficient and effective intervention (seizing the goods) in case of non-compliance.

## ... and wider HMRC strategy

Alongside FHDDS, HMRC introduced rules that make online marketplaces liable for the **VAT of overseas sellers** and for collecting VAT on certain sales of **imported goods**.

These measures, which started in stages from 2016 and were fully implemented in 2021, aim to **combat tax evasion** and create a **level playing field** for UK businesses.

- **Goods located in the UK at the point of sale:** The online marketplace is liable for the VAT on goods sold by an overseas business through its platform.
- **Goods located outside the UK at the point of sale:** The online marketplace is liable for collecting and accounting for VAT on sales of consignments valued at **£135 or less** that are imported.

# FHDDS success in numbers

We currently have a total of **581 business approved** under FHDDS.

In 2025/26 we have:

- investigated **23 cases** where we suspected trading without approval;
- issued **6 penalties** for failing to comply with FHDDS rules.

With most 'fulfilled' goods sold through **online marketplaces**, we have reasonable assurance that **VAT** is being **correctly accounted for** on most of the retail sales to UK consumers.

The **data** that FHDDS provides is being used in a number of compliance projects to **identify, understand and tackle** large scale non-compliance.