

# Platforms, the Platform economy and Tax Simplification

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# Foreword

The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the tax system. The key objective of the OTS is to find ways of improving and simplifying the experience of ordinary taxpayers in dealing with their tax affairs.

An increasing number of individuals are finding work through online platforms, usually on a self employed basis whereas in the past they might have been employees whose relatively simple tax affairs were dealt with under PAYE.

This paper explores the possibility of re-creating for them, in the context of self employment, an arrangement that looks and feels more similar to that of an employee from an administrative point of view.

Such an arrangement might prevent quite large numbers of individuals having to submit a self assessment tax return and a computation of their self employment income. The “user experience” therefore has the potential to be much simpler. It is important to note that this paper does not consider the current legal challenges being heard regarding the employment status of platform workers.

## Introduction

Technology is driving changes to the way people work and earn income in today’s society. Digital platforms enable people to earn money in a variety of ways, and these new income opportunities are impacting on the tax and national insurance system, both in terms of how people pay and what people pay.

Over recent years the number of people registering as self employed in the UK has increased significantly – from 3.3 million people (12% of the labour force) in 2001 to 4.8 million (15.1% of the labour force) in 2017. The most significant growth in self employment has been among people in the 16-24, and over 65, age groups.

Although it is unlikely that the emergence of digital platforms is the sole driving force for the growth in self employment, it is without a doubt part of the equation.

In July 2017,<sup>1</sup> the OTS published a focus paper looking into the tax issues that arise from the gig economy.

That report did not make specific recommendations but pointed to a number of features it would be important to consider when looking at how to simplify gig workers’ interaction with the tax system: individuals with multiple income streams from different platforms; facilitating – indeed encouraging – tax payments on platform incomes; designing a system to help the taxpayer pay the correct tax and national insurance; the involvement of the engager; whether ‘employment taxes’ are due; and the impact of VAT.

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<sup>1</sup> <https://www.gov.uk/government/publications/the-platform-economy-an-updated-ots-focus-paper>

# Executive summary

The platform economy is growing in the UK with more people earning through platforms and more transactions taking place through them. This raises questions over how best to tax their income, to ensure that platform workers know what their tax liabilities are and can engage with the tax authorities in as streamlined and simple way as possible.

Alongside the Chancellor's 2018 Spring statement, HMRC published a call for evidence<sup>1</sup> seeking views on the role platforms should play in ensuring that users comply with their tax obligations. That consultation covers all who receive any type of income from using digital platforms, whether they be platform workers, letting out spare rooms through sharing platforms or selling good on marketplace based platforms. This paper focuses more specifically on platform workers.

For platform workers, an important underlying issue is whether they are employed by the platform or are self employed and simply secure work through a platform. High profile legal cases are currently being heard to establish the employment rights or otherwise of platform workers. The outcome of these decisions will have a knock on impact on the way in which platform workers are treated for tax.

Self employment implies that the individual is responsible for managing their own tax affairs, including, for example calculating their own receipts and expenses.

Furthermore, the government's response to the Taylor review<sup>2</sup> sets out a number of consultations by government to look into the questions it raises about employment including how best to clarify the employment status of people who are working in new ways, such as those using platforms.

The OTS considers that HMRC have a critical role in ensuring that any new commitments following these government consultations are reflected in improving their own guidance to help platform workers who are genuinely self employed understand what their tax obligations are.

In addition, the OTS considers that the government should explore opportunities for offering schemes, which could be provided by either the platform operator or, perhaps, by HMRC, which would function in a way that is comparable to how PAYE works for employees.

The OTS also notes the progress being delivered by the private sector in simplifying the management of tax obligations for self employed people and small businesses,

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<sup>1</sup> <https://www.gov.uk/government/consultations/online-platforms-role-in-ensuring-tax-compliance-by-their-users>

<sup>2</sup> <https://www.gov.uk/government/publications/government-response-to-the-taylor-review-of-modern-working-practices>

through software packages and business bank accounts, which can provide significant assistance.

The OTS view is that the private sector has a critical role to play in improving the user experience of interacting with HMRC and tax administration more broadly.

In conjunction with private sector developments in making it easier for people to manage their tax affairs, HMRC might also consider opportunities to streamline its engagement with self employed platform workers, for example by developing a phone application (for example, along the lines of that available in Australia) which operate alongside these new accounting products.

