

# Channel Islands VAT abuse is killing business in the UK

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This letter was published in the Guernsey Press today (but I can;t find a link as yet)

*Dear Sir*

*In your article “becoming a target of convenience” (4th March 2011) you seem to imply that the Channel Islands LVCR fulfillment industry has become some kind of imaginary scapegoat for the demise of independent UK music retailers. You say that “research” has shown that supermarkets are the problem. Presumably the research to which you are referring to is the boldly titled report *Setting The Record Straight*, which was announced with much fanfare in the Channel Islands press a couple of weeks ago but which the Guernsey Government seem to be very reluctant to let anyone see.*

*Needless to say I have been dealing with objections like this for a very long time. They are exactly the kind of thing that people with a vested interest in seeing this immensely distortive and unjust practice continue have been feeding to HMRC for years. So, for the record: supermarkets entered the music market 15 to 20 years ago, serving an entirely different part of the market (top 40 chart CDs aimed at young people or those with a passing interest in music) to that served by most of the independent sector (music for serious music consumers, leftfield and experimental bands, new upcoming independent artists, back catalogue and collector music). Supermarkets have not significantly changed their position in the market in the last 10 years. However, online sales (of physical CDs, not downloads, which still remain marginal in the albums market) have risen from 11.6% of the UK music market in 2006 to 29.6% in 2009. 2006 is a pivotal year because that was when HMV’s opening of a distribution centre in Guernsey (in order to compete with Play.com) caused a stampede to the Channel Islands. This increase has been disproportionate to the rate at which online sales were growing before 2006, and far disproportionate to the growth in online sales of books, an important control group because their exemption from VAT within the UK removes any incentive to send them offshore.*

*A business like mine — Delerium Mail Order, a much respected specialist online CD retailer — should have benefited from this shift to online, because it was a purely online*

*business. However, there are no independent online stores left onshore in the UK, save for a few that are attached to high street stores in high footfall areas or selling exceptionally niche product. Why? Because they have to charge VAT. My business saw nothing but growth until 2006, then HMV opened its centre in Guernsey, all my competitors went offshore, and I shut down at the end of 2007 as it became impossible to retail CDs and charge VAT. According to the CEO of thehut.com, by 2009 96% of the online music market was offshore.*

*But even so, there are now many other product sectors experiencing the same market distortion caused by the abuse of LVCR. Retailers Against VAT Avoidance Schemes (RAVAS) represents retailers from across many sectors who have the identical tale to tell of VAT free Channel Islands based websites undercutting them purely through the avoidance of VAT. The distortion in the market for CDs and DVDs and the destruction of UK online retail is just an example of what happens when a tax avoidance scheme gets out of control.*

*LVCR was never intended for the purposes of avoiding VAT and distorting competition in favour of tax avoiders, a fact that whilst denied by those with a vested interest was recently confirmed to me directly by senior HMRC officials. In a way, I feel some sympathy for the Channel Islands in that that the islands' position has been unscrupulously exploited in this way by large retailers and its economy made dependent to a large extent on an immoral industry that has completely misrepresented the central tenants of the European Law that governs LVCR. To that end, even though neither I nor my employees received any compensation when the UK government's incompetence and inaction destroyed my business, I would certainly not be against the UK government helping the Channel Islands out if and when it chooses to end the exploitation of LVCR via the islands. The UK Treasury will recoup the £100m-200m in VAT that it is now losing. It would be appropriate if, for as long as is needed for the Channel Islands' economy to readjust, some of this money could be used to provide some economic aid to the Channel Islands population that was directly affected i.e. those who are least able to defend themselves from the consequences of this kind of logistical tax deception. The main benefit to the UK economy from ending LVCR is in stopping the distortion of competition and the main benefit to the Channel Islands is to have a fulfillment industry free from the spectre of tax avoidance.*

*It can fairly be argued that there would be an impact on the Channel Islands economy if LVCR were to end. I would like to see the UK government address this in order to repair the damage caused by its inaction in preventing the development of a Channel Islands economy partly based on tax avoidance.*

*It cannot be argued that LVCR is a target of convenience.*

*Yours sincerely*

*Richard Allen*

*Founder, Retailers Against VAT Avoidance Schemes*

*Representing UK online retailers across many different mail order sectors.*

There are those who like to say that tax campaigning makes no difference.

Richard's work is living proof that they're wrong.

As has been the zero / ten issue in the Channel Islands.

So too is country-by-country reporting's progress.

And so much else.

But there will always be those who're on the side of abuse and who will seek to deny the change that has been created.