

Online Platforms – the changing landscape for the self-employed

A position paper by
The Low Incomes Tax Reform Group



Executive summary

The use of online platforms like eBay, Uber and Deliveroo as a way of making money has grown and developed substantially since the late-2010s.

Those making money through online platforms – whether it is their main source of income or an additional source (or ‘side hustle’) – may need to declare this income to HMRC and there may be income tax and National Insurance contributions (NIC) due. For some, the extra income they make could have implications for the benefits they may also be receiving.

LITRG is concerned that some people do not know about the potential tax implications associated with earning money through online platforms. Even if they are aware, these people very often don’t fully understand their tax and NIC position, resulting in a higher risk of errors and non-compliance. This situation was exacerbated at the start of 2024 when new rules were introduced requiring online platforms to provide HMRC with information on income earned by some platform users.

The way this news was covered fuelled inaccurate reports, amplified on social media, of a new ‘side hustle tax’. There is no new tax, but platform users do have a responsibility to report and pay any taxes that are due and HMRC need to be able to provide them with the information they need to do so.

Very often, people using online platforms to sell goods and services have low incomes and, for a variety of different reasons, complex tax affairs. This usually means that when they encounter a tax issue, they are less likely to be able to afford the help of a professional tax adviser and more likely to need to turn to HMRC for advice and support.

Use of online platforms to earn money has increased at pace, but HMRC’s approach to the taxation of this income has failed to match its evolution. Guidance can be difficult to understand, apply and follow and this can have consequences for both HMRC and online traders.

In this paper, LITRG sets out how the experience of the tax system for online traders can be improved. Our aim is to ensure that taxpayers understand what they need to do to get their tax affairs right and that HMRC can provide them with the information they need. We believe the solutions we propose could increase tax compliance and in turn reduce the tax gap for this sector of the self-employed economy.

Our recommendations include:

- **Targeted awareness raising, better guidance and proactive support from HMRC** so that online traders can better understand and comply with their tax obligations.
- **Common reporting requirements** standardising the processes and terminologies that online platforms should follow when reporting sellers' income and expenses. This can help taxpayers ensure they get their tax right.
- **The need for a considered approach from HMRC to historic non-compliance and future compliance activity** as it is possible there may be high levels of historic non-compliance and there are a number of options HMRC could consider to deal with this and get people compliant going forward.
- **More alignment between HMRC and the Department for Work and Pensions (DWP) rules** recognising that some online traders in receipt of benefits will have to follow different sets of rules when reporting their income for tax and benefit purposes. Better guidance is also needed specific to online platform users to make clear how that is treated for universal credit.

About us

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 who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

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.

Background

The use of online (digital) platforms has risen significantly over recent years as part of the growth of the gig economy. Although there is no official government definition of the gig economy, many definitions refer to the matching of labour or services rather than selling goods.

This paper focuses on the use of online platforms by individuals to:

- sell goods; and/or
- provide services

as part of a small business or venture in that nature.

The individuals referred to in this paper are not those who are selling used and unwanted personal items via online platforms. Our focus is on those who are using online platforms as a medium for 'trading' who would usually be classed as self-employed for tax purposes, although they may not recognise this. This is the case whether the trading is the main source of income or an additional source (sometimes called a 'side hustle') or even where it is made up from multiple small amounts of income earned using different platforms. Examples of the types of self-employed businesses using online platforms to trade include:

- Individuals making craft products to sell on Etsy
- Delivery drivers/riders for Deliveroo or Uber Eats
- Freelancers using online platforms such as Upwork to find project work in areas such as copywriting or marketing
- Social media influencers posting videos reviewing products on Instagram
- Individuals selling TikTok shop items as affiliates (some will produce and sell the product and others will promote products via the online platform)

LITRG is concerned that some people trading through online platforms do not always recognise they are trading and may be subject to tax and/or National Insurance contributions (NIC); or even if they do realise they are trading, they do not fully understand their tax and NIC position resulting in a higher risk of errors and non-compliance. This in turn could be contributing to the current tax gap.

However, we believe the solutions we set out in this paper could increase tax compliance and in turn reduce the tax gap for this sector of the self-employed economy.

For the purpose of this position paper any references to using online platforms is in relation to individual ‘online traders’ who use platforms to sell goods and services as a self-employed business (sole trader) and who cannot afford professional tax advice. Also, any references to tax and tax obligations includes Class 2 and Class 4 NIC.

It is a misconception that people with low incomes always have simple tax affairs. Many online traders earn their money from various sources which means they need to understand the tax system and their obligations in greater depth when compared with a full-time employee who should have their tax calculated and deducted for them via the PAYE system. Self-employment involves additional tax obligations when compared to those of a full-time employee such as registering with HMRC, keeping accounting records, completing self assessment tax returns and paying any tax or NIC due. Additionally, some self-employed individuals will have to comply with the new Making Tax Digital for income tax system when it is introduced from April 2026.

