

VAT and the Sharing Economy: Summary of Responses to the Call for Evidence

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Chapter 1

Introduction

- 1.1. The government ran a Call for Evidence between December 2020 and March 2021 to test its view of the VAT challenges created by the growth of the Sharing Economy.
- 1.2. The government recognises and values how the Sharing Economy has empowered individuals and business to connect with consumers and provide services to them on a far larger scale than previously possible.
- 1.3. This creates huge opportunities for the UK's economy and society through stimulating enterprise, innovation and aiding optimal use of scarce resources. However, the government is also aware that it could potentially create certain challenges to the VAT tax base.
- 1.4. The Call for Evidence divided the challenges as we see them into three distinct but related categories:
 - **business-to-consumer (B2C) and consumer-to-consumer (C2C):** potential long-term erosion of the VAT base due to shifts in consumer behaviour in favour of buying services through the Sharing Economy, and the interaction of this erosion with the question of who should be responsible within the Sharing Economy for VAT on supplies to consumers
 - **business-to-business (B2B):** specific outcomes of the existing VAT rules for cross-border business-to-business (B2B) supplies of services, which prevent HMRC from receiving VAT due on the commission fees which digital platforms charge to underlying service providers
 - **promoting compliance:** the challenge of ensuring compliance with VAT rules by the underlying service providers and in turn the compliance of the digital platforms, especially those based offshore outside HMRC's jurisdiction, with measures designed to aid VAT collection and enforcement.
- 1.5. We sought stakeholder views, both from those who may share our initial assessment and those who bring a different perspective. We also welcomed evidence of other challenges not included in the Call

for Evidence and views on how to evaluate and respond to these challenges.

- 1.6. We are grateful for the time respondents took to engage with the Call for Evidence and for providing such comprehensive and thoughtful responses.
- 1.7. We received 29 responses in total from a range of stakeholders: 11 platforms; 9 trade bodies or sectoral representatives; 5 tax bodies or advisers; and 4 individuals.
- 1.8. The responses came in varied formats; some answered each question one-by-one, though the majority opted to submit broader summaries of their views and overall reactions to the Call for Evidence. We have read each response carefully and, while every detail may not be captured here, we attempt to reflect the full range of views in this summary of responses.

Executive Summary

- 1.9. On the questions related to the nature of **business-to-consumer (B2C) and consumer-to-consumer (C2C) transactions** within the Sharing Economy, the potential long-term erosion of the tax base and the need to explore alternatives to the agent-principal VAT rules, we received a range of views.
 - Some respondents thought the current situation was unfair, suggesting platforms should be required to account for VAT on all supplies of services facilitated by the platform.
 - Other respondents disagreed with the notion that the Sharing Economy was creating challenges or contributing to long-term base erosion. They argued the Sharing Economy is growing its respective markets and sectors, rather than taking away from the 'traditional' economy.
 - We received relatively limited evidence on the overall size and nature of the Sharing Economy in the UK.
- 1.10. We will continue to gather information on the size and nature of the Sharing Economy to determine the interaction, if any, between the shifting nature of transactions and long-term base erosion, and the case for alternatives to the agent-principal VAT rules within the context of the Sharing Economy. We welcome further input from stakeholders on these points.

- 1.11. On the question concerning **cross-border B2B supplies of services**, which often pertains to platforms' commission fees, nearly half of respondents provided an answer.
- The vast majority were supportive of some form of technical change to ensure VAT is collected where intended.
- 1.12. We will continue to work with stakeholders to assess the application of current VAT rules to cross-border B2B supplies and explore the merits of potential reform – both in relation to the Sharing Economy and more broadly.
- 1.13. The final question sought views on **promoting and ensuring compliance**.
- The answers to this demonstrated broad consensus for greater data sharing and reporting between platforms and tax authorities to improve transparency and VAT compliance.
 - While some respondents suggested the government should take further steps to make Sharing Economy platforms liable, or partly liable, for the VAT due on supplies made by underlying service providers, there were equally strong views to the contrary.
- 1.14. Building on the consensus among respondents, we will work with stakeholders to explore more detailed policy options for data sharing and reporting.
- 1.15. We appreciate the range of views on making platforms fully, or partly, liable for VAT due on supplies made by underlying service providers. In the first instance, we will develop a broader understanding of the size and nature of the Sharing Economy in the UK before considering the need for such reform.
- 1.16. Beyond the evidence received on specific points, it is clear that Sharing Economy stakeholders' general preference is for any reform to follow international best practice where possible, with particular reference made to the work of OECD's Working Party 9 on the growth of the Sharing Economy and implications for VAT/GST policy and administration.¹
- 1.17. We also recognise the necessity for any reform to accommodate the diversity of business models and sectors within the Sharing Economy, while ensuring the tax system is fair and equitable for all.

