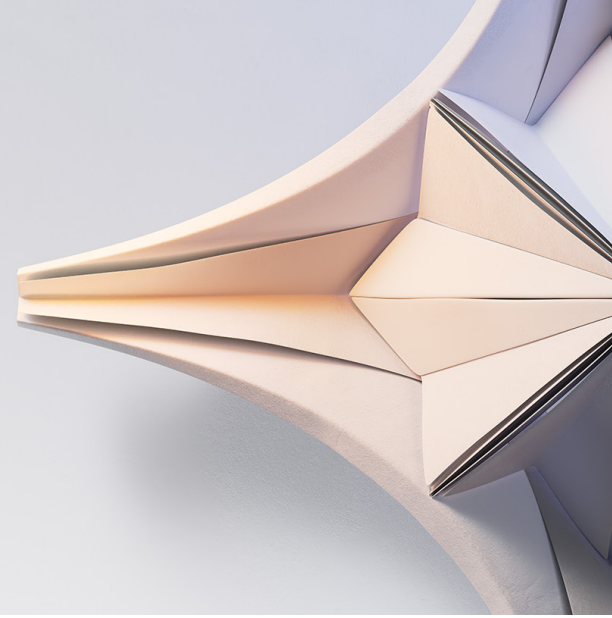


The New Era of Tax Transparency in the Digital Economy



The digital economy has experienced unprecedented growth, with online platforms revolutionising how we live, work, and conduct business. However, this rapid expansion has brought about new challenges, **particularly in the realm of taxation.**

In response to these challenges, the UK introduced the 'Reporting Rules for Digital Platforms' regulation (the regulation), which aims to ensure tax transparency and fairness in the digital economy by obligating online platforms to report the income earned by their users to HMRC. The first reporting under the regulation is due by 31 January 2025.

A brief overview of the reporting rules for digital platforms

Influenced by both the OECD's model rules and the European Union's 'DAC7' regulation, which specifically targets the digital economy, the regulation's primary objective is to enhance tax transparency in the digital economy by closing the information gap between HMRC and online platform operators by supporting "the government's work to help taxpayers get their tax right first time, and to bear down on tax evasion." It requires digital platforms to report detailed information about sellers and service providers using their platforms. This includes platforms facilitating activities such as the sale of goods, provision of services, rental of immovable property, and other relevant activities where platform users (i.e. third party sellers) generate income.

Key Provisions of the regulation

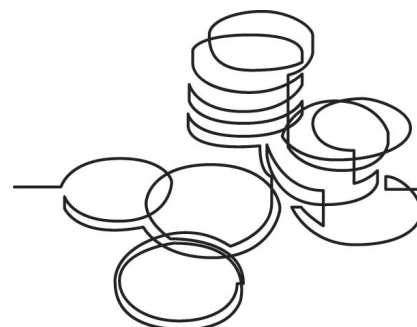
Introduced in 2023, the regulation requires all online platforms to collect and report information about their sellers, including their name, address, tax identification number, the gross amount of sales each seller made, the volume of transactions and other information for each year starting with the year ended 31 December 2024. This information must be submitted annually to HMRC to allow them to cross-check the income declared by taxpayers

with the information provided by online platforms, thereby ensuring compliance with tax obligations.

Additionally, the regulation includes provisions to reduce administrative burdens on platforms. For instance, sellers with less than 30 active transactions in a year may be exempt from reporting under certain conditions. Although not specifically covered by the regulation, platforms may also find they can rely on data they already collect for other regulatory purposes, such as anti-money laundering requirements, to fulfil their reporting obligations.

Implications for organisations

The implementation of the regulation has significant implications for an estimated 2.5m organisations who provide services via digital platforms. The regulation introduces new compliance requirements that require changes in data collection and reporting processes, and so platforms must invest in robust systems to ensure accurate reporting and to avoid penalties for non-compliance. The directive also places a greater emphasis on data protection, requiring platforms to safeguard the sensitive information of their users.



Exceptions to the regulation

As mentioned, there are some limited exceptions to the reporting rules to reduce the administrative burden on platforms. For example a seller who makes sales of second hand clothes twice a year and receives a couple of hundred pounds each time would not have to be reported, but each seller would still need to be monitored in case the exception limits (less than 30 sales for total consideration of less than €2,000) were breached.

Membership bodies, charities and other not for profit organisations whose websites facilitate transactions between members, donors (retail gift aid) or other benefactors will be within scope but may be within the above exceptions depending on the volume and size of individual transactions.

There is no general exception for the size or nature of the client operating the digital platform, but new reporting platform operators have until the conclusion of their second year of trading to complete the due diligence for sellers on their platform.

Conclusion

The reporting rules for digital platforms marks a significant step forward in HMRC's efforts to adapt to the ever evolving digital economy. By enhancing transparency and cooperation between tax authorities, the regulation helps to create a level playing field for organisations.

How can haysmacintyre support you?

The first challenge for many organisations will be to determine if transactions facilitated via their website or app make them an operator of a digital platform. We can assist organisations with understanding if the regulation will apply to them.

If the regulation applies to your business, then we can advise on the information you will need to collect and report, how to register and notify HMRC, and what exceptions may apply to some or all of the transactions that take place on your digital platform.

We can also review the information that your digital platform and other systems currently collect to identify any gaps in information collation to apply with the regulation. Additional information on key focus areas can be shared should you require assurance on your control framework.



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