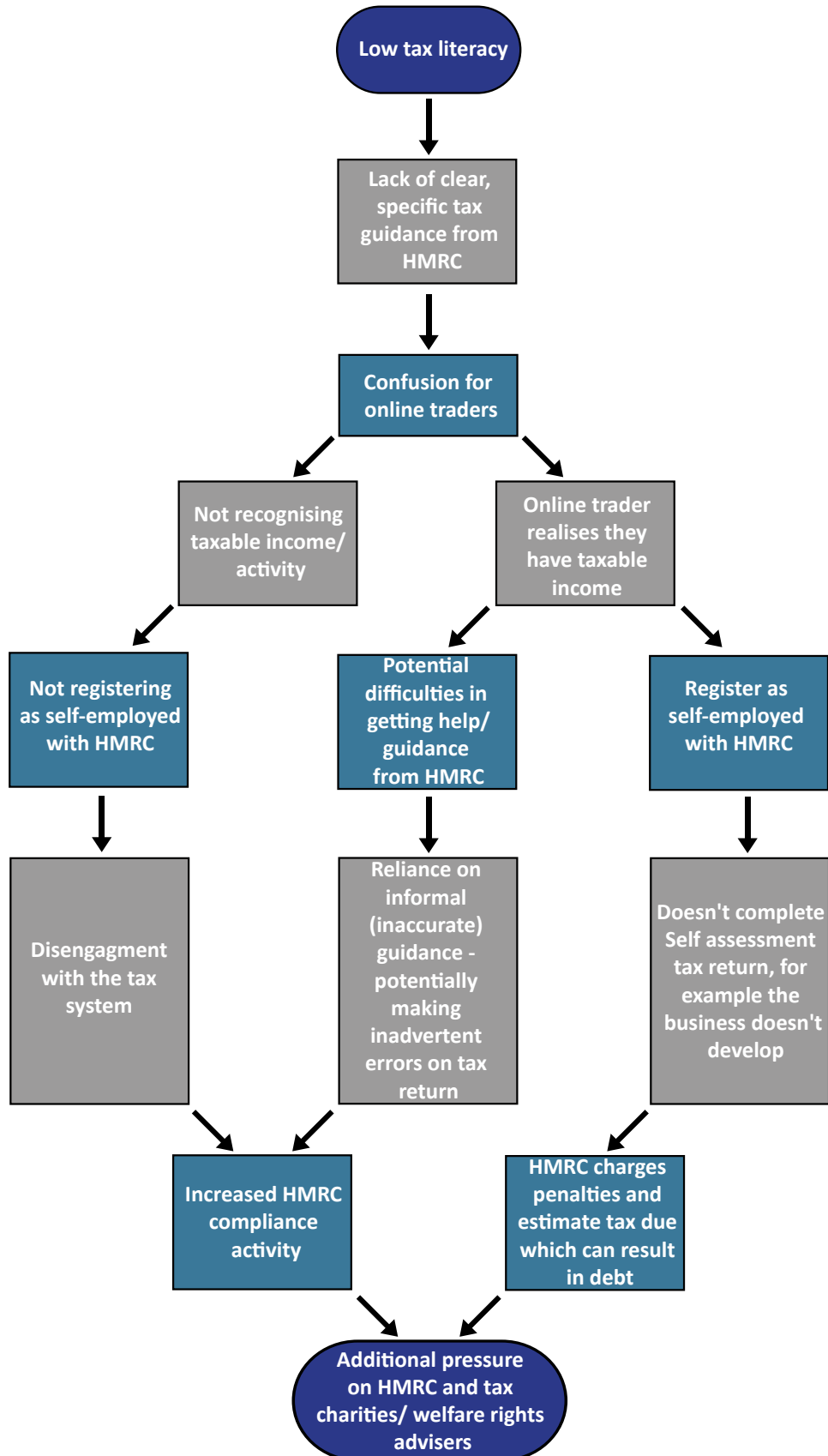
Some online traders earn a low income and cannot afford the services of a professional tax adviser. This means they must rely on the guidance provided by HMRC and whatever information (if any) the platform operators themselves provide to understand that tax may be relevant and to then ensure their tax affairs are correct. They may also be more likely to have characteristics that can impact their ability to navigate the tax system such as being young with less experience of tax and the tax system or having English as a second language.

This paper focuses on three areas where we think improvements are needed to make it easier for online traders to deal with their tax and tax-related benefits issues. We explain why these areas matter and put forward our proposed solutions which we hope will help to reduce the potential level of non-compliance in this sector. These areas, which are explained in more detail below, cover:

- A current lack of targeted guidance and pro-active support from HMRC (page 8)
- OECD reporting information and lack of help from online platforms (page 14)
- Misalignment of self-employment reporting rules for tax and universal credit purposes (page 23)

It is important to realise that because of the issues discussed in this paper, there can be a spiral effect resulting in some low earning and/or vulnerable people having serious problems with HMRC - often where there is little or no outstanding tax at stake. This is illustrated in the flowchart below.

Flowchart showing the pathways to non-compliance



As shown by the flow chart above, this chain reaction starts with a general low level of tax literacy which means some people don't realise tax is relevant to their activity. This absence of understanding about tax is then compounded by a lack of good, clear, specific tax guidance or help from both HMRC and the platform operators once the taxable activity starts. This causes confusion or miscomprehension among online traders. This cascades into individuals either not recognising what they are doing is a taxable activity and not engaging with the tax system or recognising that what they are doing is taxable but making inadvertent errors with their tax (and benefit) position.

Pro-active online traders may attempt to contact HMRC and so drive up HMRC contacts at a time when HMRC's customer services are already struggling to cope with demand. Online traders who are not proactive, or who fail to get relevant help from HMRC or the online platforms, may rely on informal and potentially incorrect sources of tax guidance such as friends, inaccurate media reports or internet forums.

These circumstances can lead to an increase in non-compliance through inadvertent errors or disengagement with the tax system, for example by not registering to file tax returns. This can then bring about increased HMRC resource to deal with the ensuing compliance activity and pressure on tax charities and welfare rights advisers who try to help these individuals get their tax position correct.

There is also another scenario where the online trader has registered as self-employed with HMRC and tax returns have been issued but then they have not been completed and filed by the trader. This can happen for various reasons, for example, the online trade didn't take-off, so the trader earned less than the trading allowance and thought they didn't need to file the tax return. In this situation, people can sometimes find themselves in significant debt very quickly, often due to late filing penalties arising from not submitting their tax returns. This can turn into a life-changing situation, including bankruptcy in some cases, if HMRC pursue collection and the individual cannot pay and/or does not engage with HMRC to resolve the issues arising. Such situations cannot be good for the long-term sustainable growth of the online trading sector.

A current lack of targeted guidance and pro-active support from HMRC

What is the issue?

While the use of online trading has increased significantlyⁱⁱ, HMRC's approach to help this growing sector has remained pretty much unchanged. There is little specific guidance for online traders, and they are expected to understand their tax affairs by mainly using guidance designed for 'traditional' self-employments in a 'traditional' format. This means there are gaps in the guidance on areas that are bespoke to the gig economy. Where it does exist, usually in the form of written, static guidanceⁱⁱⁱ it can be more difficult for unrepresented online traders to understand, apply and follow.