In summary, to simplify platform workers' experience of tax, the OTS suggests that:

- Government consider the case for enabling platforms to operate a system equivalent to PAYE for self employed platform workers (without affecting their employment status)
- HMRC continue to focus on the development of guidance and to ensure that this is readily available and targeted – especially at people who may unknowingly generate tax liabilities
- HMRC consider how best to facilitate technology developers and others to provide reassurance to the burgeoning self employed that digital applications are fit for purpose in submitting accurate data and returns as necessary
- HMRC consider to what extent they can play a role, in partnership with the software industry, in facilitating the creation of an app to help self employed people manage their tax affairs

# Chapter 1

## Platform workers and tax

This short paper considers how platform workers interact with the tax system, the issues they face in doing so and options to reduce the complexities of the tax system to ensure platform workers know what their tax obligations are, how they can most easily meet them, and how they can be most easily supported by the platform operator.

### Background to the platform economy

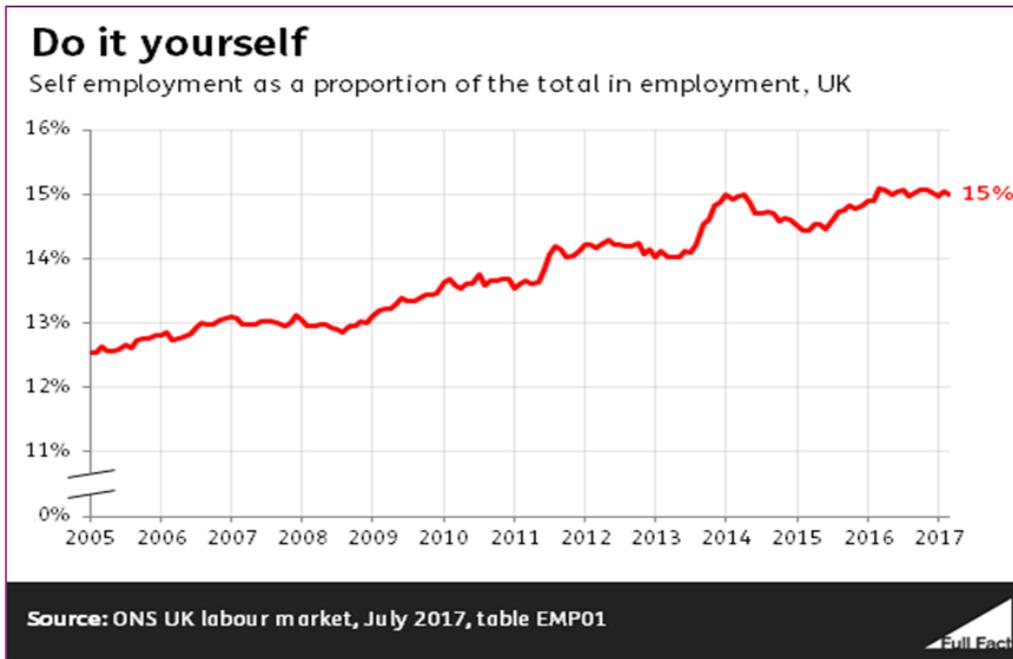
For the government, simplifying tax for platform workers may be a question of ensuring that where they are self employed, platform workers have no greater difficulty than employees in taking responsibility for their tax returns, and/or ensuring that tax returns are made, and made accurately.

It is therefore in both the platform worker, and the government's interests that any administrative processes for the self employed to register are minimised to remove any disincentive to do so, and ensure that tax compliance is rigorously and consistently applied.

