



HM Revenue
& Customs

The role of online platforms in ensuring tax compliance by their users

Summary of Responses

7 November 2018

Contents

1	Introduction	3
2	Responses	4
3	Next steps	9
4	Appendix A: List of stakeholders consulted	11

On request this document can be produced in Welsh and alternative formats including large print, audio and Braille formats

1. Introduction

Online Platforms are growing intermediaries in the UK economy, bringing new opportunities for individuals to earn money and more choice for consumers. The government wants to ensure that, where people have tax obligations because of these new opportunities, it is as easy as possible for them to comply.

At Spring Statement 2018, the government launched a call for evidence to learn more about the role that platforms could play in ensuring tax compliance amongst their users. It asked a number of questions designed to explore some of the current activity in supporting users of online platforms, and discussed some potential approaches, including those taken by other countries.

This document sets out a summary of the responses to the call for evidence and highlights the next steps the government will take to help improve tax compliance in this area.

The government received 41 written responses to the call for evidence, from platforms, representative bodies, other businesses and individuals. In addition, HM Revenue and Customs (HMRC) held meetings with a number of platforms and others to explore the issues facing users of online platforms in dealing with their tax affairs.

The government is grateful to all those who submitted responses, recognising the time and effort that went into them. These will inform its work to improve the guidance for those who use online platforms and further policy development in this area.

2. Responses

Understanding the current landscape - users of online platforms and tax

Question 1: What helps users of online platforms to understand their tax obligations? Where do users currently seek help?

Respondents generally agreed that most users of online platforms need clear and simple guidance to help them understand what they need to do. Some pointed out that, from a tax perspective, there is nothing inherently different between a person trading through a platform and one trading more conventionally. Nevertheless, many users see platforms as the starting point for understanding their obligations, and most platforms explained they provide some tax information.

The information provided by platforms varies depending on the nature of the platform. For example, those platforms aimed at established businesses, including 'curated' platforms where sellers or providers are vetted or selected by the platform, provide less guidance. Platforms with a wider range of individual users were more likely to provide a range of support, including signposting to HMRC webpages.

Some respondents reported users also turn to user forums and third-party websites where the quality of the advice and information available is variable. Some more sophisticated users take advice from professionals on the actions they need to take, but many less skilled users are unlikely to be able to justify the extra expense.

Most respondents also suggested users want to access official guidance on GOV.uk, but expressed some concerns about the ability of users to find simple and relevant guidance that answered their questions. Many respondents felt this should be the primary source of information about a person's potential tax liabilities.

Question 2: To what extent do users seek help from online platforms themselves? What evidence is available on how this support is used?

Although most respondents to this question reported that this is often the place users may start, platforms were generally clear that they did not offer tax *advice* to their users. Many platforms do host some information to help those new to using the platform, for example to help them understand when they may be engaging in trading activity or on the indirect tax implications of their transactions.

One respondent expressed concerns that many users will not seek out any information about their tax liabilities as they will be unaware that they have obligations in this area. There was also some criticism of platforms who only provide generic signposting such as, 'Please check with your accountant or financial advisor regarding the tax implications [of using the platform]'.

Platforms whose users tended to be established businesses reported that very few of their users sought information on tax matters from them.

Question 3: What potential barriers do you think there are to users of online platforms in understanding their tax obligations? What evidence do you have about the impact of these barriers?

Respondents reported a range of potential barriers, although they highlighted that many of these are common to anyone beginning to work, or otherwise needing to engage with the tax system, whether they use a platform or not.

Concern was expressed about the complexity of both the underlying tax rules, and the processes that users needed to follow. Several respondents indicated the lack of clarity and guidance about exactly what activities were taxable, and that the variety of different tax rules was a hindrance to understanding their obligations.