This all came to a head at the beginning of 2024 with numerous media reports^{iv}, some incorrectly suggesting there was a new 'side hustle tax'. From that we saw growing confusion and worry from those selling via online platforms about whether they were trading and what their tax obligations were. This resulted in HMRC rushing to publish some guidance and a video^v to help worried platform users – many of whom were not trading at all but selling personal items such as unwanted clothes and toys.

However, despite this initial activity in response to the various media reports, there is still a need for further detailed guidance, specifically for online traders in the following five areas.

1. Understanding whether an online seller is trading

The tax position is different if selling used or unwanted personal items compared to regular buying and selling goods with a view to making a profit or selling services (trading). Sometimes it may not be easy to identify when one turns into the other. Also, some people do not recognise their activity is actually self-employment such as making videos to earn money from views. Or they may not realise that despite not trading their activity is still taxable, for example whilst they may realise that selling personal items is not trading, they may under certain circumstances be subject to capital gains tax.

2. Understanding the importance of reporting gross income and deducting expenses instead of using net income

Gross income is sales proceeds or earnings from services before any deductions such as platform fees. It is important to identify gross income separately and as the starting point when considering an online trader's tax obligations. This is because gross income is used for tax thresholds such as the trading allowance (see below), VAT registration^{vi} and Making Tax Digital for income tax^{vii} (which will be introduced from April 2026).

Some online traders will be incorrectly using their net income amount instead of gross income as their starting point. Net income is gross income less any expenses directly deducted such as platform fees. This is because the net income amount is easily identifiable either on the online trader's monthly statement (see heading below - OECD reporting information and lack of help from online platforms) or as the amount the online trader actually receives into their bank account from the platforms (who deduct their fees, a tax-deductible expense, before passing on the residual payment). Although the overall taxable profit figure should be correct if net income is used (unless they mistakenly double count the already deducted fees again), the gross sales income will be inaccurate. This could mean important tax thresholds are inadvertently breached, so the overall tax compliance position could be incorrect.

3. Understanding the correct use of the trading allowance

There are two types of tax relief available if using the trading allowance – full and partial relief.

General awareness of full relief appears to be high, in that some online traders know that if their gross income is £1,000 or less from trading, casual or miscellaneous activities, you do not need to pay tax on it or register for self assessment nor complete a tax return (unless there is another reason to do so). However, there can be misunderstandings on how full relief works such as:

- the trading allowance is based on gross income and not net income (as explained above and illustrated in the example of Gabby below)
- there is only one trading allowance available regardless of the number of trades and/or sources of miscellaneous income (meaning it may not be available for an already self-employed person to cover a side hustle)
- there is no corresponding trading allowance available for universal credit claimants (see heading below- Misalignment of self-employment reporting rules for tax and universal credit purposes)

Example - working out gross income

Gabby is employed but makes and sells crafts to supplement her income. During the tax year, Gabby receives payments of £892.50 direct to her bank account from an online platform she uses to sell her craft goods. However, the platform charges 15% fees to sell Gabby's products and they deduct this from the income received from the sale of her goods before they pay her.

Gabby's actual sales income is £1,050 therefore the online platform fees are 15% of £1,050 = £157.50. So, the amount she receives into her bank account is: £1,050 - £157.50 = £892.50.

Because Gabby's gross trading income of £1,050 is more than £1,000, Gabby is **not** eligible for full relief trading allowance. HMRC will expect her to register for self assessment and complete a tax return. However, Gabby can still claim **partial relief** trading allowance on her tax return (instead of her actual expenses) which will reduce her trading income to £50 (£1,050 - £1,000 = £50).

In LITRG's experience, partial relief is less well known by unrepresented taxpayers. Partial relief can be used when gross income is above the £1,000 trading allowance threshold (as illustrated in the example above). The individual must register for self assessment and complete a tax return, but a deduction of up to the full amount of the trading allowance can be claimed instead of deducting business expenses. This can be helpful if actual expenses are low.

4. Understanding how to treat income earned from substitutes

Some platform operators allow online traders to use substitutes to perform work on their behalf.^{viii} The online trader will receive the income and should then pay the substitute for their work (either by cash or bank transfer). This needs to be reflected correctly in their self-employment accounts and self assessment tax return by:

- including the substitute's income within the trader's own gross income, and
- deducting the payment to the substitute as a business expense,

so that their gross income position is correct (as explained in the section above on reporting gross income).

5. Understanding the importance of timing of payments if using the cash basis of preparing accounts

Use of the cash basis can simplify the reporting of self-employment income and expenses on tax returns. The basic cash basis guidance is relatively easy to understand and apply to most 'traditional' self-employment trades. However, the

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use of online platforms leads to scenarios which were not as prevalent when the cash basis was first introduced in 2013. Unfortunately, the current guidance on GOV.UK does not provide any information to help online traders understand the following crucial areas:

- there is often a considerable delay between the sale of goods and services via an online platform and the net income being paid into the online trader's bank account. Some platforms can hold income for long periods (3 months or longer) if there is an issue with a trader's online account
- some online traders use an intermediary payment app such as PayPal as well as their bank account, creating another accounting step to consider when using the cash basis
- most platforms deduct expenses before the net income payment is made to the online trader's bank account (see above for more information on the use of net income)
- some platforms transfer net income at different time periods or when a threshold has been met, so the money paid into the online trader's bank account does not link clearly to a particular transaction(s)
- some online platforms or intermediary payments apps allow online traders to pay for goods (both for business and personal purposes) using their account balance – in which case the income may never reach their bank account.

The current lack of guidance in these key areas is hindering online traders from properly understanding their tax position and driving them to contact HMRC for help.^{ix}

Why does it matter?

Unrepresented taxpayers rely on official guidance to understand and comply correctly with the tax system. HMRC acknowledge this as part of their Charter which states 'We'll give you accurate, consistent and clear information. This will help you meet your obligations, and understand your rights and what you can claim'.^x

HMRC's customer service levels are at an all-time low and HMRC's strategy is based around encouraging as many people as possible to self-serve through digital services, which includes the guidance on GOV.UK. As we have described above, this is currently inadequate for this cohort. Attempts to contact HMRC via other digital channels, such as the digital assistant or customer forums may simply confuse people (as shown in the example below). HMRC's own research shows that people want reassurance and confidence that they are doing things right and it is that lack of reassurance that generates contact on the phone.^{xi}

Example - HMRC'S digital assistant

LITRG tested HMRC'S digital assistant with the following question 'I have just started a delivery job, how do I register for my taxes'.^{xii} The response was:

"I don't have an answer to that question.