### Is the platform economy growing?

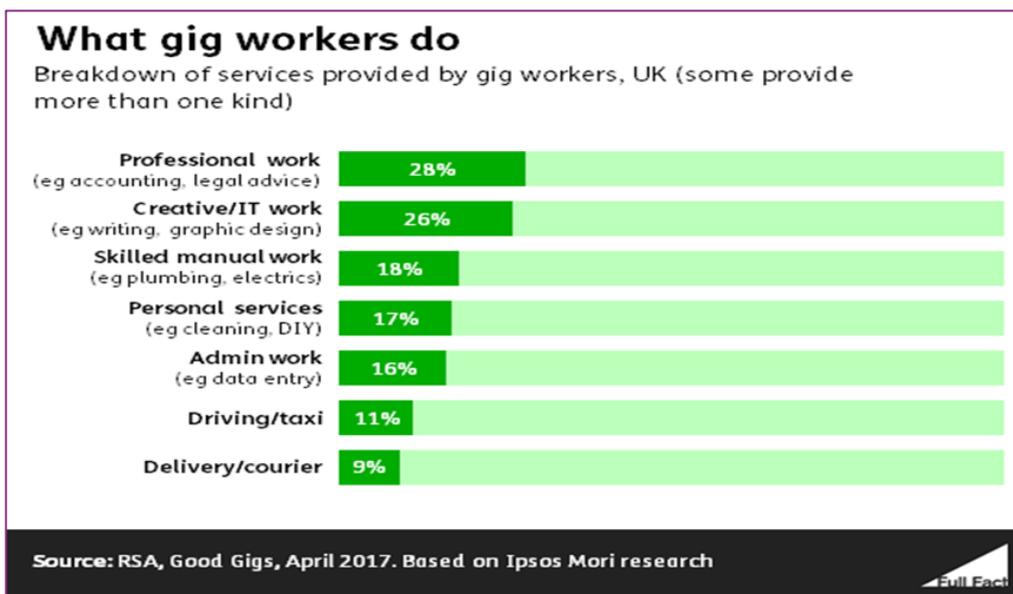
The importance of developing a clear approach to how those who work in the platform and sharing economies (and those who control the platforms which coordinate this working) interact with tax is becoming more critical as these working arrangements become more prevalent across the UK workforce.

In keeping with the growth in self employment across the economy, it is expected that the number of platform economy workers will grow at a steady rate – since 2009, 800,000 more people have registered as self employed. Self employment now accounts for about 5 million workers in the UK, up to 1.3 million of which spend at least part of their time working in the platform economy.



Platform workers are more likely to work in professional occupations than they are to be a taxi driver or goods delivery driver. In fact, perhaps contrary to popular perceptions, in terms of income a Chartered Institute of Personnel and Development study<sup>1</sup> found that platform workers are on the whole satisfied (51% saying they are satisfied and only 19% dissatisfied) with the level of income they receive. This is significantly higher than the level of satisfaction with pay reported by other workers/employees, where 36% are satisfied and 35% are dissatisfied. The reasons for this are unclear, it may be because they pay less national insurance, and therefore have a higher take home pay than employees, or it may be just a consequence that platform work might not be the main income in a household.

Whatever the reasons, it remains particularly important to continue to ensure that the tax system supports those engaged in every kind of work.



<sup>1</sup> <https://www.cipd.co.uk/about/media/press/170317-gig-economy>

## Employment status

The government recently published a consultation seeking views on whether and how to reform legislation to achieve more certainty and clarity for businesses and individuals when determining employment status, particularly in relation to the realities of the modern labour market.<sup>2</sup>

The employment status of platform workers is also key to understanding how platform workers engage with the tax system:

Tax law distinguishes between individuals who are self employed (working for their own unincorporated business – whether as a sole trader or in partnership) and those who are employees (whether working for an unincorporated business or for a company). Employment law additionally distinguishes ‘workers’, which for the purpose of employment rights, lie between employees and self employed people.<sup>3</sup>

**Employee:** Employees have an employment contract with an employer that dictates their activities. They are entitled to certain legal rights (sometimes only after a minimum employment period), including:<sup>4</sup>

- the relevant minimum wage
- holiday pay, statutory sick pay and statutory redundancy pay
- protection against unlawful discrimination and unfair dismissal
- statutory maternity/paternity/adoption/shared parental leave and pay

**Worker:** Employment law also sets out a broader ‘worker’ status (all employees are workers, but not vice versa). Workers have rights (including relevant minimum wage and holiday pay) but, in general, they have fewer rights than employees (including no redundancy pay or protections arising from the unfair dismissal rules). Individuals engaged in casual or irregular work (such as those on zero-hour contracts) are likely to be classified as workers but not employees.

**Self employment (unincorporated business):** A self employed sole trader works for themselves, running their own (unincorporated) business and bearing full personal responsibility for any debt or losses. When a self employed individual interacts with other businesses (say as a contractor performing work), they are protected by health and safety law and, in some cases, against discrimination, but are not covered by employment law.

