

VAT and the Sharing Economy: STAA response

The UK Short Term Accommodation Association (STAA) is the trade association for short-term rental companies in the UK. Our members include major online platforms like Airbnb and Vrbo (part of Expedia Group), as well as professional property management agencies and individual hosts.

The STAA is delighted to respond to this call for evidence on behalf of its members in the short-term rental accommodation sector and looks forward to engaging with the government on this issue in the future.

Below we have provided some further information about the short-term rental sector, as well as our position on any potential revisions to existing rules around VAT. Our position can be summarised in the following key takeaways.

Key takeaways

- The short-term rental sector is a major and growing contributor to the UK economy and an important part of the UK's tourism offer.
- Far from eroding the existing tax base, short-term rentals help to grow the tourism pie, leading to greater tax revenues for the government in the long run.
- Any attempt to reform the VAT framework so that the existing threshold applies to some sectors but not others would be discriminatory against those sectors to whom the new rules apply.
- When designing new tax policy, global consistency and simplification of the rules should be a key objective.
- We support the information sharing role and education role for digital platforms to increase VAT compliance of hosts. The full liability regime for platforms should only be implemented when other methods fail to succeed.
- The short-term rental sector involves several business models, many of which are liable for VAT. See further descriptions of business models below and in the annexes.
- Some short-term rental hosts will be liable for VAT, whilst others will not be, but are taxed in other ways (e.g., income tax).
- Our recommendation is that the government should focus on making sure hosts understand their VAT obligations and behave accordingly, rather than making radical changes to existing VAT rules and principles.

Overview of the short-term rental sector

The STAA represents the short-term rental accommodation sector, which is one of the sectors which HMRC has highlighted in its call for evidence. Broadly speaking, the short-term rental sector consists of the following players:

- **Hosts:** Individuals who let their property to guests for short periods of time. This has been an activity, particularly in holiday destinations for many years- the self-catering industry dates back to the 1950's. The rise of online short-term rental platforms means that individuals can rent a spare room or their whole home when they are away, bringing it under the umbrella of the Sharing Economy.
- **Guests:** Travellers who book accommodation rented out by hosts. They can book this accommodation directly with the host (and some do), via an intermediary, or an online platform.

- **Online platforms:** These are websites which allow hosts to advertise properties and guests to view and book those properties. The STAA's membership includes two large platforms: Airbnb and Vrbo (part of Expedia Group).
- **Property managers:** Individuals or companies who manage short-term rental properties on behalf of hosts. The range of services these companies provide varies, but can include communicating and liaising with guests, listing the property on one or several online platforms, and organising for the property to be cleaned. Many of the STAA's members are property management agencies.
- **Ancillary service providers:** Companies that sell goods and services to any of the other four principal players in the short-term rental sector, who themselves do not offer or manage accommodation.

Annex D of the OECD draft report covering VAT and the Sharing Economy describes the business models and players in the accommodation sector in more detail (page 103 onwards). In addition, Skift has published a comprehensive review of the short-term rental sector – see in Annex.

Business models in the short-term rental sector

At the most fundamental level, the short-term rental sector involves **guests** paying **hosts** in return for accommodation services. If **hosts** earn more than £85,000 per year, they are liable to pay VAT on those earnings. If they do not earn more than £85,000 per year, they are still obliged to pay income tax on their earnings.

Online platforms intermediate between **hosts** and **guests**. Precise business models may vary, but **platforms** will normally charge a service fee. Platforms are required to collect and remit VAT on their service fees.

Property managers have a relationship with **hosts**, on whose behalf they manage property. Again, business models will vary, but **property managers** will normally take a commission in return for their services. **Property managers** are required to collect and remit VAT on their commission.

Size and impact of the short-term rental sector

The short-term rental sector is a very successful component of the broader Sharing Economy. Global sales of short-term rentals were projected to reach \$132.5 billion by 2022, although that assessment was made prior to the COVID-19 outbreak. According to Eurostat, 24% of individuals aged between 16 and 74 used websites or apps to book accommodation or transport from another individual in 2019 and that figure is likely to keep on growing.