¹ OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*, OECD Publishing, Paris, <https://doi.org/10.1787/51825505-en>.

- 1.18. Where responses covered subjects outside the scope of the Call for Evidence, these are noted and may be considered as part of any future review of this area.
- 1.19. The evidence and views provided by stakeholders has helped to develop a broad understanding of the Sharing Economy and its implications for VAT. The government will continue to evaluate the issues and remains committed to ongoing engagement with all interested stakeholders, including those who were unable to submit a response to the Call for Evidence but have views to share.
- 1.20. In accordance with the government's tax policy making process, we will provide updates on this work in due course and will consult widely on any proposed policy changes.
- 1.21. We also note that the rise of the digital economy creates certain challenges in the administration of tax beyond VAT and that many Sharing Economy stakeholders will be interested in the government's upcoming consultation on the UK's implementation of OECD (Working Party 10) reporting rules for digital platforms. The consultation will focus on direct tax obligations, to help sellers on these platforms to get their tax right and help HMRC tackle tax evasion when they do not. The government will be consulting on the implementation and optional elements of these rules in the Summer and will welcome the input of all interested stakeholders.

Chapter 2

Summary of Responses

Question 1: What are your initial impressions of the Sharing Economy? Is the government right to be looking into it in the context of VAT?

- 2.1 We received varied responses to this question, both in terms of the need for reform and views on the Sharing Economy in general. This was to be expected given the breadth of business models and services that sit within the Sharing Economy.
- 2.2 Most respondents were supportive of some reform in this space, though there were differing views on the scope and nature of any future change, with some concerns around how it might impact respondents' own businesses.
- 2.3 Many respondents highlighted the positive impact the Sharing Economy has on the UK economy and the consumer market; from positively changing consumption patterns and increasing customer choice to providing greater flexibility to workers. All this should be considered holistically as part of the discussion on VAT reform and its impact on the Sharing Economy sector.
- 2.4 Some respondents stated that current UK VAT law is adequate to deal with the Sharing Economy business models, but a review of how to apply the current VAT framework to the Sharing Economy model needs to be explored, for example around agent-principal rules and digital platform businesses.
- 2.5 More than half of the respondents stressed the importance of ensuring the tax treatment is as neutral as possible across like parties and activities, whether Sharing Economy or non-platform model, providing a level playing field for all and allowing fair competition.
- 2.6 Some respondents provided detailed information on how different Sharing Economy models work, highlighting the importance of ensuring that any future reforms reflect the variety of models in the sector.
- 2.7 It was noted that the scope of the Sharing Economy, and related definitions like 'taxable person', should be clearly defined in order to have an effective reform discussion.

- 2.8 Respondents showed concern about VAT reform leading to complex regulations and requirements. They highlighted a risk that this may lead to a decrease in compliance or even participation in the sector, which in turn could deter innovation.
- 2.9 Others similarly stated that any change should not disincentivise Sharing Economy models or discourage businesses and the self-employed from seeking to utilise the opportunities of the Sharing Economy.
- 2.10 A small number of respondents were concerned with safety and regulatory matters related to the Sharing Economy platforms. They stated that the Sharing Economy should not be given the opportunity to exist as a second-tier, low taxation, low regulation economy, but as a space that enables fair competition, empowers citizen entrepreneurs and enables consumers to enjoy the same standards of safety and protection they are used to.
- 2.11 A small percentage of respondents were against reform altogether, though their stance was often focused on one specific sector or proposal.

Question 2: Are there any Sharing Economy business models which the definition and guidance we have set out do not cover but which we should be aware of?