You can:

- [search GOV.UK](#) (opens in a new tab)
- [find out more about HMRC services and information](#) (opens in a new tab)
- [end this chat](#)"

It is also not obvious in this response that the individual can type 'speak to an adviser' (or something similar) to continue on to speak to a webchat adviser. We have highlighted this problem with the digital assistant to HMRC several times and urged them to make the webchat option clearer. If there is insufficient guidance available from HMRC and people are unable to easily contact HMRC^{xiii}, then mistakes will occur. Individuals may try to find help from other sources which may be incorrect, for example from well-meaning but inaccurate social media forum posts.

As the flowchart above shows, there is often a chain-reaction if good, accessible guidance is not available.

What are the solutions?

HMRC should have a dedicated team who are responsible for this growing sector of self-employment. This team should include members from existing HMRC teams such as guidance, small business and trading policy, exchange of information policy (covering the new OECD rules relating to the reporting of sales information by platforms which we consider further below) and compliance.

We think HMRC should develop a pro-active strategy to pre-empt and respond to online trader tax issues in a timely manner. HMRC should do this by:

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1. helping people using online platforms understand whether their activity is going to be taxable
2. if it is taxable, helping these people comply with their tax obligations.

To assist with the first point HMRC should not assume people will realise they may have a tax obligation and therefore search GOV.UK to establish their tax position. HMRC need to be pro-actively raising awareness by using communication channels such as social media or via the online platforms themselves so their users become familiar with any potential tax responsibilities they may have.

Regarding the second point, HMRC should produce and promote specific and substantive guidance to enable unrepresented online traders to understand their tax responsibilities.^{xiv} At the very least, the detailed guidance should cover the five main 'pitfall' areas explained above.

For example, regarding the confusion on the timing of payments when using the cash basis, HMRC may consider a number of ways to use the cash basis as acceptable as long as they are used consistently. However, we think guidance that draws out these different ways, alongside examples, will give people the certainty and confidence they need that they are doing things correctly without the need to contact HMRC. It will also help when it comes to compliance cases if there is clear guidance available for compliance officers and taxpayers to refer to.

This specific guidance should not just be contained as static written information on GOV.UK but also delivered using various mediums to reach the largest numbers of online traders including posting videos on relevant social media forums and promoted posts on 'frequently asked questions' sections of online platforms. HMRC should also proactively highlight and link to guidance from their customer forums and X (Twitter) accounts.

The timing of this guidance is important as it needs to be in place before the first OECD reports are sent to online traders in January 2025, as explained under the heading below, so HMRC should have their taxpayer guidance available and promoted before then. Given the likely media interest, they should also have briefed media about the reports and their available guidance before this timeframe. They should also produce guidance that can be used and disseminated by the online platforms. This will mean concerned online platform users can easily find information about the OECD reports to understand what they mean and any appropriate calls for action they will need to undertake.

OECD reporting information and lack of help from online platforms

What is the issue?

Many online traders will use more than one platform to sell their goods or services. Some online sellers may in addition to using platforms for their trading activities also use the same platforms to sell unwanted personal possessions (which as explained above are usually not subject to tax).^{xv}

However, platforms are run independently of others and so may have different policies and procedures on areas such as commission and the timing of payments to sellers after a sale is processed. Different platforms contain varying quality of tax guidance for online traders trying to understand their tax position.^{xvi} They also provide reports showing the online trader what they have earned within the platform and had deducted through fees etc, in different formats.

The variation in rules, guidance and reports across the different platforms can lead to online traders being presented with inconsistent information, misinterpreting the information and/or misunderstanding the tax rules or their application, resulting in errors. Areas of concern include:

- unintelligible numbers – see example below
- working out gross income especially if close to certain tax thresholds such as the trading allowance or VAT registration (as explained under the heading above, Understanding the importance of reporting gross income and deducting expenses instead of using net income)
- timing of payments especially if using the cash basis to complete tax returns

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Example – unintelligible numbers

All activities

Date	Type	Description	Amount	Fee and tax	Net	Balance
31 Aug 2023	VAT	VAT processing fee (order no #1234)	-	-£0.20	-£0.20	£45.97
31 Aug 2023	VAT	VAT: Regulatory Operating fee	-	-£0.01	-£0.01	£46.17
31 Aug 2023	VAT	VAT: transaction transaction (#A5678)	-	-£0.26	-£0.26	£46.18
31 Aug 2023	Fee	Regulatory Operating fee (order no #1234) 0.32% of the order total (excluding tax)	-	-£0.06	-£0.06	£46.44
31 Aug 2023	Fee	Transaction fee: X Product (order no #1234) 6.5% of item total	-	-£1.30	-£1.30	£46.50
31 Aug 2023	Fee	Processing fee (order no #1234) 4% of the order total plus £0.20	-	-£1.00	-£1.00	£47.80
31 Aug 2023	Sale	Payment for Order #1234 Issue a refund	£19.99	-	£19.99	£48.80
31 Aug 2023	VAT	VAT: auto-renew sold: #B3456	-	£0.03	£0.03	£28.81

Monthly statement
Activity summary
August 2023

Your **net profit** on XXXX platform for August 2023 was **£118.14**

Sales and fees			
Sales	£147.93	Fees	-£20.82
Seller services			
Marketing	£0.00	Delivery	-£8.97

The tables above show information from an online platform account.

The top table shows a 'typical' list of transactions that an online trader will receive such as payment from a customer but also platform fees deducted for order processing, transactions and VAT. The column on the right-hand side shows the updated amount of the online trader's earnings currently held within the platform.

The bottom table is a monthly statement based on transactions such as the ones detailed in the top table. The net income position is the amount described as net profit of £118.14 and is calculated as sales (which is gross income) of £147.93 less platform fees £20.82 and delivery costs of £8.97.