Although generally welcoming the £1,000 trading and property income allowances, some respondents, including representative bodies, expressed concern that they added complexity. In some cases, users might assume all income earned online above £1,000 was taxable, without fully considering their individual circumstances (for example, a single transaction selling an old car after buying a new one could easily exceed £1,000, but wouldn't be taxable). There were also concerns that users could hear mixed messages about record keeping and registration if they started small and fell into bad habits.

Platforms reported that users tend to focus on finding work, and in some cases expanding and marketing their activities. Whether users' activities are their main source of income or not, tax is unlikely to be an early priority for any users, so help and guidance needs to be interactive and attractive to engage them. In some cases, language will also be a barrier.

Question 4: In what ways do online platforms create new opportunities for individuals or businesses to deliberately avoid paying tax?

Some respondents argued that there was no evidence to suggest that online platforms created new opportunities for deliberate evasion. Several suggested that the additional audit trails and transparency of payments reduced both the opportunity and incentive for people not to comply.

Some platforms gave examples of sharing data with HMRC that helped identify those who may not be fully reporting income or profits, and suggested that online platforms supported compliance in some sectors where the alternative might be a prevalence of cash in hand work.

Other respondents, primarily those businesses not operating through platforms, expressed concerns that because online platforms lower barriers to entry, they enable users to enter a market without fully considering the tax (or other) implications of their activities. They felt this may allow them to gain an unfair advantage by undercutting

existing operators in the same markets. There was also a concern some platforms may allow users to operate pseudo-anonymously, without accurately identifying details of the user.

Question 5: In what ways do the above issues differ for users who think of themselves as being in business compared to those who do not?

Most respondents suggested those with established businesses are more likely to take advice before trading online and have a better grasp of tax and more confidence in exploring those obligations.

Some platforms suggested that the lack of a clear definition of trading activity hinders users' understanding of their tax obligations and a platform is unlikely to hold sufficient information to be able to directly assist them. One respondent suggested 'users who do not think of themselves as being in business lack crucial information [about their tax obligations]' and may not be aware they need to seek out that information, so they may therefore unwittingly fail to meet their tax obligations.

Question 6: What further opportunities exist for platforms to work together with HMRC to help users understand and meet their tax obligations?

The majority of respondents believed that there was further scope for HMRC to work with platforms to help to educate users. Many called for publication of new HMRC guidance to provide clearer help for those using online platforms.

Some platforms expressed an interest in exploring how they could signpost the most relevant HMRC guidance, and other respondents saw a responsibility for HMRC to help ensure that platforms were providing accurate guidance.

Platforms suggested they would not welcome specific mandatory requirements on providing information to their users. They were concerned that a set format wouldn't account for the variety of individual circumstances, and could cause confusion and concern for users who were, for example, not resident in the UK even if the platform was based here.

Some other respondents suggested platforms could be compelled to provide an annual, or more frequent, statement of income to users.

There were a variety of suggestions for options for sharing data between HMRC and platforms, both on an opt-in basis where the user chooses to do so, and also mandatory systems for sharing bulk data.

Question 7: What data do online platforms hold about their users and their activities on platforms? How could this data be used to help users to understand when they might incur a tax liability from their activity on the platform?

Platforms reported that they hold a variety of information to enable them to operate their services. Most were clear that only a small proportion of this data would be relevant in establishing when a user incurred a tax liability.

Some platforms explained that they did not always hold sufficient data to establish whether users' income was taxable, as they did not have a complete picture of the facts surrounding the transactions. In addition, many platforms said that it would be impossible to calculate tax liability accurately because they do not have any visibility of expenses users incurred.

Some respondents also explained that platforms do not retain all the information that they collect but rather use, then immediately destroy, some elements of data. For example, once an identity has been confirmed, they no longer need the full details contained in any documentation that a user supplied to do so.

Question 8: What opportunities or challenges are created by users working across multiple platforms or working with platforms indirectly through intermediaries?

Respondents generally agreed that users working across multiple platforms presented challenges to platforms potentially supporting their users; any statement of income could only be partial and a platform couldn't be aware of a user's position, even on a gross basis, in relation to allowances, tax bands or other thresholds.