- 2.12 Some respondents stated the definition was broad enough such that it covered all the different Sharing Economy models. Others stated that it was broad enough, but the definition created certain restrictions, and thus ruled out certain business models falling within the Sharing Economy. For example, a few respondents drew our attention to the inclusion of business models that use non-monetary considerations where the value of reciprocal services provided would be difficult to determine.
- 2.13 A common response was that the Sharing Economy sector differs from business to business and that this diversity needs to be fully explored before reforms are considered.
- 2.14 Some respondents stated that the Sharing Economy definition needs to be clarified to include what categories of supplies fall within its definition and any guidance needs to be globally compatible to allow for better compliance.
- 2.15 Some respondents highlighted the importance of future-proofing any reforms, such that policy reforms encompass the broad principles to create a long-term sustainable framework of taxation that can adapt to new business models to maintain fairness.

2.16 Respondents from the accommodation sector stressed the importance of identifying the different models within the Sharing Economy accommodation sector. As different platforms have differing operating models and different payment models, it is important to ensure the VAT system reflects these differences.

Question 3: Do you agree with the government's assessment of the size and nature of the Sharing Economy in the UK? Have you or your organisation produced analysis not listed above on the size and nature of particular sectors of the Sharing Economy in the UK?

2.17 The majority of respondents either did not answer this question or stated that they have not carried out any analysis in the UK to usefully comment on the government's assessment of the size and nature of the Sharing Economy in the UK.

2.18 A handful of respondents provided data on their own organisation or in relation to a specific part of a sector, which we are grateful for.

2.19 Of those that responded, there was consensus that this is undeniably a growing market, which will continue to grow in the age of digitalisation and ongoing consumer demand for shareable products and services.

2.20 Focusing on the short-term accommodation sector, one respondent suggested the size of the Sharing Economy is significantly more substantial than the government estimates, referencing the difficulty for cities to collate accurate data on properties being rented short-term.

2.21 Some respondents agreed that the Sharing Economy is growing rapidly but highlighted that the Covid-19 pandemic has impacted the sector, both positively and negatively. For example, during periods of lockdown, both the transportation and accommodation sectors saw a decline in business. However, some parts of the UK accommodation sector have seen an increase in activity in between lockdowns as consumers look for domestic holiday opportunities.

2.22 One respondent shared data from the Office for National Statistics (ONS) which stated that 67% of Sharing Economy businesses reported a decrease in turnover as a result of COVID-19, compared with 51% for all other businesses.²

2.23 Some respondents did not answer the question as they needed, and subsequently requested, more clarity on what businesses the

² Platform Work in the UK 2016-2019 (Statistical Services and Consultancy Unit, University of Hertfordshire and Hertfordshire Business School, 2019)

government considers to be included within the five different categories listed in the Call for Evidence.

- 2.24 A small number of respondents questioned whether the government's assessment of the Sharing Economy may be premature when there is not a clear definition of what the Sharing Economy is, and which businesses fall within it.
- 2.25 Likewise, some felt it should be decided whether 'gig workers' are considered employees of the platform or service providers in order to achieve a better assessment of the questions at hand.

Question 4: If not covered in your response to the previous question, could you please provide us with any projections which you or your organisation have produced regarding the future growth of the Sharing Economy in the UK?

- 2.26 The majority of respondents did not reply to this question or stated they have not produced any projections on the growth of the future of the Sharing Economy.
- 2.27 Those who answered shared their concern that the growth of the Sharing Economy has been curbed due to the pandemic but believe it will spring back over time as restrictions are lifted.
- 2.28 Some respondents suggested that, due to the pandemic and businesses re-evaluating the role of office space and other fixed costs, businesses might turn to Sharing Economy platforms for their day-to-day operations, further growing the sector.
- 2.29 One respondent highlighted that the Sharing Economy is still in its growth phase in the UK, as compared to other countries where it is more established. They shared analysis of the peer to peer car sharing sector, which suggests that related platforms can experience rapid growth in both usage and revenue.³

Question 5: Do you consider the balance to be changing between VAT-registered and non-VAT registered businesses in terms of relative contribution towards the UK's economic output? That is to say, in favour of non-VAT registered businesses supplying an increasingly large proportion of services.