## What can be done to simplify tax administration for platform workers?

### The ‘platform worker’

For tax administration, self employment places the responsibility of managing tax affairs on the individual rather than an employer. To be self employed implies more complexity in terms of managing tax affairs than it does for an employee. For example, while employees have their tax affairs in the main take care of by their

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<sup>2</sup> <https://www.gov.uk/government/consultations/employment-status>

<sup>3</sup> <https://www.gov.uk/employment-status/overview>.

<sup>4</sup> Social Security benefits are not the same as employment benefit rights, and rely on slightly different definitions.

employer, a self employed person has to calculate their own tax affairs, including having to account for expenses incurred.

A 'platform worker' ostensibly works for or through a platform, but at present is typically treated as self employed. However, it is often argued that platforms control the work of their 'workers', for example if a taxi driver receives poor ratings from customers using a platform app, the administrators of the app might be able to restrict or remove them from services booked through the app, and therefore exert control over that driver's workload. Although this might be comparable to, say, someone terminating the services of a self employed tradesperson due to unsatisfactory work, with a platform it is not the person paying for the service who makes this decision but the platform administrator.

A platform worker therefore may not fit so easily into a traditional picture of what it is to be self employed – for example, with control over when, where and what they do for work. The reality can feel much as if they work for an employer but without any of the benefits of doing so.

Recent court cases highlight that many platform workers believe they should have employment rights, whether as a worker or an employee, and therefore do not consider themselves equivalent to what we might be considered as traditionally self employed. It is interesting in that regard that one large platform has recently announced that they will be taking steps to provide a measure of support of this kind on an insurance basis.<sup>5</sup>

The issue over whether those who work through platforms should be self employed, workers or employees is, as mentioned above, the subject of legal contention, and the case for and against is not considered here.

## Tax and employment status

It is important to note that not all platforms make use of, or 'employ', the services of individuals, especially for example where the individual earns an income through the platform by 'hiring' out an asset, for example letting out a spare room. For such platforms, it is clear that there is not an employment relationship, as the platform is simply acting as an intermediary, for example, a person looking for a holiday let paying someone who has a room to let.

For platform workers, a key issue of contention is their employment status, whether an employee or self employed. This classification of employment status is important for establishing an individual's tax status.

One consequence of being classified as an 'employee' for tax purposes is that the employee pays a higher rate of national insurance than if self employed and their employer also pays an employer NI contribution. These contributions provide the employee with access to benefits for example statutory sick pay which are not available to those paying national insurance as a self employed person. Currently the initial determination of how an individual works through a platform is a judgement made by the platform. Although most platform workers are self employed, platform administrators will have data on what their workers are doing, who their customers are, where they have been and how long it has taken them to complete each

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<sup>5</sup> <https://www.theguardian.com/business/2018/mar/26/dpd-to-offer-couriers-sick-pay-and-abolish-fines-don-lane-death>

'[gig/job/piece of work]', how many hours they were available to app users and of course how much they have charged and earned.

Therefore, self employed individuals pay lower rates of national insurance compared to employees, this advantage could act as a significant incentive for platform workers to retain their self employed status rather than seek to become employees, regardless of the employment benefits (such as being paid the minimum wage) that employees and workers are eligible for.

In their Green Budget of 2017, the Institute of Fiscal Studies state that 'the NICs (national insurance contributions) advantage of self employment over employment was already far bigger than could be justified by any difference in benefit entitlements, and this reform to state pensions has increased the disparity.

HMRC estimates that the revenue forgone by applying lower NICs rates to the self employed exceeded the value of their reduced pension entitlements by £3.2 billion (or £800 per self employed person) in 2015–16, increasing to £4.1 billion in 2017–18.<sup>6</sup>

To put that into context, total self employed NICs revenue in 2016–17 is expected to be £3 billion. Before allowing for the reduced benefit entitlements that remain, they are paying only 37% of the NICs that would be paid if they were employed. Differential benefit entitlements that remain may justify some difference in tax rates, but not on anything like this scale.'

The difference in 'take home pay' for a self employed worker and an employee can be significant, for example a person generating £40,000 of income per year, receives £31,180 after-tax and NICs if self employed (22% average tax rate) and £27,738 if employed – taking Employer's NIC into account (31% average tax rate).<sup>7</sup>

Clearly there is an incentive for individuals to claim worker status so they can gain entitlement to some employment rights whilst likely retaining their self employed tax status. And for platform administrators, there is a will to resist these challenges in the courts due to the additional cost of providing these rights to their workers.