The monthly statement shows why the online trader is drawn to the more prominent net income (net profit) figure which can cause confusion and result in errors, as explained above under the heading - Understanding the importance of reporting gross income and deducting expenses instead of using net income. Also, it may not be the case that net income of £118.14 is the amount paid into the online trader's bank or PayPal account or transferred at different times or when a threshold has been reached. This may cause further confusion for the online trader when trying to reconcile the platform monthly statements to their bank receipts in order to prepare an accurate tax return.

The new OECD reporting requirements require most online platforms to notify HMRC where an online trader selling goods has earned more than €2,000 or had more than 30 transactions over a calendar year. The online platforms also need to provide sellers with a report. First reports for both HMRC and some online traders will be due in January 2025 for calendar year 2024. Therefore, we anticipate that online traders not fully understanding their tax position will become a more visible and significantly larger problem from January 2025.

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We believe the reports will cause great confusion for online traders (and possibly HMRC) for the following reasons:

1. The information in the reports will not distinguish between trading and non-trading activities

As explained above there may be some online traders who are also using platforms to sell unwanted personal possessions. These online traders will have taxable activities (from trading) and potentially non-taxable activities (for example, selling unwanted items which do not fall under the capital gains tax rules).

The OECD reports sent to HMRC and platform users will not be able to distinguish between these activities because the platform operators will not know the seller's intention for each transaction. However, this will make it more difficult for both online traders and HMRC to use the information in the reports to check the individual's tax position is correct. It could also lead to issues for non-trading platform users if HMRC start a compliance enquiry based on information from the reports. An example of how this can affect a non-trading platform user is shown below (from an email sent to the LITRG website in February 2024).

Please can you help as I'm not sure where to go or what to do and HMRC are not helping.

Originally in 2022 I received a letter from HMRC about sales from online marketplace sales as they have stated that they had received 3rd party data that I'm selling and what appears to be operating a side hustle.

I contacted them at the time as they provided a disclosure document which I completed and confirmed that I was only selling my own personal items.

At the time I thought nothing more of it after completing that disclosure only to receive a follow up letter a year later to say that they didn't receive my original disclosure.

I contacted them and they confirmed that they hadn't received it and suggested that [I] email instead to confirm which I did.

A few days later I received a response where they still didn't believe me and wanted evidence, when calling I was told that I need to provide data from 2017 all the way up to this tax year. I explained that I wouldn't have receipts this far back [f]or my personal item[s] which I don't.

They told me to provide a sample of data.

I then produced a spreadsheet showing all the data I could obtain from Feb 2022 up to today's date, which I provided the original receipt for the items purchased along with the data from <platform> and another site that I had sold my personal items on. While I had sold a very large amount of items they were all my own personal items.

HMRC have now written back to me to say the evidenced I have provided is not sufficient and I still need to go back to tax years all the way back to 2018 even though I explained I couldn't do this and that I only sell my personal items which I feel I provided more than sufficient evidence that I'm not selling as a business or to make profit.

What do I do?

2. The information in the reports will be for a calendar year and not a tax year

Under the new basis period reform rules, the self-employed are required to prepare their tax returns using a tax year basis for their self-employment profits. This means the OECD reporting information received from the platforms will be for a different time period to the information required by the online trader for their tax returns. We think the timing of receiving the reports (during January 2025) will add to the confusion due to the impending 2023/24 tax return online filing deadline for self assessment taxpayers (31 January 2025). Indeed, we are concerned some online traders will mistakenly copy across the 2024 figures from the OECD statement into the tax return they are in the process of completing (that require the figures from 6 April 2023 to 5 April 2024).

The new rules are intended to lead to greater transparency. As part of the rules online traders will also receive information which will help them do their tax returns, where necessary, and be compliant with the tax system. In cases of non-compliance, HMRC will have information that will help them detect tax evasion. However, from a HMRC compliance perspective the OECD information will not be a direct comparison with an online trader's tax return either. Not only will HMRC need to be able to read, analyse and risk assess the data they receive but they need to cross check it and use it to find irregularities in tax returns for different tax years. Although HMRC have sophisticated systems and are investing £40 million and using 24 full time staff to operate and enforce these new rules, receiving calendar year data seems to make this compliance exercise harder.

3. Not all online traders will receive reports from all the platforms they use

Reports only need to be provided to online traders selling goods who meet the OECD reporting thresholds. This means some online traders who are trading and do have tax obligations, but perhaps are using a number of different online platforms for their selling, may not receive reports from all the platforms they use if they do not meet the thresholds for each of the platforms. This could result in errors by those mistakenly thinking they do not need to report the income which has not been included on an OECD report. Alternatively, you could have people trading but also selling personal items and breaching the thresholds so that they receive an OECD report and then mistakenly thinking they need to declare all of the income in the report, including the non-trading income, for tax purposes.

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4. The reports only have to use OECD terminology

OECD terminology can be different to UK tax terms which most online traders are more familiar with. For example, the use of OECD terminology such as TIN (Tax Identification Number) as opposed to the more familiar Unique Taxpayer Reference (UTR), will cause confusion for some online traders.

5. No standard report format is required by HMRC

HMRC do not currently require the platforms to use a standardised report format for the seller reports. This means platforms can design and deliver OECD reports in different formats provided they meet the minimum level of OECD requirements, without any prescription or oversight from HMRC.

Many online traders use more than one platform so could receive reports which look different, use different terms and contain different amounts of information (as long as the minimum OECD requirements are met).

Why does it matter?

For the reasons outlined above, we anticipate confusion amongst many online traders when they receive the OECD reporting information from the platforms. We expect this confusion will result in significantly more contact to HMRC, the online platforms and tax charities – or potential non-compliance (as outlined in the flowchart under the Background heading above).

HMRC should encourage the platforms to provide comprehensive reports or appropriate guidance to enable people to understand the reports. HMRC customer services are usually incredibly stretched in January due to the online tax return deadline and will have insufficient resources to help online traders who call with questions regarding these reports. As explained under the heading above - A current lack of targeted guidance and pro-active support from HMRC, it is important that HMRC have detailed guidance in place to help online traders. We anticipate that if detailed guidance is not in place and well in use before the first OECD reports are sent to online traders (during January 2025) there will be further increased demand on HMRC phone lines and reliance on unofficial and possibly incorrect sources.

