

The Channel Islands's VAT scam continues

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The Guardian, working I am sure with the irrepressible Richard Allen, [have reported](#):

The [controversial online sale of VAT-free CDs](#) exploded at the end of last year, driving one in three purchases by British music-lovers on to the web. The surge in sales casts doubt over Treasury claims to be tackling the tax dodge, already thought to be costing the exchequer £110m a year and rising.

Websites operated by HMV, Tesco, Amazon, Play.com, Asda, WH Smith and Woolworths structure almost all their online CD and DVD transactions as personal imports from the Channel Islands. As a result they are able to offer unbeatable VAT-free prices, threatening the futures of music stores and sapping tax revenues.

Data from market research firm Kantar shows that 16.5m CDs were bought by British customers over the internet in the last three months of 2009 at an average price of £7.80. Over the same busy pre-Christmas period, 26.6m DVDs were bought online at an average price of £9.36.

In most cases, customers remain unaware of the extraordinary lengths online firms are going to to ensure the buyer avoids the 17.5% VAT charge they would pay on the same product bought from their local store. What appears a simple online purchase exploits a 27-year-old European tax directive that waives VAT charges on low-value personal imports from outside the EU. In the UK, the VAT relief applies to goods bought for £18 or less.

This is not a victimless sham:

Tax-free internet sales from the Channel Islands have been steadily ballooning over the past 10 years while the Entertainment Retailers Association claims 1,600 shops selling music have closed in the last five years. Among the high street names to have failed, or to have disappeared altogether, are Fopp, Our Price, MVC, Music Zone, Virgin Megastores, Tower Records, Zavvi and Woolworths.

It's a sham in my opinion none the less. It is impossible to explain the activity

undertaken but for the tax saving generated. That makes this activity about as far removed from tax compliance as it is possible to be if tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes. Despite this, and inexplicably, the Treasury appears to persist in denying the scale of the issue — which now costs the government hundreds of millions in revenue a year — as much as was lost to the Isle of Man on its VAT arrangements.

All this is despite the fact that, as the Guardian notes:

In fact, the Guardian investigation had found that all but one of the companies involved in the VAT dodge were controlled by UK-registered parent businesses.

Maidenhead-based HMV Group and Swindon-based WH Smith — both stock exchange-listed — push much of their online sales through subsidiaries HMV Guernsey and WH Smith Jersey.

Amazon has an arrangement with Indigo Starfish, a Jersey company owned by Glasgow-registered parent Indigo Lighthouse, while Tesco, Asda, Argos and WH Smith have struck outsourcing deals with Cheshire-based The Hut, which operates through Jersey and Guernsey subsidiaries. The only genuinely Channel Islands-owned company using the VAT loophole is Play.com, founded by islanders Richard Goulding and Simon Perree. The Guardian has been unable to find any mainstream website that does not offer CD or DVD sales via the Channel Islands VAT loophole.

The Isle of Man VAT abuse has been shut down. Now it's time to do the same for the Channel Islands. There is no excuse for not acting left. This one is overdue for reform. [As I've previously noted:](#)

This problem could be solved overnight. If every packet from Jersey and Guernsey was opened to check values were under £18 and a £5 handling charge for doing so was levied on all who received those packets then the market would be closed in days.

That would be legal, and appropriate in the face of blatant tax avoidance. What is holding them back?