In addition, when individuals are disputing their employment status for rights purposes, they have likely left that particular engagement as part of that dispute; therefore, the amount of tax they pay would undoubtedly be unaffected anyway.

Although many people working as self employed or on a freelance basis work in highly skilled occupations, equally many of those working through platforms are undertaking low skilled work, having to have multiple jobs to make ends meet and would be considered some of the most vulnerable in the labour market. In fact, one of the key issues raised in discussions with the OTS and elsewhere, and supported by HMRC's research, is that a quarter of platform workers do not feel comfortable or capable of managing their own tax affairs.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/675345/Dec\\_17\\_Main\\_Reliefs\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/675345/Dec_17_Main_Reliefs_Final.pdf)

7 IFS Green Budget 2017

## Different ways to pay tax

As things stand, HMRC<sup>8</sup> estimate that self employed people account for £5 billion of the £7 billion of the uncollected 'tax gap' for those who self-assess for income tax.

As noted above, HMRC research<sup>9</sup> suggests that a quarter of those operating in the sharing economy through online platforms are not confident about their knowledge of tax obligations.

*So, the question is whether a system could be devised which supports individuals by carrying out their tax administration on their behalf?*

Currently, a self employed person can pay their tax liability in two instalments over a financial year (January and July) or apply to use HMRC's Budget Payment Plan<sup>10</sup> which allows for the advance payment of tax to be made by instalments throughout the year. The plan lets you decide how much to pay each week or month, and allows for payments not to be made for up to 6 months.

Although the payment plan is a very useful facility offered by HMRC, it perhaps does not address the fundamental issue of people's nervousness in managing their own tax affairs when they have never had to before. It is therefore unclear if this is a catch all arrangement for either the individual or HMRC. It is also possible that very few people are aware of this facility anyway.

## How to improve platform workers' interaction with tax

### Agency and construction subcontractor workers

There are already situations in which temporary workers have tax deducted at source – for example agency ('employment intermediaries') workers and self employed construction subcontractors. So, one option might be to investigate opportunities to extend or adapt existing provisions, such as those used in the Construction Industry scheme, to the platform economy.

Both these existing withholding systems for temporary workers involve a status test to ensure the individual is having tax deducted at the correct rate. Agency workers who are determined to be employees for tax are paid through PAYE, having tax deducted as normal. Where they do not meet the agency worker status test, they also face the same administrative burden as any other self employed individual. (The government has legislated to stop agencies pushing workers into bogus self employment – through focusing the status tests for agency workers on whether the agency worker is under no supervision, direction or control by the end client.)

Self employed construction industry subcontractors can already engage in an arrangement where tax is deducted through the Construction Industry Scheme (CIS). Under this scheme, contractors will deduct tax due from a subcontractor and pay this direct to HMRC, in a similar way that an employer would do for an employee under PAYE. Any refund of tax due at the end of the year is reimbursed in the normal way.

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<sup>8</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf)

<sup>9</sup> <https://www.gov.uk/government/publications/sharing-economy-user-characteristics-and-tax-reporting-behaviour>

<sup>10</sup> <https://www.gov.uk/pay-self-assessment-tax-bill/budget-payment-plan>

Would it therefore be an effective solution to extend similar provisions to platform workers, and would this be something that those who run platforms would be willing to undertake? It is important to note however, that any extension of existing legislation to cater for platform workers, for example the Construction Industry Scheme, would require legislative change and systems changes for both HMRC and online platforms.

### Pay As You Earn

Paying tax through an established mechanism such as Pay As You Earn (PAYE) is effective because it reduces the risk of non-compliance (for example, tax might be paid to HMRC on a monthly rather than annual basis) and tax is collected at minimum cost to the government.

If you are an employee, you pay any income tax on your earnings through PAYE. Tax is normally deducted proportionately on a weekly or monthly basis. By the end of the year, the total tax paid should reflect your tax liability in full. This straightforward and simple system is well established and understood by employers and employees, although it should be borne in mind that PAYE becomes more complex to administer where someone has multiple income streams.

If a person pays too much tax under PAYE, then HMRC will refund any excess tax paid to the individual at the end of the tax year. This is a well-established practice, and it is accepted that for HMRC to calculate how much tax has been overpaid, HMRC must wait until the end of the financial year to determine full tax liability and therefore cannot calculate any excess until that time.

