

**All Party Parliamentary Group for Entrepreneurship**

**Call for Evidence on the Sharing Economy**

**Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Introduction and executive summary**

- 1.1 We are pleased to have the opportunity to make a submission to the Committee's Call for Evidence on the sharing economy. We are tax professionals with extensive experience of assisting those on low incomes manage their tax affairs. We have a keen interest in the subject matter of this inquiry as many of those in the sharing economy (and in particular the gig economy) fall into this category of worker.
- 1.2 As our expertise is in taxation matters, our submission focusses on the questions raised in the 'taxation' section of the Call for Evidence where we believe we can provide constructive insight.
- 1.3 The sharing and gig economies are a big economic phenomenon that has expanded quickly in recent years and the taxing of income made in these circumstances has had to fit within the existing tax system, i.e. the Self Assessment (SA) system. However, in our experience, compliance with SA in the sharing and gig economy is at best mixed and so this could mean that some of the 'benefit' people feel from being active in the sector is illusory, as actually it is based on (often inadvertent) non-compliance with the income tax system.
- 1.4 We think the government need to think more strategically about how to tax the sharing and gig economies and consider other potential approaches. For example, a system could be introduced under which platforms could withhold a fixed percentage of the payments due to the users to cover the income tax (and, where relevant National Insurance) that would ultimately be due on the income. The platform would then pay the withheld amount to HMRC.
- 1.5 In the meantime, HMRC have a clear responsibility to advise and educate those who use online platforms to source work or generate other income about their tax obligations. This could be done by developing specific tailored guidance and other targeted tools and resources.

- 1.6 We believe the trading – and property – allowances are useful for new and small businesses/landlords, including those in the sharing economy, which often have low amounts of expenditure.
- 1.7 However, although the basic premise of the allowances is straightforward, there are some circumstances where a more detailed consideration of the allowances might mean that a claim is not beneficial and this is not always clear to unrepresented taxpayers.
- 1.8 We are also concerned there is generally a lack of awareness of these allowances among those who do not have a tax adviser acting for them, and so we would like to see better, more targeted, publicity about them from HMRC.
- 1.9 The employment status of gig workers for income tax purposes also needs to be clarified as soon as possible.
- 1.10 It is positive that the government is implementing the OECD model rules which require digital platforms to report details of the income of sellers on their platform to the tax authority and to the sellers, but we would encourage further work in this area as this is not a complete solution.

## **2 About Us**

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

## **3 Response to questions**

### **3.1 In general, do you believe the UK's approach to taxing the Sharing Economy is a help or hindrance to the sector's growth?**

3.1.1 There are actually two aspects to this question:

- (a) the UK's approach to taxing platforms in the Sharing Economy, and
- (b) the UK's approach to taxing people making money from the Sharing Economy.

3.1.2 Our comments below focus on (b) above only, and mainly the subset of people who make money by providing their services in the gig economy.

- 3.1.3 The sharing and gig economies are a big economic phenomenon that has expanded quickly in recent years and the taxing of income made in these circumstances has had to fit within the existing tax system, i.e. the Self Assessment (SA) system.
- 3.1.4 However, in our experience, compliance with SA in the sharing and gig economy is at best mixed and so this could mean that some of the ‘benefit’ people feel from being active in the sector is illusory, as actually it is based on (often inadvertent) non-compliance with the income tax system.
- 3.1.5 To explain further – in general, many people who earn their money in the sharing and gig economies may never have earned money without an employer acting as an intermediary between them and HMRC before. They can therefore find it difficult to understand and meet their tax obligations under the SA system.
- 3.1.6 SA is daunting for many people – and probably even more so for low paid gig economy workers who may be young and inexperienced, may not have good English or may have lower levels of literacy or numeracy skills. This can mean that some workers do not have a good grasp of UK tax and may not have the confidence they need to navigate the system. This has many consequences:
- They may not realise they need to register for income tax in the first place, given the irregular and often ‘on demand’ nature of the income. This can result in penalties for non-compliance.
  - Even if they register with HMRC successfully, many will not have had to complete a tax return before and are unlikely to be able to afford to engage a tax adviser to help them (despite this often being the default signpost from many online platforms).
  - Consequently, many individuals will try and do things themselves and get things wrong, which may well result in under-reporting or over-reporting.
  - If they can complete and file their tax return properly, often they will not have budgeted for their tax bill – particularly if there is also a first payment on account to pay for the following tax year and they owe more money than expected.
  - The fact they cannot afford to pay their tax bill can lead people to decide not to file their tax return at all which means they will incur automatic late filing penalties. Under the current regime, late filing of a tax return for a particular tax year can mean incurring penalties of up to £1,600, in addition to any tax due per the tax return (plus late payment penalties and interest).
- 3.1.7 Non-compliance with the SA system may well be accidental. For example, despite a government consultation several years ago<sup>1</sup> seeking views on cutting short term holiday lets out of the scope of rent-a-room relief, we think it is likely that the relief is still being used when an entire property is let out (as opposed to just a room in a property), even though this was not the original intention behind rent-a-room relief. However, given that the government response to the consultation acknowledged

