VAT and the sharing economy

Indirect Tax

31 March 2021

The CIOT met with representatives from HM Treasury and HM Revenue & Customs to discuss the questions and arising issues in the call for evidence on VAT and the Sharing Economy.

The call for evidence, 'VAT and the Sharing Economy' (see tinyurl.com/52k5ed4k) looked at the various challenges that are, or at risk of, impacting the VAT base.

Our volunteer representatives – VAT specialists working in industry or practice experienced with the sharing economy and/or agent-principal arrangements – shared their views, focusing on the following areas:

Digital platforms

We noted the key risk areas to the VAT base with digital platforms:

- The digital platform is based overseas and the place of supply of its services are outside the scope of UK VAT compared to a domestic digital platform. **Review point:** Where this position creates an unfair VAT advantage over domestic suppliers, should the VAT rules be amended so that the place of supply becomes the UK and a local VAT registration required; e.g. via use and enjoyment rules?However, should this be limited to circumstances only where the digital platform has underlying suppliers that do not account for a reverse charge on the commissions?

- The digital platform's income comes from agency commissions charged to the underlying supplier rather than the gross income received from the consumer. **Review point:** A sharing economy business model may produce the same VAT reporting position to supplies outside of a sharing economy business model, and both business models are thought to be producing a detrimental impact to VAT receipts. The CIOT's view was that the VAT rules for the sharing economy should neither advantage nor disadvantage one over the other, where factors

other than the use of a digital platform are essentially the same.

Underlying suppliers

A key consideration when considering the underlying suppliers in a sharing economy business model is whether or not they are registered for VAT. Where unregistered underlying suppliers impact the VAT base, an obvious review area would be the VAT registration threshold.

The CIOT would be very cautious about introducing changes that remove tax simplification from small or micro businesses or that result in complex anti-avoidance provisions for these businesses. We noted that the VAT registration threshold has been the subject of review by the Office of Tax Simplification and a separate consultation in 2018, where the CIOT and ATT submitted a joint response (see tinyurl.com/m6eerhs), as well as the results of its member survey.

Agency vs principal guidance

The guidance in VAT manuals for principal vs agent rules can be difficult to understand and our feedback included that this area of guidance should be reviewed and updated to improve certainty, simplicity and clarity for taxpayers. Further, if there is any interaction with other taxes that could impact the agency arrangements in respect of VAT, this should also be highlighted.

Working Group

The CIOT would like to see a Working Group set up to include representatives from the relevant governmental departments and stakeholders from industry, practice and representative bodies, so there is regular engagement on the arising VAT issues throughout the consultation process. Our views raised in the meeting were collated into our written submission which can be found on our website.