*Could an equivalent system function for self employed people? Could, for example, tax be paid on a monthly basis based on average earnings, or on amounts the self employed person reports to HMRC each month, with any excess paid being reimbursed (or any outstanding liability paid) at the end of the year?*

This may be of particular benefit for someone who is self employed and works through a platform, without being a worker, or an employee.

*If such a system were established, could there be an option for the platform itself to offer the worker a facility for withholding tax based on average or actual earnings on a monthly basis, in effect operating a scheme comparable to PAYE?*

This would relieve the self employed platform worker from having to administer their own tax affairs while introducing a tried and tested approach where tax non-compliance is usually less of a concern for HMRC.

*Could the choice between whether a platform performs this task or the individual takes responsibility be a decision made by the individual alone?*

There would be no obligation for the individual to enter into a withholding tax arrangement, but if they choose this option, could there be an obligation on the platform to administer such an arrangement?

This might side step some of the concerns of platform workers who up until now may feel they have unwillingly been pushed into registering as self employed. Complications over those who have multiple income streams could be managed by HMRC as they are now – it may be the case that for administrative simplicity HMRC introduce a new tax code specifically for those that are self employed through a

platform, but have tax withheld from their earnings. However, such a system may imply increased complexity in terms of defining who would be eligible for such arrangements and who would not. As a consequence, any additional complexity may also imply additional costs for HMRC and the need for legislative change.

Although some platforms have not dismissed the prospect of treating their workers as employees they are often working through areas of the economy where competition is fierce, where margins are tight and therefore where any additional cost can detrimentally impact on a business model. Therefore, a platform might argue that seeking to address barriers to treating workers as employees may only be considered where competitors face comparative costs to ensure a level playing field.

But where the platform does not pursue a policy of offering its workers employee terms, the underlying problem persists of some of the most vulnerable workers in the UK labour force work through platforms and therefore have to face self employment terms with little understanding of what this means in practical terms, and their responsibilities for managing their own tax affairs.

It may be that the only way to ensure that workers are reassured that their tax liabilities are taken care of with minimal imposition is to compel platforms to offer an equivalent PAYE scheme.

If platforms were compelled to offer a scheme comparable to PAYE they would have to accept the related cost without perhaps any tangible benefit from their perspective. This may mean that this cost, for example, would be passed onto either the platform worker, or straight to the end user, the consumer of the good or service.

If it were the case that the cost of administering payroll would lead to a reduction in pay rates, it is difficult to make any judgement as to the impact it might have on any decision the worker would make regarding having their tax obligations taken care of or taking care of this administration themselves.

For HMRC, in theory at least it would be easier to administer the tax affairs of workers who decided to use such a PAYE type scheme, as opposed to leaving it to those managing their own tax affairs by paying their liability at the end of the tax year. Such an arrangement could also align with the government's response to the Taylor Review of Modern Working Practices, where, for example, the government said that it would consult on the introduction of a mandatory payslip for platform workers.

### How could an equivalent scheme to PAYE operate for platform workers?

Perhaps a structure for platform workers who wish for their tax to be withheld monthly (or weekly) by the platform themselves could be considered along the following lines:

- the platform computes taxable profit in real time
- the platform withholds tax (perhaps with options as to whether this is evenly withheld or "back-end" loaded for those with more fluctuating income)
- the platform pays the tax on account to HMRC (for the worker this would provide reassurance that their estimated tax liability is being met on an

ongoing basis rather than facing a tax bill to be paid in its entirety at the end of the financial year)

- the platform signs up with HMRC as “agent” for the platform worker so that they can apply the equivalent of a tax code – or at least reflect the personal allowance where relevant
- the platform can “correct” the withholding at the end of the year so the platform worker has nothing further to do This mechanism could initially apply only to large platforms but, over time, could be extended to smaller engagers

This is simply an initial description of how such an arrangement might work. Much fuller consideration would be needed about the viability and capacity for the current PAYE machinery or equivalent mechanisms to accommodate any such changes, as would the ability of HMRC to administer them. There may be a risk of additional complexity created through the introduction of a new, alternative scheme for platform workers into what is already a complex area of tax.

### Change legislation?

Compelling platforms to operate a PAYE type scheme for their workers may require legislation, and may also lead to additional costs for HMRC to administer these new arrangements. However, as noted, these costs may be offset by increases in tax collected, and reducing non-compliance in fulfilling tax obligations.