Our sector also contributes heavily to the UK economy. According to STAA member Airbnb, hosts on its platform generated £3.5 billion in economic activity in 2018 and UK households earned £854 million by renting their property in the same year.

As mentioned above, the short-term rental ecosystem goes far beyond hosts and guests. STAA's members include not only property management agencies, but also companies providing short-term rental insurance, software for property management and distribution on online platforms, and cleaning and linen services. All these members are VAT-paying businesses who employ UK residents and citizens, further amplifying the economic contribution of the short-term letting sector.

VAT and the short-term rental sector

The key issue at stake is whether actors who are not considered businesses should be liable for VAT. Under the existing framework, occasional short-term rental hosts are not considered businesses by the government's own definition and nor should they be. Applying VAT to sharing economy transactions which do not involve businesses, while not applying it to other similar transactions which are not part of the sharing economy (e.g., involving a self-employed tradesperson) would be discriminatory against businesses operating in the sharing economy. This is notwithstanding the fact that sharing economy transactions often do involve VAT being paid at some stage, as well as the fact that just because hosts are not businesses does not mean that they are not paying their fair share of tax.

There can be several parties to a short-term rental transaction. **Hosts, online platforms, and property managers** can all be involved in providing accommodation to **guests**. **Platforms and property managers** will be charging service fees, which they will collect and remit VAT on. Depending on the total value of transactions within a given fiscal year, a **host** may be required to pay VAT, or they may not. Where they are not required to pay VAT as a business, they will be liable for income tax.

Case study 1:

This case study reflects a typical "occasional" short-term rental host. Such a person will only let out their property when they are not there, or just a single room in their property when they are. Such a person would not cross the VAT threshold, nor would they let enough times during a year to be eligible for business or non-domestic rates.

This does not mean however that such a host would not pay any tax. An occasional host would be required to pay income tax on their earnings, just as they would for any other form of income. Most occasional hosts short-let to supplement existing income, meaning that they are often higher-rate taxpayers. This means that, for any given short-term rental transaction, an occasional host would be expected to pay 20- or 40%-income tax on that transaction, the latter figure being twice as high as VAT.

Occasional hosts are also still liable for council tax, which of course varies from one local authority to another. Some local authorities, such as Gwynedd in North Wales, have chosen to substantially increase the council tax due on holiday homes, meaning that occasional short-term rental hosts can face higher council tax bills than their neighbours.

Case study 2:

This case study looks at a typical "commercial" short-term rental host. Such a host will let their property or properties enough to pay VAT and they will also cross the business or non-domestic rates thresholds on each of their properties. As far as HMRC is concerned, these hosts are no different from hotels or bed and breakfasts.

Case study 3:

Hotels and bed and breakfasts, like commercial short-term rental hosts, will collect and remit VAT on their bookings and will also pay business rates to their local authority.

Below we have calculated the respective tax contributions of the three case studies outlined above. This example assumes that no intermediation by online platforms or property management agencies has taken place.

	VAT	Income tax	Corporation tax	Other taxes
Occasional short-term rental host	N/A	20-45%	N/A	Council tax
Commercial short-term rental host	20%	N/A	19% (if registered as a limited company)	Business rates, national insurance
Hotel/bed and breakfast	20%	N/A	19%	Business rates, corporation tax, national insurance

As we can see from the table, occasional short-term rental hosts contribute a large part of the money they earn in income tax, even if they are not paying VAT. If VAT were added to transactions between occasional hosts and guests on top of existing tax obligations, it would impose a major burden on those hosts, to the point where occasional short-term letting might not be worthwhile and it would not be a level playing field. It is also important to note that income tax is paid on the value of the booking, while corporation tax is paid on profits, so hosts in most cases already have a higher tax burden with the current structure.

