Reporting rules for digital platforms: HMRC consultation

Management of taxes | Personal tax

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The CIOT and LITRG have responded to HMRC's consultation document which explored how the UK government will implement the OECD's Model Reporting Rules for Digital Platforms, which require certain UK digital platforms to report information to HMRC about the income of sellers of services on their platform.

HMRC will exchange the information with the other participating tax authorities for the jurisdictions where the sellers are tax resident. Digital platforms in participating jurisdictions will be required to provide a copy of the information to the sellers to help them comply with their tax obligations. The reporting rules will come into force from January 2023 at the earliest.

In its response, the CIOT says that overall the proposals look reasonable and in line with the OECD model rules. It is particularly welcome that reports must be made to sellers as well as the tax authority since this will help to drive compliance.

We note that the definition of 'personal services' is very broad. This may lead to difficulties in determining who is caught by these rules. HMRC need to provide more clarification in their guidance about who is included and who is excluded.

We support HMRC's suggestion to introduce a new 'verification' service, which sellers could use to generate a bespoke code or reference number that could be used as a tax identification number (TIN). Ideally, the verification service should be operational in time for the commencement of the rules in January 2023 so HMRC should ensure that sufficient resources are allocated as soon as a decision is made (to introduce the new service) in order to make this possible.

Changing the UK's tax year to 31 December would address the timing issues caused by reporting platforms having to report information by 31 January for the calendar

year just ended
to HMRC and to each reportable seller. As the consultation document acknowledges, the reporting deadline in the model rules does not fit well with the 31 January deadline for filing a UK self-assessment tax return. In general, however, we think annual statements will not be as helpful as more timely information, particularly with the introduction of Making Tax Digital for Income Tax Self-Assessment in April 2024, which will require UK traders to keep records up to date and submit information to HMRC quarterly.

The data should be presented to the sellers by the platform operators in an easily understandable and usable format. We suggest that it might be appropriate for HMRC to specify the title, format and content of the report that is presented to sellers.

HMRC could consider working more closely with online platforms from an educative/guidance point of view, as people might be more receptive to messages about their potential UK tax obligations from the online platforms rather than HMRC. However, UK tax rules around the tax consequences of assets held or income arising overseas are complex. We do not think it is reasonable to expect platform operators to provide relevant information to their sellers on this. There is a strong case for improving the GOV.UK guidance in this area.

In its response, LITRG say the new rules do have the potential to help tackle the problems identified of income not always being visible to tax authorities and taxpayers not always self-reporting. However, we caution that the rules will not be a complete solution, particularly if HMRC do not use the information they receive in a timely manner. Crucially, HMRC will also need to help taxpayers understand that they still have a responsibility to check for income not captured on any statement they receive.

HMRC should be aware that for various reasons (that we explain in our response), the information collected is likely to highlight significant mismatches in terms of income generated versus transactions/activities which have been declared to HMRC. Obviously, HMRC will need to be adequately resourced to deal with all issues that could arise from the introduction of these rules, including this.

Additionally, with our eye – as ever – on the practicalities, in our response, we highlight some other points we have identified around HMRC’s proposed

implementation of the rules. For example, we wonder if the operational cost for platforms in complying with the new burdens put on them are likely to ultimately be passed on to workers, which could result in some of them moving ‘off platform’ to sell their goods and services.

Although not specifically mentioned in the consultation document, we also air some concerns about the potential for this data to be used by the authorities for other purposes (for example, universal credit).

The CIOT’s response can be found here: www.tax.org.uk/ref832

LITRG’s response can be found here: www.litrg.org.uk/ref2569