Making wholesale legislative changes to tax policy therefore might not be the best solution in the short-medium term. In addition to the legislative and cost issues, there may be other considerations.

Firstly, however quickly the platform sector is growing, platform workers still form only a relatively small part of the workforce and economy (around 3%). Secondly, the platform economy is evolving so quickly that the time required to make changes may make new legislation redundant before it takes effect and, thirdly, it is far from clear what any legislative change would look like and where it would need to be targeted.

In addition, the government response to the Taylor Review sets out significant steps seeking to remove ambiguity, including full consultation on how the government can clarify employment status for both tax and rights in legislation.<sup>11</sup>

So, pursuing practical, rather than legislative, steps to bring the platform economy into the mainstream may seem a better fix, at least in the short term.

### Guidance

One such non-legislative step may be to consider the clarity of guidance and the processes for registering as self employed.

HMRC is continually looking to bring greater clarity to its tax guidance material to help improve customer service, and this should continue especially as for someone who has no prior experience of the tax system (aside from, for example PAYE) it can be a confusing and complex landscape. It is therefore in everyone’s interest, both for

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<sup>11</sup> <https://www.gov.uk/government/consultations/employment-status>

the worker and HMRC, that fit for purpose, clear and comprehensive guidance written in plain language is readily available.

HMRC are making a concerted effort to improve accessibility to guidance on tax issues, and retain a focus on ensuring such guidance is communicated in unambiguous plain English, whether through online written guides or elsewhere.

This must continue, and be an ongoing exercise, to ensure the message of tax compliance reach those who are unaware of tax liabilities (especially in the sharing economy). This is already on HMRC's radar and it published a call for evidence<sup>12</sup> on tax compliance and work platforms alongside the Chancellor's Spring Statement this year.

The OTS is also currently consulting widely on who HMRC's guidance is for and how guidance is used. The question of the extent to which people should be able to rely on HMRC's guidance is also being considered.

### Technology

It is no longer the case that self employment necessarily means there is a need either to employ the services of an accountant to manage tax, or for an individual to accept a significant burden in working tax out for themselves. The private sector has developed a range of new options to smooth this process.

New software (including smartphone apps) specifically designed for self employed people are now available for a monthly fee which can work out tax liabilities, taking account of expenses and income.

One of the reasons for the growth in the market for such products is Making Tax Digital,<sup>13</sup> a key part of the government's plans to make it easier for businesses to get their tax right first time and keep on top of their tax affairs. HMRC is working closely with the software industry to provide a suite of tailored and personalised software products, including smartphone apps, that will integrate with HMRC's systems, allowing members of the public who deal with their own tax affairs to do so more easily. Software that can be used for Making Tax Digital and has been recognised by HMRC will be listed on GOV.UK.

A voluntary pilot service is already under way for customers with income tax liabilities.<sup>14</sup> Summary information is sent to HMRC at least once a quarter from the customer's software, and they can also call for an estimated tax liability from HMRC whenever they submit information giving them a more 'real time' picture of their tax position.

Such technology can help navigate a self employed worker's tax affairs even if they work through numerous 'platforms', as it is a record-keeping tool which does not distinguish between different 'platforms'. Moreover, by ensuring each platform can 'talk to' the worker's record-keeping software, much of the burden of keeping track of their income from self-employment can be eliminated.

It is very likely that using such software is cheaper than employing an accountant, but clearly not as cheap as doing it oneself. However, the cost should not just be

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<sup>12</sup> HMRC consultation: The role of online platforms in ensuring tax compliance by their users

<sup>13</sup> <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

<sup>14</sup> <https://www.gov.uk/guidance/use-software-to-send-income-tax-updates>

measured in purely monetary terms, but in terms of time saved. For example, self employed accounting apps are available for around £6 per month, and it is estimated its use will save the average self employed person 8 hours a month by managing their affairs for them. Such software is also designed to ensure that tax - related information is accurate and the data can be easily transmitted to HMRC. Therefore, is an outlay of £6 worth it to save someone 8 hours of work? That might be a persuasive proposition.

As well as accounting software available to platform and self employed workers, 'open banking' options are being developed to ease the administrative burdens of engaging with the tax system. Although the OTS has heard anecdotal evidence that people would be happy to share this information if it meant that they could effectively wash their hands of the need to worry about their tax affairs, it is perhaps more of a concern to freelance workers and self employed people than to a business with distinct banking requirements.