³ Analysis from the Dutch market by Nijland and Van Meerkerk in their 2017 paper "Mobility and environmental impacts of car sharing in the Netherlands" shows that the sector can experience relatively rapid growth. Similarly Frost and Sullivan's 2018 report on P2P highlights the increase in the number of P2P car rental operators from 10 in 2009 to more than 50 globally in 2018. They forecast that there will be 12.1% annual growth in the use of these platforms, meaning that, by 2030, they will have 71 million members, 3.8 million vehicles and be generating more than \$7 billion in revenue.

- 2.30 Most respondents did not answer this question or stated they were unaware of a change in the balance between registered and non-registered VAT businesses.
- 2.31 From those that answered this question, views were split:
- Around half of the respondents did not think the balance was changing and stated that, if there was any change, it was just an increase in non-VAT registered businesses due to the high UK VAT threshold. Some added that this would not necessarily indicate a change in the balance of relative contribution to the UK's economic output.
 - The other half of respondents stated there is clear change in the balance, although most could not answer if this has resulted in tax base erosion.
- 2.32 One respondent thought there might be a change in balance which is causing erosion of the tax base, specifically in cases where underlying service providers, who were once employed by businesses where VAT was accounted for on all transactions, are now self-employed and operating under the VAT threshold.
- 2.33 With reference to the Sharing Economy accommodation sector, some respondents suggested that new, non-VAT registered, entrants to the market are increasing overall real output and consumption, rather than being in direct competition with 'traditional' accommodation suppliers.
- 2.34 The view of one respondent was that the Sharing Economy accommodation sector is not only adding to the tourism sector but also contributing to the VAT domain by attracting services that are created due to the Sharing Economy businesses existing, such as booking fees, cleaning and property maintenance. They suggest that, in cases where the Sharing Economy business operates in a new market, it stimulates the wider tourism industry. Thus, even if the Sharing Economy market was taking business away from the traditional markets, it would not necessarily result in a loss of tax revenue overall.
- 2.35 Some respondents stated that, while there might be a trend of greater numbers of non-VAT registered businesses, it should be noted that some of these traditional businesses also operate on Sharing Economy platforms to expand their reach.
- 2.36 One respondent stated that, within the private hire transportation sector, the vast majority (83%) of drivers working with digital platforms, minicab firms or as traditional black cab drivers are self-employed. Most drivers' earnings are below the VAT threshold and

are therefore not liable for VAT, which has been the case since before the recent growth of the Sharing Economy.

Question 6: Have you or your organisation produced analysis of the revenues which underlying service providers generate on digital platforms; if so, please could you summarise the results for us?

It would be helpful if you could categorise your response within the following turnover bands:

- (1) less than £10,000
- (2) between £10,000 and £34,999
- (3) between £35,000 and £69,999
- (4) between £70,000 and £84,999
- (5) greater than £85,000

- 2.37 Most respondents did not answer this question or stated that they had not produced analysis on the revenues of underlying service providers.
- 2.38 All respondents that provided an answer to this question did so based on their own specific businesses. We are very grateful to them for sharing their data.
- 2.39 Most respondents who answered this question stated that underlying service providers' income on a single platform was largely, if not entirely, below the VAT threshold.

Question 7: Should the government consider alternative VAT rules to the agent-principal rules in the context of the Sharing Economy? Should we consider solutions which, under certain circumstances, would require Sharing Economy digital platforms to account for VAT on the supplies that underlying service providers make to consumers?

- 2.40 Most respondents were against making platforms liable for the VAT on supplies made by underlying service providers. A variety of reasons were given for this, with the consensus being that platforms are correct in treating themselves as agent, and so deeming them to be principal would result in an artificial outcome that does not reflect reality. It was argued this could stifle innovation and restrict the growth of the Sharing Economy.
- 2.41 Some respondents suggested that making platforms liable for the VAT could amount to effectively removing the VAT threshold for small businesses via the backdoor, by shifting tax liability from entities not ordinarily required to register for VAT to the platform, which would clearly be over the threshold.
- 2.42 Others highlighted several potentially complex and undesirable outcomes of making platforms liable for the VAT, including a

decrease in revenue for businesses that would not normally apply output VAT or an increase in consumer prices, the risk of double taxation, or increased compliance costs for underlying service providers that are already VAT-registered.