The platforms currently have no additional responsibility or duty of care to provide extra support or guidance to online traders beyond their OECD reporting requirements. The tax charities providing direct support will already be operating at full capacity helping low income and vulnerable individuals submit their tax returns before the online filing deadline, 31 January.

As previously explained, if online traders are unable to get appropriate help to understand the new OECD reports this could result in errors on tax returns or even disengagement with the tax system, which in turn could increase the tax gap.

Additionally, we understand that HMRC plan to use these reports to identify non-compliant online traders. We expect HMRC to use other compliance risk profiling techniques in addition to these reports to identify non-compliance from trading activities in relation to a tax year. This should reduce the risk of contacting compliant online traders and avoid starting unnecessary, stressful enquiries for no or little underpaid tax.

What are the solutions?

Standardised reports

HMRC should proactively engage with the platform operators before the first OECD reports are generated to send to online traders and specify their minimum expectations over and above what is in the legislation. Ideally, HMRC and the platform operators should aim to produce a template to standardise reports using familiar UK tax terminology which separates all the information from a calendar year into separate partial tax years (quarters or months) and clearly states **gross income**, **platform expenses** and **net income**. This standard format would be more useful for online traders when preparing their tax returns and would also help HMRC by receiving more accurate tax returns. It would also reduce the need for people to contact HMRC if they can't understand the information received and how to use it, as general guidance can be produced explaining standardised statements.

It may be the case that the design and implementation of a standard report format is not possible due to the short timeframe before the first OECD implementation deadline. If so, HMRC will need to ensure they have adequate resources available to deal with questions from online traders who do not understand their individual reports from the platforms. Also, HMRC should work with the platform operators to make the reports as user-friendly as possible and to ensure there is sufficiently detailed guidance to enable online traders to interpret the reports and use them to comply with their tax responsibilities. For example, the guidance should explain any terms used in relation to familiar UK tax terminology, what numbers might need to be adjusted, and where information should be included on the tax return for the relevant tax year.

Historic non-compliance

As we expect the OECD rules to surface a lot of historic non-compliance, HMRC should consider their compliance approach to online traders. It may be the case that non-compliance has been higher to date due to the lack of clear, detailed guidance and poor understanding of tax rules by online traders who may be unable to afford professional tax advice. However, the actual individual tax amounts under-declared may be small due to the low earnings made by many online traders providing services such as food and parcel deliveries. HMRC's Tax Information and Impact Note suggested that 'This measure is expected to have impact on 2-5 million business who provide services via digital platforms though the impact for each seller is expect to be small'.^{xvii} Collecting very small amounts

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of tax from individual traders may be inefficient for HMRC from a cost/benefit perspective.

With this in mind HMRC should consider how they will approach this potentially large scale historic non-compliance and future compliance activity. There are a number of options HMRC could consider such as:

- Drawing a line under historic non-compliance in certain cases
- Removing late filing penalties
- Using a de minimis limit for non-compliance
- Simplifying the Digital Disclosure Service

Drawing a line under historic non-compliance

HMRC could consider drawing a line under historic non-compliance and commit to not starting compliance activity unless there is a suspected fraud or criminal behaviour, until after their approach to helping online traders has improved. This approach has precedence set by the off-payroll/IR35 changes whereby HMRC stated 'We have also committed that we will not use information acquired as a result of the changes to the off-payroll working rules to open a new compliance enquiry into returns for tax years before 2021 to 2022, unless there is reason to suspect fraud or criminal behaviour.'^{xviii}

Removing late filing penalties

Where there is historic non-compliance, HMRC could consider not charging late filing penalties if the outstanding tax is paid promptly (or a Time to pay arrangement is set up).^{xix} Late filing penalties are applied if a tax return has not been submitted to HMRC and can amount to significant amounts even if there is very little tax due. For example, if there is little tax due but a tax return is submitted 12 months late there could be late filing penalties charged of £1,600. The removal of these penalties for historic non-compliance could encourage more engagement with the tax system especially in cases where the online traders were not aware of their taxable activity due to a lack of guidance available.

Using a de minimis limit for non-compliance

Based on information used for their Tax Information and Impact Note HMRC could carry out further research into the amount of underpaid tax by individual online traders and, if it mainly comprises of small amounts, consider the use of a de minimis threshold. A de minimis threshold would mean that online traders who owe a small amount of tax due to historic non-compliance would not have this tax collected through HMRC compliance activity. De minimis limits have been used by HMRC to restrict repayment of some Self-employment Income Support Scheme (SEISS) grants.^{xx}

Simplifying the Digital Disclosure Service

HMRC could also consider using a simplified system for online traders to notify HMRC of any errors with their tax instead of the difficult-to-use 'Digital Disclosure Service' (DDS).^{xxi} This simplified system could be used for future non-compliance as well as historic cases.

Online traders are often unable to afford professional tax advice, have low understanding of the tax system, some with poor English language skills and the tax involved may well be negligible. For these reasons, many online traders would be unable to engage and use the DDS and fall further behind with their tax compliance position or agree to an incorrect tax position due to poor understanding of the disclosure process. Alternatively, they may misunderstand what the DDS is getting at and/or not be aware of the safeguards that are available and self-incriminate. To foster trust, encourage long-standing engagement with the tax system and improvements in compliance, we believe HMRC should consider a simpler, user-friendly approach for this sector of the self-employed.

Misalignment of self-employment reporting rules for tax and universal credit purposes

What is the issue?

Online platform traders, for example delivery drivers, may be entitled to claim benefits such as tax credits or universal credit (UC) due to their level of income. UC has replaced tax credits as the primary means-tested support for people of working age and the tax credits system is ending from 5 April 2025. Existing tax credit claimants are gradually being invited to claim UC or pension credit under a managed migration programme.

Disparities between rules for the self-employed for tax and UC purposes

Whereas tax credits mainly follow the tax rules, the self-employment rules under UC differ from the tax system in some respects. Our 2017 report 'Self-employed claimants of universal credit - lifting the burdens'^{xxii} highlighted some of these disparities between reporting for HMRC and for the Department for Work and Pensions (DWP). Further divergence can be seen with the expansion of the cash basis from April 2024 so there is no longer an interest restriction for tax purposes, however for UC purposes there is a monthly limit of £41.