Some respondents expressed the view that the lack of visibility of activity on other platforms reinforced the need for the user to take responsibility for their tax affairs; only the user was in a position to see the whole picture.

Other countries and potential approaches

Fewer respondents gave answers to the questions in this chapter, and tended to cluster their responses, providing general comments.

Question 9: Do you have any experience of these approaches? What evidence do you have about the impact of these interventions?

Question 10: Are any of these international examples particularly promising for the UK? How could they be designed most helpfully for a UK context?

Question 11: Are you aware of any platforms that have changed their operating model to account for any changes?

Question 12: Are you aware of any problems or challenges that have been presented by these policies? How could these be overcome?

Question 13: Do you think these policies are effectively targeted? Do you think they apply to the right set of online platforms?

Question 14: Are you aware of additional international evidence or examples? What can we learn from these?

Most respondents felt that voluntary and carefully targeted measures were most effective. Many online platforms, particularly marketplaces facilitating the sale of goods, argued blanket approaches, such as those some countries have taken, were disproportionate. The diversity of platforms, with different considerations applying to different sectors (e.g. sale of goods, provision of accommodation, provision of services of different sorts) and also the range of users of the platform requires more tailored approaches. Some platforms attract many users who receive payments, but do not have associated tax liabilities and respondents suggested that any required actions, such as annual statements, should be designed to avoid undue concern or confusion to that population.

Most respondents expressed the view that it was important to ensure there was a level playing field. For some, this was expressed as minimising distortion between ‘bricks and mortar’ businesses, compared with those who trade online. For other respondents, their concerns related to ensuring that any government actions didn’t cause bigger issues for particular platforms, disadvantaging them compared to others.

Some respondents also highlighted that some online platforms targeting UK users operate from outside the UK; concerns about ensuring a level-playing field were also raised in this context. International co-operation may be required to ensure that any HMRC action doesn’t create incentives for users to avoid using UK based platforms.

Some platforms supported the use of technological solutions – for example APIs and record keeping software or apps that would allow easier reporting of income to tax authorities. Some suggested they saw the potential for a much simpler user experience than at present, through easy-to-use software that drew together all the relevant information (e.g. income from platforms, expense information from users) and allowed reporting in near-real time through HMRC’s Making Tax Digital Programme.

Some respondents highlighted potential challenges of any system that included withholding taxes, fearing it would add significant burdens for platforms and, given the complexity of the tax rules, would still not achieve simplicity for users. Nevertheless, some respondents believed withholding could improve compliance, and reduce the stress or anxiety that some users may experience, partly due to the need to budget during the year for later tax payments. One respondent in the online labour market felt a system akin to the Construction Industry Scheme (CIS) with some form of quarterly accounting/ reconciliation was a viable option for their sector.

3. Next steps

The evidence received has informed the next stages of HMRC's work. Many respondents discussed the variety that exists in this area. Many platforms have a wide range of users, and there are platforms present in many different sectors of the economy.

The government has heard how some issues, such as the need for improved guidance, are universal across the diversity of different platforms and users, but others may need to be more targeted to ensure they are proportionate responses. As the government continues to develop its next steps, it will continue to gather evidence, working collaboratively with platforms.

Help and Guidance

Many respondents suggested HMRC's guidance could be improved for those using online platforms. HMRC will build on existing work to improve the help and support that is available on gov.uk, exploiting advances in technology to give customers guidance in a place and format that is accessible to them, including the use of 'decision-based guidance' and virtual assistant technologies to provide a more personalised experience.

This will allow people to find the information they need, with the right level of detail for them to understand. The government will continue to explore with platforms the opportunities that exist for them to signpost users to this new HMRC guidance when it is available, alongside other help and support they provide to users.

In line with the recommendations from the recent Office of Tax Simplification report on guidance, the government will work with a variety of stakeholders, including platforms and users, to ensure the guidance meets their needs.