- 2.43 Four respondents endorsed making platforms liable for VAT on supplies they facilitate. Given three of these respondents represent the only 'traditional' economy stakeholders to have responded and include the main trade body for the hospitality sector, it might indicate there is broader support beyond the Call for Evidence respondents.

Question 8: Does your view about the need for alternative VAT rules in the context of the Sharing Economy vary according to economic sector and business model, or does it apply across all sectors and business models?

- 2.44 Responses to this question were mixed, with many respondents pointing to the advantages of both broad and more specific options for reform.
- 2.45 Arguments in favour of applying rules across all sectors were that it would be fairer and easier to understand. Also, introducing broad, general rules would allow individual platforms and providers to apply the rules in a way appropriate to their sector, rather than the government seeking to dictate how certain sectors should operate.
- 2.46 The general view in favour of a sector-specific approach was that changes could be targeted at specific issues, which may be different from one sector to another. For example, in one sector the main problem might be base erosion, whereas in another it may be non-compliance. They argued a different solution would be required for each of these, which would make a targeted approach more appropriate.
- 2.47 The common theme in nearly every response to this question was that it is vital that the government undertake more work to understand the economic impact of any change and should not rush into solutions that could adversely affect the many thousands of independent providers operating in the Sharing Economy.

Question 9: Should the government review the cross-border place of supply rules in this context; specifically, in light of that fact that these give an unfair VAT advantage to digital platforms based outside the UK? If so, how would you recommend we address this?

- 2.48 Just over a third of respondents answered this question directly. Of those, the majority were supportive of changes to B2B cross-border supply rules, although the nature of suggested changes varied considerably. Respondents suggested that it was important that the

online and traditional economies were treated in the same way in order to prevent any distortion of competition.

2.49 In general, respondents agreed with the principle that consumption in the UK should be taxed in the UK, and that this must include the VAT charged on agency fees by the Sharing Economy platforms. Several suggestions were made as to how this could be achieved, including:

- requiring overseas businesses to register in the UK;
- removing the distinction between B2B and B2C supplies, and requiring the supplier to account for VAT in the UK in all cases;
- review fixed establishment rules so that when platforms have an office in the UK, they are considered to be making domestic supplies within the UK;
- changes to place of supply rules, including the use and enjoyment override.

Question 10: What do you think about solutions that would require Sharing Economy digital platforms, wherever they are established, to register and account for UK VAT on the commission fees that they charge their underlying service providers? Please include details of your experiences of similar regimes in other jurisdictions.

2.50 Just under half of respondents answered this question.

2.51 A fifth of those who answered were very supportive of requiring platforms to register and account for UK VAT on the commission fees they charge.

- Some stated that it would be very fair to levy the VAT based on the place of supply, thus ensuring parity across the sectors and reducing tax leakage.
- Others suggested treating all supplies as B2C (thus VAT is required to be accounted for on the commission fees as is the case now) until a VAT registration number is supplied, in which case the reverse charge mechanism can be used by the underlying service providers.

2.52 Just under a third of those that replied to this question disagreed with the idea of requiring platforms to account for VAT regardless of where they are established.

- Some stated it could lead to a halt in growth of the Sharing Economy sector as other neighbouring jurisdictions would become more attractive for businesses to set up and trade from.

- Some stated levying VAT on micro businesses would significantly hinder their ability to function, further exacerbating challenges the economy is already facing, including the Covid-19 pandemic.
- Some expressed concern that Sharing Economy platforms being required to register for VAT will put them at a competitive disadvantage as there are large number of overseas intermediaries who sell services to UK businesses through non-digital channels.

2.53 More than one third of the respondents to this question agreed with the suggestion outlined to an extent but with some additional comments on how best to tackle the issue.

- A common suggestion from within this group of respondents was to broadly retain the cross-border supply rules and instead make changes to who is regarded as a business customer. As the current B2C rules work well, if the VAT registration rule was used to determine a business customer this may be an easier solution. This way, those who do not provide a VAT number are considered to be a consumer and thus the B2C rules dictates the platform will account for the VAT in the country where the platform is established. And those who provide VAT number, the reverse charge mechanism can be used by the underlying service providers to account for VAT without the need for the overseas business to register in the country of the underlying supply.
- Others have suggested that the rule for B2C regarding cross-border supply should also be used for B2B supply, so the platform accounts for VAT in both type of supplies.