Alternatively, since the start of 2018 new 'business' bank accounts (for example Coconut bank) offer free accounting as part and parcel of a business account package. These business account packages have been developed primarily in response to the digital record-keeping and quarterly update requirements of Making Tax Digital.<sup>15</sup>

This model could effectively remove the barrier to self employment created by the fear of the responsibility of having to administer tax. One would not need to undertake this exercise oneself, or pay a third party to use accounting software, and it may be reassuring that the confidentiality of finances is controlled through one single entity.

The downside to these models is that the self employed person no longer needs anything other than a rudimentary understanding of tax to fulfil their obligations. If challenged, would they struggle to unpack what they have provided to explain any inconsistency?

However, is this also the case for those employing tax advisors (who themselves are developing technological solutions to tax accounting).

For technology developers, a key consideration must be making technological innovation fit for purpose, and part of that must be making sure it is user friendly.

In conjunction with a focus on making such technology accessible to all, trustworthiness of applications is also likely to be key. Such reassurance could potentially be provided in a variety of ways, for example through private sector feedback mechanisms or an assurance system, or through an HMRC-provided auditing service funded by software providers applying for recognition. Where any accounting smart phone app of this sort was in some way recognised by HMRC as being in compliance with the requirements. Of course, it remains the case that if such applications are used incorrectly, this responsibility still lies with the platform worker.

Alternatively, would it be a wise investment for HMRC to develop their own accounting app (as the Australian tax office has done)? This would run counter to HMRC's stated strategy, but the cost of development may be recouped through the

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<sup>15</sup> <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

submitting of more accurate tax data and returns, and less paper based administration. It may even have an impact on the tax gap – but fundamentally is it for the public sector to offer a service currently undertaken by the private sector?

To answer this, one would need to consider the value for money that any intervention of this sort would deliver. Would the benefits outweigh the cost, and would this deliver a better service than that is, or shortly will be, already available elsewhere?

Technology therefore does provide options which smooth the tax administration process for the self employed, for example bank accounts designed specifically for self employed individuals as well as software which takes much of the complexity out of the accounting processes required. However, we believe it is important that HMRC continue to engage with private developers to help ensure that any such innovations are fit for purpose and meet the requisite statutory obligations for administering tax.

# Chapter 2

## Conclusion

Self employment is growing in the UK, as are the numbers of people working in the platform economy. HMRC are already working towards developing their understanding of risks and opportunities, and alongside the Chancellor's 2018 Spring Statement, they published a consultation seeking views on the role of platforms in ensuring tax compliance.

It must remain a key objective of HMRC to publicise and improve guidance for this section of the economy. The risk here is that people are either put off from taking up platform work because they do not want to be self employed given the resulting responsibility for managing their own tax affairs, or do not realise their tax obligations, including those who do not think working a couple of extra hours a week incurs any tax liability, and therefore there is no need to declare it.

It may also be timely for the government to consider the case for enabling platforms to operate PAYE for their self employed workers, as is the case for agency and construction subcontractor workers. This may remove a barrier to working through platforms without becoming entangled with the wider employment considerations under review, for example whether platform workers are being unfairly treated in terms of their employment status.

If this growth in self employment is to be sustained, then technology has a role in removing barriers for those individuals in terms of engaging with the tax system. Technology to smooth accounting functions to ensure tax compliance is readily available and competitively priced and the market is growing as HMRC's Making Tax Digital initiative moves forward. HMRC will need to continue to consider how to ensure existing and new applications can most easily interface with their systems, to ensure that the engagement between the two is smooth and consistent.

We would also recommend therefore that HMRC continue to be fully engaged in helping to ensure that new technological solutions are fit for purpose and meet the regulatory and legal standards required to fulfil a person's tax administration.

### Summary

To simplify platform workers' interaction with the tax code, we suggest:

- Government consider the case for enabling platforms to operate an equivalent scheme to PAYE for workers
- HMRC continue to focus on the development of guidance and to ensure that this is readily available and targeted – especially at people who may unknowingly generate tax liabilities

- HMRC consider how best to facilitate technology developers and others to provide reassurance to the burgeoning self employed that digital applications are fit for purpose in submitting accurate tax data and returns as necessary
- HMRC consider to what extent they can play a role, in partnership with the software industry, in facilitating the creation of an app to help self employed people manage their tax affairs