Some examples of the misalignment of self-employment rules for tax and UC purposes include:

- there is a trading allowance for tax purposes but no equivalent under UC. As explained above there appears to be a high level of general awareness about full relief trading allowance and that you do not need to pay tax or complete a tax return if you earn £1,000 or less. However, as there is no similar allowance for UC purposes there may be confusion by UC claimants not reporting trading or miscellaneous income to the DWP because they mistakenly think this income follows the tax rules
- most business expenses are allowable for tax purposes if they are wholly and exclusively for the business to trade. However, for UC purposes business expenses need to be wholly, exclusively **and** incurred reasonably. It is up to DWP to decide what 'incurred reasonably' means
- from April 2024 the use of cash basis accounting for tax purposes is the default option on the tax return for all eligible businesses, however an election can be made to use the accruals basis instead. For UC purposes cash accounting must be used, however the two cash accounting systems are not fully aligned

Classification of self-employment earnings for UC

For UC purposes, there are two separate points that need to be considered by a DWP decision maker in respect of earnings from online platforms. The first is whether the earnings are self-employed earnings for UC purposes – this covers any earnings that are not employed earnings and are derived from carrying on a trade, profession or vocation. According to DWP guidance^{xxiii}, the concept of ‘trade, profession or vocation’ is taken from tax law and includes a list of points that should be taken into account which are based on the ‘badges of trade’^{xxiv} developed by the courts for tax law. However, DWP guidance also states that they are not bound by a determination by another government department – which would include a decision by HMRC in relation to tax status. This means that it is possible for someone to be self-employed for tax purposes but their earnings from the same activity may not be self-employed earnings for UC purposes.

If the earnings are found to be from self-employment, then a DWP decision maker will need to consider if the claimant is in ‘gainful self-employment’. For gainful self-employment, in addition to the earnings from it being self-employed earnings, the activity must be the claimant’s main employment and it must be organised, regular and developed and carried on in expectation (not just hope) of profit.

There is no special guidance on how these two tests are applied by the DWP to earnings from online platforms and there are some areas where it is not clear how UC rules would be applied to someone earning income through an online platform. Some claimants will be using online platforms to sell goods and services to supplement (through a ‘side hustle’) their main earnings whether from employment or another self-employment. In which case it is likely that it won’t be gainful self-employment and, unless their overall earned income is above a threshold, they will be subject to the usual work conditionality requirements attached to their UC claim.^{xxv}

Classification of earnings if not from self-employment

It is possible that the DWP could decide that someone earning money from an online platform is not trading and therefore the earnings are not from self-employment. For example, this might be the case if it is very occasional. In that case, the earnings may well be taxable as miscellaneous income and therefore count as unearned income for UC. The significance of this is that unearned income reduces a UC award pound for pound, whereas earned income has a 55% taper rate and some people get work allowances which means their earned income doesn’t affect their award until it goes over a certain amount. A further point to note is that, under the regulations, unearned income does not count when the DWP check a person’s earnings to see whether they are to be subject to work conditionality requirements whereas if the person has earned income over a certain threshold, they can be subject to lighter touch or no work conditionality requirements.

Timing of payments

As the different ways of earning money via online platforms increase, more questions will arise about how these earnings should be treated for UC purposes. The questions raised above in relation to cash basis for tax also apply to UC, so for example: if people receive gifts and goods as part of their online activities, how will those be treated for UC purposes? And if people leave money in a platform and spend it from within the platform, how will that be reflected for UC purposes?

Also, there is insufficient guidance on the timing of payments for online traders, similar to the issue explained under the earlier section on the lack of targeted HMRC guidance. For example, for UC, the DWP look at receipts that are received within the monthly assessment period. Online platforms can operate a variety of mechanisms to ensure sellers receive their payments but these do not all operate along a consistent timeframe so it may not be straightforward to understand exactly when someone has actually received payment. For example, would that be when the payment reaches the online platform, the seller's platform operating account or their own bank account so that the funds are available to them? The timing differences may be small overall but because UC looks acutely and specifically at receipts within a monthly assessment period, these small timing issues should be clarified and applied with consistency. There could be a risk of further divergence if HMRC confirm some specific policies for the cash basis for tax purposes and improves their guidance, but the DWP take a different approach for UC monthly claims.

It is unclear whether the DWP will have access to the information from the OECD reports to check the accuracy and validity of UC claims. If the reports are to be used, it will be critical there is specific guidance about areas such as the timing of payments and the trading allowance which could affect the information reported on UC monthly claims.

Why does it matter?

Without clear and detailed guidance and help for online traders it is possible that UC monthly reporting of income and expenses may be completed inaccurately. Some claimants may not realise the differences between the tax and UC rules and incorrectly follow tax rules when completing their UC claims, for example by using trading allowance partial relief instead of their actual expenses.

This lack of awareness and understanding of the different rules could lead to increased contact to DWP work coaches and HMRC customer services by some online traders. The misalignment of rules could also result in more errors on tax returns and/or UC monthly reports which then affects the accuracy of tax paid and/or UC claimed. This clear risk of over and under claiming UC leads to unnecessary administration costs and inconvenience, loss to the public purse, loss of support to which people are entitled, and mistrust.

What are the solutions?

We recommend that DWP urgently produce some specific guidance for online platform users that addresses some of the issues identified above. This should make it clear when activity via online platforms is likely to be considered trading and when it isn't – with clear information about how the income is treated if it is not earned income from self-employment. It should also include information about how specific parts of online platform activity are treated for UC, for example where gifts or products are received instead of cash and where people spend their online platform earnings through that platform or a connected platform. In addition, DWP's decision makers guidance should be updated to include the most common scenarios that decision makers are likely to come across in relation to trading using online platforms. This will ensure greater consistency of decisions and also give some certainty to claimants who may be considering earning money through online platforms.

HMRC and the DWP should work together to identify areas of divergence between the tax and UC systems for online traders and look for opportunities for alignment.