2.54 Reforms to the VAT threshold was also suggested by a few respondents with differing options.

- It was suggested the government apply a nil VAT registration threshold for services received from abroad, which has been adopted by France.
- It was suggested that the government use multiple thresholds based on different sectors, so some sectors can have a nil threshold. This is the approach Australia took with their GST registration for tax drivers which was set to nil compared to the normal threshold of AUD 75,000 for other sectors.

2.55 Respondents also suggested a clear definition should be developed as to the circumstances within which VAT on commission fees should be charged. Examination should also be undertaken to identify the impact of such an application of solution to understand how this would affect the individual service providers, the platforms, the sector involved and the Sharing Economy overall.

- 2.56 Some respondents suggested small businesses should not be impacted by VAT, even if trading above the threshold. This would resolve the tax gap created by the cash economy and end a key problem that undermines entrepreneurship.
- 2.57 Respondents also put forward the possibility of simplifying the process by requiring the platform to apply the VAT fraction to the gross profits that it makes from its commission.
- 2.58 In relation to supplies of services outside the UK jurisdiction, it has been suggested that these supplies should be subject to use and enjoyment provisions in the usual way. This should apply to all charges relevant to each supply of services.
- 2.59 One respondent suggested the implementation of something like the VAT Mini One Stop Shop scheme to declare and pay VAT due on commissions and avoid the high cost of compliance that registration in every jurisdiction entails. This would, in their opinion, increase compliance and overall revenue for the government.

Question 11: Bearing in mind HMRC's desire to develop compliance measures which can be enforced with equal effectiveness upon both UK and offshore businesses, what do you think would be a proportionate and effective set of obligations, sanctions and administrative easements that HMRC could use to encourage compliance among digital platforms and underlying service providers?

Easements

- 2.60 Respondents stated that, when assessing how to apply VAT to the Sharing Economy, the government should ensure any additional tax requirements are simple, predictable and easy to comply with, while also taking steps to incentivise the innovation that has driven the growth of the Sharing Economy to date. It was suggested that any changes should provide a long-term global solution that is proportionate and, where possible, avoids acting on a unilateral basis.
- 2.61 To aid higher levels of compliance, it was noted that clear definitions and understandings are instrumental. The respondent added that there must be easy access to information and guidance on any changes proposed, accessible for individual providers that may not have the resources or experience to administer complex tax issues.
- 2.62 As part of the need for clear definitions, one respondent noted that compliance would be aided greatly by clearer definitions around what is considered a business and consumer.

Obligations

- 2.63 Some respondents suggested that, instead of making the platforms liable for VAT, platforms should be required to share information and report to the tax authorities, so the relevant authorities can manage VAT compliance through normal compliance procedures. The experience of certain platforms suggests that the mere knowledge that data is being shared encourages compliance.
- 2.64 There was significant support for platforms engaging in a process of educating underlying service providers about their VAT obligations.
- 2.65 Several respondents stressed the importance of ensuring that any new obligations are fair, justified, proportionate and in line with approaches in other areas of the economy.
- 2.66 One respondent did not believe that an annual declaration from platforms on their users' information to tax authorities was worth doing given the work required to gather this data. They stated the task is more difficult when it comes to sensitive data, which is also not always available.
- 2.67 Some respondents thought that platforms should be made jointly and severally liable for the VAT due on supplies made by underlying service providers, following the example of changes made to online marketplace liability in the UK. However, it was noted that such an approach may be more difficult to apply to Sharing Economy platforms as underlying service providers may operate on multiple platforms simultaneously. In that case, individual platforms would not have all necessary information to identify VAT obligations.
- 2.68 Some respondents suggested it would be a mistake to use joint and several liability to ensure VAT is being accounted for, as most underlying service providers are private individuals earning low amounts, and creating uncertainty for them would attract negative press coverage.
- 2.69 For the accommodation sector, one respondent suggested the government adopt a similar approach to Scotland and introduce a register of short-term letting properties to support better infrastructure and regulation in the hospitality sector.