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<sup>1</sup> <https://www.gov.uk/government/consultations/rent-a-room-relief>

that ‘the rules around what type of activity qualifies for [the relief] are not currently clear’<sup>1</sup> and that no clarification was made, it seems likely to us that some ‘entire house’ hosts using rent-a-room relief are likely to be doing so under the mistaken belief their situation is covered.

- 3.1.8 Where SA tax returns should be filed but are not, workers can find themselves in significant debt very quickly. This can turn into a life changing situation, including bankruptcy in some cases, if HMRC pursue collection and the worker cannot pay and/or does not engage with HMRC to resolve the issues arising. Ultimately this can threaten workers’ livelihoods and cannot be good for long term sustainable growth of the sector.
- 3.1.9 In our view, the government need to think more strategically about how to tax the sharing and gig economies and consider other potential approaches. For example, if there was a system of withholding a fixed percentage of the payments to certain gig workers by the platforms to cover the income tax and National Insurance contributions that would ultimately be due (like the CIS system for construction workers<sup>2</sup>) many of these problems could be greatly reduced. Such a system could provide clear benefits to government (to ensure people pay the right amount of tax) and taxpayers (to lift burdens) alike<sup>3</sup>.
- 3.1.10 Note that we are not suggesting tax withholding should apply to those in the sharing economy (asset selling/renting) as we recognise real differences between users of these two groups and different levels of compliance ‘risk’ attached to them. For example, those selling unwanted possessions or renting out assets (e.g. a driveway) may not attract a tax liability.
- 3.1.11 We recognise there may be differences between various types of gig work such that applying withholding may not be appropriate for everyone. However for some gig workers, such as food delivery, couriers, drivers etc, where activities can generate taxable levels of income, we believe some kind of tax withholding is desirable, given the difficulties and complexities that can exist as a matter of economic reality for those on low and modest incomes in the gig economy.
- 3.1.12 In the meantime, HMRC have a clear responsibility to advise and educate users of online platforms:
- They need to develop better, tailored guidance for the sharing and gig economies – current guidance is aimed at traditional self-employment, and many gig workers might struggle to understand and apply this to their situation.

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<sup>1</sup> Response document, page 3:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/723126/rent\\_a\\_room\\_relief\\_summary\\_of\\_responses\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723126/rent_a_room_relief_summary_of_responses_web.pdf)

<sup>2</sup> For more information on CIS see <https://www.litrg.org.uk/tax-guides/self-employment/what-construction-industry-scheme-cis>

<sup>3</sup> See our 2018 response which explores this idea in further detail and suggests further research that should be carried out around feasibility <https://www.litrg.org.uk/sites/default/files/180608-LITRG-response-online-platforms-FINAL.pdf>