Whilst we understand that the tax system and benefit system are two different systems with different drivers and needs, we think it makes sense to align the expense rules and remove the reasonableness requirement from the DWP expense rules. If the expense is acceptable for tax purposes, it makes sense that it should be allowable for benefit purposes as there is still a requirement for it to be 'wholly and exclusively' for the purpose of running the business. This would also be less of an administration burden for DWP officials. If the DWP consider it necessary to keep the reasonableness test, then it should only be used in limited circumstances with clear guidance available so UC claimants can understand the different rules. This would also help to reduce the risk of individual work coaches making different decisions on what is reasonable in terms of expenses and provide greater certainty overall.

HMRC and the DWP should work together on communications to highlight the differences in rules for tax and UC purposes. Examples of where this could help online traders who claim UC include:

- The [GOV.UK guidance](#) on the trading allowance could be expanded to explain there is no equivalent allowance under UC.
- The [GOV.UK guidance](#) on reporting business income and expenses to UC if you are self-employed should make it clear that the trading allowance (or a UC equivalent) is not available.
- A 'pop-up' showing a checklist of differences between tax for the self-employed and UC rules could be included as part of the UC monthly reports.

References

ⁱ In 2018 the Department for Business, Energy & Industrial Strategy formed a working definition of the gig economy for their report [‘The characteristics of those in the gig economy’](#) (page 4) as follows:

‘The gig economy involves exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis.’ However, the [Office for National Statistics](#) has stated there is no formal agreed definition.

ⁱⁱ It is difficult to estimate the number of online traders in the UK however we expect numbers to have risen in recent years due to the Cost of Living crisis resulting in an increase in people trying to earn additional income. The [Office for National Statistics](#) does not provide statistics on the number of people working in the gig economy as there is no formal agreed definition. The Chartered Institute of Personnel and Development (CIPD) report (2023) [‘The gig economy: What does it really look like?’](#) states ‘Just under half a million people in the UK work in the gig economy, and only a fifth of those see it as their main source of income’. The Department for Business, Energy & Industry Strategy’s report on [‘The Characteristics of those in the gig economy’](#) suggests 2.8 million but that does not include selling goods using online platforms. The TUC’s 2021 report [‘Seven ways platform workers are fighting back’](#) states that ‘14.7 per cent of working people in England and Wales, equivalent to approximately 4.4 million people, now undertakes platform work at least once a week. Almost a quarter (22.6 per cent) of workers have done platform work at some point’. HMRC’s [Tax Impact Note](#) on online platform reporting suggested that at least 2-5 million business who provide services via digital platforms.

ⁱⁱⁱ There is an [interactive tool](#) on GOV.UK which was updated in January 2024

^{iv} Even though there was no change to the tax rules, there were many articles in the press and discussions on social media forums about a new side hustle tax, often not explaining that not all people using online platforms to sell goods were undertaking a taxable activity. Examples include [Daily Mail](#), [The Guardian](#), [The Mirror](#) and [Mumsnet](#).

^v On 3 January 2024 HMRC posted on X (Twitter) ‘There’s been a lot of speculation online about new rules requiring online marketplaces to share certain details with us, and what this means for taxpayers. The reality? There are no changes to tax rules for people who use online marketplaces.’ With links to an updated [information sheet](#) and [new video](#).

^{vi} [VAT registration threshold](#) is £90,000.

^{vii} [Making Tax Digital for income tax threshold](#) is £50,000 from April 2026 and £30,000 from April 2027 for individuals who are self-employed and/or have rental income.

^{viii} For example, Uber Eats website has guidance on [substitution](#).

^{ix} This [HMRC community forum post](#) on the cash basis from April 2024 illustrates some of the questions online traders have.

^x From the [HMRC Charter](#).

^{xi} From HMRC's research paper (published 28 September 2023): [Contact method preferences and digital appetite research - executive summary](#).

^{xii} This transcript is from May 2024.

^{xiii} House of Commons' Public Accounts Committee [report](#) (28 February 2024) on HMRC's performance in 2022-23 states that 'The overall level of customer service provided by HM Revenue & Customs (HMRC) has reached an all-time low'.

^{xiv} LITRG produced a [report](#) on looking at the importance of effective guidance for unrepresented taxpayers, in April 2023.

^{xv} Selling of unwanted personal items is not trading but depending on the item and amount involved could be subject to capital gains tax. This is illustrated on the [flowchart](#) on the LITRG website.

^{xvi} Research conducted on behalf of LITRG in November 2023 found varying quality of tax guidance. For example Etsy has a [detailed article](#) about UK tax which provides some key dates that online traders need to consider (although this was written in relation to the 2016/17 tax year). Whereas the Uber Eats website has more limited information in this [FAQ](#) stating 'You are responsible for your own personal tax affairs and you should continue filing a Self-Assessment Tax return as you have been doing. Please consult a tax advisor or accounting advisor for further advice' and in this [help on tips](#) 'Income received in the form of tips could be taxable. For more information, you can check out your tax authority website. If you would like specific help or tax advice, you may also want to reach out to an independent tax professional'.

^{xvii} Under the heading 'Businesses including individuals who sell services or rent out property through Digital Platforms' in HMRC's [Tax Information and Impact Note](#) for Reporting rules for digital platforms (July 2023)

^{xviii} From [HMRC's policy paper](#)- HMRC issuing briefing: supporting organisations to comply with changes to the off-payroll working rules (IR35)

^{xix} A [Time to pay arrangement](#) is a payment plan agreed with HMRC.

^{xx} For the 4th and 5th SEISS COVID support grants, if amendments to your tax return(s) meant you had been overpaid one or both of these grants you should have informed HMRC and repaid the overpaid grant unless the overpayments were below a de minimis limit of £100 (for each grant).

^{xxi} The [Digital Disclosure Service](#) (DDS) is an online process that taxpayers can use to make HMRC know of any errors made with respect to some taxes including income tax.

^{xxii} LITRG report: [Self-employed claimants of universal credit- lifting the burdens](#).

^{xxiii} Detailed in the DWP's Advice for decision-making : staff guide- [ADM Chapter 4: Earned income- self-employed earnings](#).

^{xxiv} [Badges of trade](#) as explained in HMRC'S Business Income Manual are used to identify trading for tax purposes.

^{xxv} The Universal Credit regulations 2013 [SI 376 Part 8 Chapter 1](#)

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A voice for the unrepresented.