Reform options to ease compliance

- 2.70 Some respondents suggested the government should ensure any reform is kept within existing regulations that users and tax advisers are familiar with. For example, the UK currently has VAT registration rules applicable to the sale of goods in the UK by non-established taxable persons in certain circumstances. It was suggested that

adapting these rules to include digital platforms where there is 'VAT loss' would be a straightforward route to achieving effective compliance.

- 2.71 Some respondents suggested adapting the 'use and enjoyment' VAT rules, whereby the supply of services by the non-established digital platform to a non-registered UK underlying supplier creates the obligation to register for UK VAT.
- 2.72 It was noted that the agent-principal rules can be complicated to understand and that a specific definition for online platforms – in the same manner of online marketplaces (OMP) – could help remove ambiguity.
- 2.73 Some respondents suggested creating a 'safe list' of compliant platforms, which would put public pressure on non-compliant platforms by comparison. They believe public acknowledgement that a business is compliant (or more significantly if it is not) would be a significant step forward in enforcing compliance. To maintain a level playing field, they suggested using payment processors to enforce measures against digital platforms not complying with local laws and accounting for VAT correctly.

International compliance

- 2.74 Some respondents favoured international agreement to ensure compliance, perhaps along the lines of a worldwide One Stop Shop for platforms.
- 2.75 Other respondents stated that enforcement measures should take into consideration the limited compliance by overseas entities – due to the limited impact of mutual assistance treaties.

Sanctions

- 2.76 Regarding sanctions, some suggested the government should be able to prohibit the use of non-compliant platforms by UK businesses, therefore in essence blocking their operations in the UK.
- 2.77 Others raised significant concerns regarding the use of IT infrastructure to restrict activity in the UK by platforms. They believe these measures should be reserved for cases where conduct has moved from a civil issue to a criminal issue. The use of these can cause a viable business to become insolvent whilst the issue is being resolved with HMRC.

Chapter 3

Next Steps

- 3.1 We are grateful to have received such comprehensive and thoughtful responses to the Call for Evidence. We have read each response carefully and attempt to reflect the full range of views in this summary of responses.
- 3.2 The government is using this evidence to further develop our understanding of the Sharing Economy, its implications for VAT and the case for potential reform.
- 3.3 On the questions related to the nature of **business-to-consumer (B2C) and consumer-to-consumer (C2C) transactions** within the Sharing Economy, the potential long-term erosion of the tax base and the need to explore alternatives to the agent-principal VAT rules, we recognise that there is a diverse range of stakeholder views. We also received relatively limited evidence on the overall size and nature of the Sharing Economy in the UK.
- 3.4 We will therefore continue to gather information on the size and nature of the Sharing Economy to determine the interaction, if any, between the shifting nature of transactions and long-term base erosion, and the need for alternatives to the agent-principal VAT rules within the context of the Sharing Economy. We welcome further input from stakeholders on these points.
- 3.5 On the question concerning **cross-border B2B supplies of services**, which often pertains to platforms' commission fees, the vast majority of those who answered were supportive of some form of technical change to ensure VAT is collected where intended.
- 3.6 Given this level of support, we will continue to work with stakeholders to assess the application of current VAT rules to cross-border B2B supplies and explore the merits of potential reform – both in relation to the Sharing Economy and more broadly.
- 3.7 On questions related to **promoting and ensuring compliance**, the responses indicate there is broad consensus for greater data sharing and reporting between platforms and tax authorities to improve transparency and VAT compliance.

- 3.8 Building on this consensus, we will work with stakeholders to explore more detailed policy options for data sharing.
- 3.9 We appreciate the range of views on making platforms fully, or partly, liable for VAT due on supplies made by underlying service providers and, in the first instance, will develop a broader understanding of the size and nature of the Sharing Economy in the UK before considering the need for such reform.
- 3.10 We recognise that the range of views expressed in the responses to the Call for Evidence is partly due to the breadth of sectors and business models within the Sharing Economy. Careful consideration will be given to ensure any policy proposals do not inadvertently affect platforms and businesses differently or create unfair distortions.
- 3.11 It is clear that Sharing Economy stakeholders' general preference is for any reform to follow international best practice where possible, with particular reference made to the work of OECD's Working Party 9 on the growth of the Sharing Economy and implications for VAT/GST policy and administration.⁴
- 3.12 Where responses covered subjects outside the scope of the Call for Evidence, these are noted and may be considered as part of any future review of this area.
- 3.13 The evidence and views provided by stakeholders has helped to develop a broad understanding of the Sharing Economy and its implications for VAT. The government will continue to evaluate the issues and remains committed to ongoing engagement with all interested stakeholders, including those who were unable to submit a response to the Call for Evidence but have views to share.
- 3.14 In accordance with the government's tax policy making process, we will provide updates on this work in due course and will consult widely on any proposed policy changes.