Data about users' activities

HMRC wants to ensure that all platforms who operate in the UK face the same obligations relating to providing data. Many online platforms already work collaboratively with HMRC to provide data about the activities of their users. This data can be valuable in helping HMRC identify non-compliance and undertake targeted compliance interventions.

HMRC's bulk data-gathering powers under Schedule 23 to Finance Act 2011¹ mean HMRC can acquire data, including by issuing notices to 'business intermediaries', such as online platforms. Where online platforms are not based in the UK, this can create an uneven playing field between platforms, depending on where they are based. The government will explore how it can most effectively access data about users whatever the online platform's business model.

HMRC is co-sponsoring with the Italian Revenue Agency (Agenzia delle entrate) an OECD Forum of Tax Administration (FTA) project looking at the effective taxation of

¹ <https://www.legislation.gov.uk/ukpga/2011/11/schedule/23>

participants in the sharing and gig economy. The aim of this project is to shape a more coherent compliance response across tax administrations to these economies, and work is focussing on voluntary compliance of platforms including targeted education of users as to potential tax obligations, data acquisition from the platforms and subsequent sharing between countries. The project sponsors with the OECD FTA are currently in the process of developing recommendations and are aiming to publish a report early next year.

The government will continue to explore opportunities for technological solutions for users to share their own data directly with HMRC. The government will work with platforms, software providers and others to ensure that HMRC's API programme continues and develops. There is an array of innovative software and apps currently being developed that can support people in meeting their obligations, providing them with an experience of paying tax that is as simple as possible. The government will continue to look for opportunities to make use of these as it works towards creating an effortless tax experience (wherever possible) for customers.

Other actions

It is clear that for many people who use online platforms, tax can feel complicated and the actions they need to take seem neither clear nor straightforward. As set out above, the government will improve the help and support that is available to them, and will work with platforms and software providers to exploit opportunities to make that experience simpler.

Some have proposed going further, and seeking to provide a 'PAYE-like' experience for some users of online platforms. The Office of Tax Simplification recently published a paper² that proposed a withholding system for those who work through platforms in the gig economy (they refer to this group as 'platform workers').

The benefits of such a system were also identified by some respondents to the call for evidence. A well-designed system could remove the need for those using platforms to budget for a tax bill to pay at a later date, and reduce opportunities for errors or mistakes that then require correction. Other respondents, including platforms, felt the burden on platforms in operating such a system could be too high. There would clearly be significant complexity that would need to be overcome before any system could be introduced, and careful design to ensure that administrative burdens on all were minimised. HMRC will continue to consider the arguments for change made by the OTS as part of its wider work to ensure that, where people have tax obligations because of these new opportunities, it is as easy as possible for them to comply.

² Platforms, the Platform Economy and Tax Simplification, <https://www.gov.uk/government/publications/ots-suggests-payee-equivalent-for-online-platform-workers>

Annexe A: List of stakeholders consulted

The following organisations provided written responses to the consultation:

AirBnB
Beacon Hill Farm
Belle Grove Barns
Bosinver Farm Cottages
British Destinations
Broomhill Manor
CBI and Sharing Economy UK
Centrica plc
Cheviot Holiday Cottages
CLA
Cossington Park
Devon Country Barns
Dove House Dorset
Eaton Manor Country Estate
EBay
Field House Farm
Fivesquids Limited
Grafter
Higher Menadew Farm
Higher Wiscombe
Jane Clayton & Company Ltd
Kerridge End Holiday Cottages
Llanfendigaid Estate
Low Incomes Tax Reform Group
My Country Houses Ltd
Not on the High Street
PASC UK Ltd
Pitt Farm
Rosehill Lodges
South West Tourism Alliance
The Electronic Money Association
The Institute of Chartered Accountants of Scotland
The UK Short Term Accommodation Association
Tourism Alliance
Tourism Management Institute
Uber
UK Hospitality
Wallops Wood Cottages
Westminster City Council
Wheeldon Trees Farm Holiday Cottages