

OpenUK's response to the UK Government's 2021 Consultation on VAT and the Sharing Economy

3rd March 2021

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?

There is no doubt that with increased ease of access to the internet facilitated by the rollout of fibre networks, 4G and 5G, as well as the rise of use of smart phones and cheap laptops / computers that the ability to access services digitally is now the cultural norm.

Whilst there is nothing particularly new about the Sharing Economy, humans have been bartering and trading services and goods for almost as long as it has been existence, prior to digital platforms many of these exchanges would have taken place on an informal basis, i.e. within family or between friends, neighbours, acquaintances.

As identified within the Call for Evidence, digital platforms now afford many individuals the ability to widen their audience. From a recipient perspective, this has widened the choice of offerings. From a provider's perspective, the low barrier to entry to a wider pool of potential recipients gives these providers a more even playing field where previously they may have struggled to be noticed. This ability to utilise digital platforms is attractive to many who are simply seeking an easy way of creating an additional income stream or for those who may not previously had an income.

As highlighted, the practical application of the current VAT framework in respect of the Sharing Economy is far from straightforward. Not only do providers not traditionally fit into the roles of dependent or independent workers, not all engage in sharing activities in a similar manner - some are for profit, some are for altruistic purposes, and reimbursement, if any given, is not always easily quantifiable in monetary terms.

Whilst there needs to be a review of the VAT framework and how it applies to the Sharing Economy, there are many considerations to take into account including the ongoing fast-paced evolution of the sector, the variety of business models, and the lack of a single agreed global definition of what the Sharing Economy is. [1]

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?

In 2020, there were 2.5 million more businesses than in 2000, an increase of 72% over the 20 year period. Of particular note, the proportion of businesses with employees has fallen since 2000 from around a third to around a quarter. Of the businesses in 2020, 15% were within the professional, scientific and technical sector. [2]

With the lower barrier to entry to going into self-employment and/or creating a business, and a rise in the need for technical and digital skills, many professionals within the scientific, engineering, and technical sectors are choosing to take on work on a contracted basis rather than as an employee. Particularly, there has been an increase in the number of IT contractors during the decade between 2009 and 2019 with a year on year increase of 8%. However, it is noted that as of 2018 there appears to have been a drop (2.4%) which has been considered as a result of IR35 reforms.

Despite this, and with the increasing prevalence of collaborative innovation spaces (including accelerators and incubators) which are designed for single entrepreneurs or small businesses [3], it has never been an easier time for many technology professionals to go it alone and move into the Sharing Economy. Not only will they contribute to the Sharing Economy by developing and maintaining the digital platforms that facilitate the exchanges, but they also participate within it as providers - offering their skills and services on a multitude of digital platforms as well as within collaborative spaces.

Some of this can be attributed to the rise in the knowledge and acceptance of Open Technology, especially with wider adoption within government in areas such as Open Data and Software. Within Open Tech, collaboration and accessibility is key and there is a growing commons-based peer production community wherein individuals exchange skills and collaborate together to create shared resources which are freely accessible and reusable by anyone, the best known instances of which are Free and Open Source Software (of particular note Covid Green, the open source code behind Ireland's Covid Contact Tracing App) and Wikipedia.

This may be an interesting model to consider as a challenge to the requirement for VAT reform considering as this approach proposes common ownership over appropriation of value, and participatory production and governance models over corporate control.

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**

There is no disagreement with the assessment of the size of the Sharing Economy as defined within the Call, however, the nature of the Sharing Economy defined is incredibly wide ranging from the purpose of the providers in engaging in the Sharing Economy to the sectors within it. It should be considered as to whether the definition and scope be refined to answer the core question of how and under what conditions VAT should apply to transactions.

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.

N/A

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.

Yes - as previously discussed, there is an increasing number of providers who will engage within the Sharing Economy either for altruistic / non-profit reasons or are simply seeking an additional income on top of a main income source or in-between. The prevalence of digital platforms and easy to use tools creates such a low barrier to entry for the exchange of goods and services that even those who would normally consider themselves not particularly well versed in digital technologies still benefit. At a minimum most providers simply need an email account to get started.

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.

N/A

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?

Consideration should be undertaken however, there will be specific challenges, some of which are outlined in the answer to Question 5. As already identified within the Call, there will be difficulties in how any solutions can be applied to in a fair, neutral, equal and consistent manner across the board, particularly in the treatment of non-UK platforms and when taking into account the complexity of the the Sharing Economy and specific sectors, particularly tourism, hospitality, and personal services. [1] [4] [5]

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?

A close examination of both sectors and business models should be considered and how each impacts any other sectors / business models. As already noted, the Sharing Economy is vast, complex and there is a view to be taken that rather than an overhaul of the entire VAT framework or insulating/isolating the Sharing Economy from the rest of the economy, which could be problematic in light of the fluid definition, that adjustments could be made to the determination of taxable persons and taxable transactions. However, again, this would be a difficult consideration to make where a clear monetary or equivalent quantification can be made regarding a transaction.

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?

Whilst, in theory, there should be a review of the cross-border place of supply rules to level the playing field, again, this could be subject to significant challenges. This has been most recently evidenced by the UK's exit from the EU with increased costs and complexity for individuals and businesses as a result of the UK no longer being part of the EU VAT regime. Additional complexity has been thrown into the mix in Northern Ireland, subject to its own set of protocols. A close examination of the impact of VAT within the context of Brexit and the

Northern Ireland Protocol should be undertaken when reviewing the cross-border place of supply rules.

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.

When considering any solution, a clear definition should be developed as to the circumstances within which VAT on commission fees should be charged. Particularly if the digital platform is facilitating altruistic or open collaboration between providers/recipients or where there is a societal or sustainability goal in mind that will benefit communities as a whole [6]. 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.

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?

Clear definitions and understandings are key but it is acknowledged that this may be a difficult task to undertake in light of the complexity of the Sharing Economy.

There also needs to be increased visibility as well as easy to understand / access information and guidance to any changes proposed especially taking into consideration the individual providers that any changes could impact, many of whom may only be participating in the Sharing Economy on a casual basis and may not have the resources or access to professional advice.

References / Reading:

[1]

https://www.ibfd.org/sites/ibfd.org/files/content/pdf/International_VAT_and_the_Sharing_Economy.pdf

[2] <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

[3]

<https://www.nesta.org.uk/blog/new-study-assesses-impact-business-accelerators-and-incubators/>

[4] <https://www.diva-portal.org/smash/get/diva2:1477987/FULLTEXT01.pdf>

[5]

https://www.researchgate.net/profile/Vasja_Roblek2/publication/301612962_Complexity_of

[a_sharing_economy_for_tourism_and_hospitality/links/5789dd1f08ae254b1d44db26/Complexy-of-a-sharing-economy-for-tourism-and-hospitality.pdf](#)

[6]

[https://www.researchgate.net/publication/328586799_Innovative_Forms_of_Economy_and_Sustainable_Urban_Development-_Sharing_Tourism](#)

[7] [https://www.mdpi.com/2199-8531/5/4/102/pdf](#)

[8] [https://www.chrisbauman.com.au/Content/Documents/Shared%20economy.pdf](#)