- HMRC could set up a gig helpline and web chat, staffed by people well-versed in matters surrounding the gig economies so that taxpayers who attempt to reach HMRC with questions can have a productive conversation with someone about their tax issue.
- HMRC could try and be more creative e.g. by making some webinars or YouTube videos that online platforms could link to, that help people engage with their taxes.
- HMRC could develop a checklist of issues that first-time participants in gig economy work should be aware of, containing links and cross references to more detailed material on GOV.UK and that the online platforms could distribute.
- HMRC could convey messages through the online forums to point users to appropriate HMRC publications or other sources of help.
- HMRC could try and learn from the online forums about specific challenges and issues for those in the sharing/gig economies, and tailor their guidance for both taxpayers and HMRC staff accordingly.
- The search facility on GOV.UK could be configured to recognise the names of some of the more common platforms e.g. eBay, Uber, Airbnb, directing an individual using those terms in a search to an appropriate tax guidance page.

3.1.13 We appreciate that the platforms are commercial businesses and want to concentrate on helping people run and develop their activity (which is how they themselves make their money), not helping people get to grips with tax. However, if the aim is to make the UK the home for the sharing/gig economies, there is also significant scope for getting online platforms more involved in helping to create a culture of tax compliance.

**3.2 What is your view on the £1,000 trading allowance? Has it helped the Sharing Economy and should it be expanded in any way?**

3.2.1 We think the trading – and property – allowances are useful for new and small businesses/landlords, including those in the sharing economy, which often have low amounts of expenditure.

3.2.2 Although the basic premise of the allowances is relatively straightforward, there are some interactions which people starting self-employment, or who are on low incomes and cannot afford professional tax advice, may be unaware of. For example:

- you may not need to submit a SA tax return if you are entitled to full relief under the trading allowance provisions but you will still need to if you want to pay Class 2 National Insurance contributions voluntarily because your profits are under the Small Profits Threshold<sup>1</sup>;
- if you have made losses then it might be better to get tax relief for the loss than to use the trading allowance;
- if your expenses are greater than the allowance, then you should not claim the allowance if it means you will pay more tax.

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<sup>1</sup> You may want to do this to maintain your national insurance record in case of future welfare benefits claims and state pension entitlement.

- 3.2.3 There also appears to be some general confusion from unrepresented taxpayers on whether the allowances apply to profits rather than sales and/or rental income.
- 3.2.4 We are concerned that some people who could benefit from using these allowances do not actually know about them, as from our experience when dealing with the newly self-employed and small businesses/landlords, there is a lack of awareness about the allowances. A greater understanding of who is potentially missing out would help with targeting communications amongst the sharing economy, possibly working alongside digital platforms to promote the allowances and explain the interactions with state benefits such as tax credits, universal credit (UC) and maternity allowance.<sup>1</sup> Often these interactions can be tricky – for example, the trading allowance does not apply when working out self-employment income to be reported for UC, so this could confuse benefits claimants.
- 3.2.5 The amount of the relief (£1,000) has not increased since the trading and property allowances were introduced in the 2017/18 tax year. So that the value of these allowances does not diminish over time, we recommend that they are uprated automatically each tax year.
- 3.3 **Are there any other issues relating to taxation of the sharing economy that you believe we should be aware of?**
- 3.3.1 There is a longstanding question as to whether workers in the gig economy are truly self-employed or whether they are the employees of the platforms they work for. This question has been thrown into even sharper focus by the recent decision that Uber drivers were ‘workers’ and not self-employed for employment law purposes. Although this does not copy across to the tax regime directly, it suggests that their ‘self-employment’ status for tax may not be clear cut. (We note questions around this are included in the ‘regulation’ section of the call for evidence, but we comment here specifically on the tax-related issues of this matter.)
- 3.3.2 The law says that ‘employees’ should be taxed under PAYE operated by their employers – there are obviously costs and obligations for platforms associated with this - employers’ National Insurance (NIC) in particular can cause distortive hiring behaviour.
- 3.3.3 However, on the other hand, there is a cohort of potentially vulnerable workers who often do not have much autonomy and cannot really be said to be in business on their own account. So, behind the innovative technology and new language of ‘tasks’ and ‘rides’ etc., there remains the age-old problem – the workers are not genuinely self-employed but are being forced down this route by businesses looking to minimise their costs and obligations.
- 3.3.4 It may be that once you look at platforms’ business models and apply the law to the facts, many of these workers are actually self-employed for tax purposes. However, the lack of certainty is a