The above analysis does not even mention the contribution made by online platforms and property management agencies. Online platforms charge hosts service fees, on which they collect, and remit VAT. Property management agencies charge commission to manage properties on behalf of hosts, on which they also collect and remit VAT.

If one assumes that an online platform charges a 10% service fee, they would be required to collect and remit VAT on that fee. Let us assume therefore that the platform includes VAT and charges a 12% service fee.

Equally, a property manager might charge 20% commission for managing a property on behalf of a host, which would be liable for VAT. Therefore, let us assume that the property manager charges 24%, with VAT included.

The below table outlines this in more detail.

		Tax revenue for government
Original booking	£100	N/A
Platform service fee	£12	£2 VAT
Property manager commission	£24	£4 VAT
Host final earning	£64	£25.60 (40% income tax)
		Total tax revenue for government: £31.60

In essence, we can see that a transaction which does not notionally include VAT can, in fact, include VAT, due to the presence of intermediaries which are quite common in the short-term rental industry. It is worth noting that, for a direct booking to a VAT-paying short-term rental host, a hotel, or a bed and breakfast, VAT of £20 would have been collected and remitted on a booking fee of £100. Even if intermediaries were used in the case of hotels or bed and breakfasts, the government's total tax take is not likely to exceed the figure in the above table, because income tax at the higher

rate is greater than VAT. Therefore, one can say that the short-term rental adds value to the exchequer under certain circumstances.

The above table does not take account of the fact that online platforms and property management agencies will also be paying various other taxes, including business rates, corporation tax, and national insurance for their employees. It also does not take account of the fact that property management agencies do business with a whole range of ancillary service providers, who also charge VAT on their provisions. If a property manager outsources the cleaning of linens and responsibility for listing the property online to a channel manager, for instance, then there are two more VAT-paying businesses involved in the supply chain.

The key issue in this context therefore is one of enforcement of existing rules. Since **hosts** will often list their property across multiple **platforms** and/or offline, it would not be appropriate for **platforms** to account for VAT, since they may not have oversight of the total number of transactions. Only the **host** knows whether they have crossed the VAT threshold and are liable for VAT. The government should therefore focus efforts on ensuring that **hosts** are aware of when they are liable for VAT and that they comply with these requirements where appropriate.

One other point which should be raised is around whether the accommodation part of the sharing economy erodes the VAT base by taking business away from hotels. Even if it were true that short-term rentals did take business away from hotels, it would not be the case that the government loses out on tax revenue, for the reasons we have shown above.

However, it is certainly not the case that the short-term rental sector does take business away from the hotel sector. According to industry experts STR, hotel demand growth outstripped supply growth for nine consecutive years up to 2018. Between 2008 and 2018, the number of nights for which hotels were 90% or more full grew by 36% in London and by 87% in Edinburgh. It seems clear then that, prior to the pandemic, there was no shortage of demand for hotels.

On the contrary, both the short-term rental sector and the hotel sector have grown in the last decade. This is because short-term rentals cater to a different need to hotels – the desire for authentic home experiences, group/family bookings and/or to stay away from city centres. There is no reason why a healthy UK tourism sector cannot accommodate growth for both hotels and for short-term rentals and indeed, if the government were to support both sectors, it would see tax revenues from both increase accordingly.

Since the STAA represents UK-based businesses, we do not have a particular position on cross-border place of supply rules. We would defer in this instance to the evidence submitted by our members who are based across several jurisdictions, including Airbnb and Vrbo, and would stress that changes to tax policy ought to be globally consistent to aid compliance.

The final thing to say is that the short-term rental accommodation sector has suffered greatly during the COVID-19 pandemic due to lockdown policies and restrictions on international travel. Some of our members have seen revenues drop by up to 90% year on year. Given this, we do not believe now is the right time to be looking at how the Sharing Economy interacts with VAT. Although the issues raised in the call for evidence are no doubt important, we would like to see a focus on sectoral recovery before any discussion about tax reform for our sector.

If you have any questions about this response, please do not hesitate to contact us (matthew.niblett@ukstaa.org).