⁴ OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*, OECD Publishing, Paris, <https://doi.org/10.1787/51825505-en>.

Annex 1

List of questions

Question 1: What are your initial impressions of the Sharing Economy? Is the government right to be looking into it in the context of VAT?

Question 2: Are there any Sharing Economy business models which the definition and guidance we have set out do not cover but which we should be aware of?

Question 3: Do you agree with the government's assessment of the size and nature of the Sharing Economy in the UK? Have you or your organisation produced analysis not listed above on the size and nature of particular sectors of the Sharing Economy in the UK?

We would be particularly interested in any material relating to the five largest sectors of the UK Sharing Economy referred to in chapter two:

- short-term accommodation
- passenger transportation
- on-demand household services
- on-demand professional services
- collaborative finance

Question 4: If not covered in your response to the previous question, could you please provide us with any projections which you or your organisation have produced regarding the future growth of the Sharing Economy in the UK?

This could be information covering a specific sector or the Sharing Economy as a whole, if, for example, you are responding on behalf of a trade body, professional institute or management consultancy.

It could be information for a specific business if you are responding on behalf of a digital platform. Your response will be treated in the strictest confidence.

Question 5: Do you consider the balance to be changing between VAT-registered and non-VAT registered businesses in terms of relative contribution towards the UK's economic output?

That is to say, in favour of non-VAT registered businesses supplying an increasingly large proportion of services.

Question 6: Have you or your organisation produced analysis of the revenues which underlying service providers generate on digital platforms; if so, please could you summarise the results for us?

It would be helpful if you could categorise your response within the following turnover bands:

- (1) less than £10,000
- (2) between £10,000 and £34,999
- (3) between £35,000 and £69,999
- (4) between £70,000 and £84,999
- (5) greater than £85,000

Please state whether your analysis relates to a business, a sector or the Sharing Economy as a whole.

Question 7: Should the government consider alternative VAT rules to the agent-principal rules in the context of the Sharing Economy? Should we consider solutions which, under certain circumstances, would require Sharing Economy digital platforms to account for VAT on the supplies that underlying service providers make to consumers?

If not already covered by your response to the previous question:

Question 8: Does your view about the need for alternative VAT rules in the context of the Sharing Economy vary according to economic sector and business model, or does it apply across all sectors and business models?

By way of example, would your answer be different in relation to passenger transportation than it would be for on-demand household services or the letting of short-term accommodation?

Question 9: Should the government review the cross-border place of supply rules in this context; specifically, in light of that fact that these give an unfair VAT advantage to digital platforms based outside the UK? If so, how would you recommend we address this?

Question 10: What do you think about solutions that would require Sharing Economy digital platforms, wherever they are established, to register and account for UK VAT on the commission fees that they charge their underlying service providers? Please include details of your experiences of similar regimes in other jurisdictions.

Question 11: Bearing in mind HMRC's desire to develop compliance measures which can be enforced with equal effectiveness upon both UK and offshore businesses, what do you think would be a proportionate and effective set of obligations, sanctions and administrative easements that HMRC could use to encourage compliance among digital platforms and underlying service providers?

Annex 2

List of organisations that responded

Association of Accounting Technicians
AirBnB
BlaBlaCar
Bubble
British Vehicle Rental and Leasing Association
Chartered Institute of Taxation
Coalition for a Digital Economy
Deliveroo
Deloitte
Enterprise
Entrepreneurs Network
Expedia Group
Getaround
Institute of Chartered Accountants in England and Wales
Internet Association
OpenUK
Sharing Economy UK
Short Term Accommodation Association
Simmons & Simmons LLP
techUK
Travel Chapter
Turo
Uber
UKHospitality
Zipcar