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<sup>1</sup> For the 12 month period 1 August 2020 to 31 July 2021 the LITRG website had over 100,000 page views on its trading allowance and property allowance pages: <https://www.litrg.org.uk/tax-guides/self-employment/what-trading-allowance> and <https://www.litrg.org.uk/tax-guides/savers-property-owners-and-other-tax-issues/property-income/renting-out-property>

problem. In the absence of the legal tests being clarified to provide certainty, HMRC taking a tax test case to the courts might provide some clarification (although these types of cases are often fact-specific in terms of the contractual arrangements and may not therefore provide the certainty that is needed).

**3.4 Are there any examples of best practice in the taxation of the sharing economy from other countries?**

3.4.1 HMRC set out some examples of other countries and potential approaches in their Call for Evidence ‘The role of online platforms in ensuring tax compliance by their users’ in 2018<sup>1</sup> and asked questions around this:

*“4.4 For example, in France, platforms must provide users with a description of their obligations in relation to each transaction (e.g., the tax applicable to the amounts charged by users through the platform, reporting and payment obligations) as well as providing the user with an annual statement of gross income. Further action has been taken that will require online platforms to report similar information directly to tax authorities from 2019.*

*4.5 Estonia has enabled voluntary reporting from some online platforms, allowing users to opt in to having data sent to the Tax and Customs Board to allow prepopulation of returns, making it much easier for those users to confirm their income. Further action has been taken to allow users to open special business bank accounts that will include automatic reporting and payments (20% below 25,000 euros and 40% above that level) to cover income tax, social tax, and mandatory pension contributions. Those taking advantage of this service will not need to register with the Estonian Tax and Customs Board or complete returns.*

*4.6 For those providing services (rather than goods or access to property), Belgium has introduced a new tax rate for those making less than 5,000 euros. The rate is nominally set at 20%, but the rules for expenses and deductions mean that the effective rate is 10%. Platforms that are eligible withhold 10% of gross payments to those who qualify. The users are not then required to register as a business and will receive an annual statement from the platform showing the services provided as well as the gross income and the amount withheld.”*

3.4.2 Unfortunately, the only tangible outcome of that consultation process, was the development of a ‘decision-based guidance’ tool.

3.4.3 In a recent development in this area however, the government is implementing the OECD model rules<sup>2</sup> which require digital platforms to report details of the income of sellers on their platform to

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<sup>1</sup> The role of online platforms in ensuring tax compliance by their users, consultation paper published 13 March 2018, page 12, see <https://www.gov.uk/government/consultations/online-platforms-role-in-ensuring-tax-compliance-by-their-users>

<sup>2</sup> The government is currently consulting on the implementation of the Organisation for Economic Co-operation and Development (OECD) Model Reporting Rules for Digital Platforms:

the tax authority and to the sellers. They are currently consulting on the optional elements and the UK's proposed implementation of the rules.

- 3.4.4 In summary, from January 2023, digital platforms that facilitate the online selling of goods and services will have a responsibility to:
- Collect certain details about sellers, including information that identifies who the seller is, where they are based and how much they have earned via the platform annually.
  - Report this and the seller's income to HMRC every year by 31 January, presumably so that HMRC can monitor workers' tax compliance.
  - Pass this onto the seller themselves, which can be used to help them meet their tax obligations, such as to complete their tax returns.
- 3.4.5 Once this is under way, it is important that HMRC make use of the information they receive in a timely manner to encourage tax compliance and do not leave it in abeyance for many years before taking action at a much later stage as this is not helpful. It is also very important that the workers understand the significance of the information that is given to them by the platforms so there is less chance they will just put it in a drawer and do nothing with it.
- 3.4.6 We are not convinced the changes above will be a complete solution, so we would urge the UK authorities to keep working in this space.

LITRG  
10 September 2021

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<https://www.oecd.org/tax/exchange-of-tax-information/model-reporting-rules-for-digital-platforms-international-exchange-framework-and-optional-module-for-sale-of-goods.pdf>