Where Next for the Sharing Economy in the UK

June 2023

STARTUP COALITION

About the Startup Coalition

The Startup Coalition, formerly known as the Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scale ups. Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 3000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem.

Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund. We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international group, Allied for Startups.

Acknowledgements

We're extremely grateful to the members of the startup community, investment community, local government community and other stakeholders for their time in contributing to this report. Ultimately, this report is for you and about you. Please keep the feedback coming.

Introduction

The Sharing Economy loosely refers to business models and platforms that enable people to temporarily trade or rent access to their 'skills, spaces and stuff' - such as clothing or car rides. The Sharing Economy has existed for decades - though primarily informally - but the rise of digital platforms have exploded the sector into the growing and vibrant economy it is today.

In the last decade digital platforms have vastly increased the sheer range of things that can be easily shared - everything from loft space and time with pets to particular skills such as cooking for private dinners or the ability to put up Ikea furniture quickly. Startups have been critical to this expansion: estimates from Beauhurst data suggest that over the last decade VCs have invested over £3.47 bn in over 450 Sharing Economy startups.[1]

Last year the Startup Coalition deep-dived into the startups in the Gig Economy - a part of the Sharing Economy that deals in 'skills' - for this report we wanted to widen the lens and look at the policy issues startups innovating in 'space' and 'stuff' can experience.

And, as with the Gig Economy, the space and stuff side of the Sharing Economy covers a variety of business models and ways of operating. Roughly though, Sharing Economy platforms can be broken down into three main structures:

Peer-to-peer: a platform facilitates one individual to lend an asset to another

A fashion platform enables users to list and rent items of clothing to other users. The platform facilitates these transactions though it has no direct contact or responsibility for the assets being rented. Users renting out the asset, in this case - clothing, take responsibility for ensuring it gets to the rentee in good time and in rentable condition. In this example, the user owns the asset.

Business-to-consumer: a business lends an asset to their customer

A fashion platform purchases and stores clothing in a warehouse. Platform users can select and rent the clothes listed. The platform is responsible for the asset - in this example it undertakes to ensure the clothing is delivered in time and in good condition. When the rental period ends the rentee undertakes to return the clothing to the platform's warehouse. In this example, the business / platform owns the asset.

Business-platform-consumer: the platform acts as the intermediary between a business and customer

A clothing manufacturer stores its products in their own warehouse but lists its assets for rental via a third-party fashion platform. Users of the platform can browse and rent available clothing. Rented

clothing is sent to the user by either the manufacturer or the platform - but in this example the manufacturer keeps ownership of the asset.

> "All these industries are doing is disrupting in an existing sector. My issue is calling these businesses the "Sharing Economy" - they are the economy!" **Founder E, Sharing Economy Startup**

The State of Play

Since the mid 2000s, participating in the digital Sharing Economy has traditionally meant making extra income from expensive assets - such as houses or cars - but recently newer Sharing Economy platforms have formalised, and thereby vastly increased, what can be successfully shared - both commercially and to make it worth a person's time. This now includes startups that can facilitate the renting of children's clothes, DIY tools and sporting equipment.

As the UK enters an economic downturn, there are huge opportunities for users of the Sharing Economy to both make passive and supplementary income and access goods and services - particularly those they only want occasionally - more cheaply. And it's not just consumers - small businesses are also increasingly benefitting from being able to easily identify and purchase infrequent services - such as copywriting or design - or make extra income by renting out unused office space and equipment.

At a time when the cost of living and working towards a more sustainable economy are important to the national agenda, Sharing Economy startups have told us that that sometimes they feel overlooked - like Software-as-a-Service (SaaS) businesses whose contribution as a critical enabler of many other activities and sectors ends up hiding them from view. The challenges of the Sharing Economy in particular can end up slipping through the cracks of different policy agendas.

As with the Gig Economy, legislation frequently plays catch-up with the new and innovative business models of the wider Sharing Economy. Additionally, startups frequently tell us that their experience of the Sharing Economy is that it is still a rapidly developing market. Where regulation exists it can be patchworked around the county.

Where these regulations are confusing and inconsistent, potential users of the Sharing Economy have been disincentivized from taking part. This impacts growing startups - and the benefits the Sharing Economy can provide - but, reflecting the Sharing Economy's status as an enabler of other activities, it is worth noting that will increasingly create knock-on effects in other sectors.

For example, Scotland recently introduced a new licensing scheme for short-term lets. This included letting individual councils set fees and details. The SNP government's initial cost estimates ranged between £214 - £436 for a licence, but as further details of the scheme emerged the licensing fees look set to be much higher. Charges differ depending on the type of asset, its relation to the person wanting to rent it out, and the number of potential guests. Fees published so far vary from £125 to over £17,000. This is also before factoring in costs such as ensuring certain planning conditions are met, again these are set by individual councils. Anecdotally the scheme is also taking an average of nine months to process licensees. This risks making the actual - and mental - cost of taking part in the Sharing Economy prohibitive to many. Many parts of Scotland's tourism economy have branded the scheme 'draconian'.[2] Festivals Edinburgh also warned that a third of the people visiting the city to work or attend the Fringe would not be able to rent suitable accommodation, while the Edinburgh Festival Fringe Society estimates a third of their programme could be lost in 2024.[3] The scheme has been repeatedly criticised by consumers, including branding it a "dog's dinner of regulation".[4]

Because the Sharing Economy, at its heart, enables consumers, alongside talking to startups we also polled the public on their perception and participation in the Sharing Economy. Broadly we found consumers are interested in the Sharing Economy but not always sure about how to participate. We also found increasing concern over the cost of living, with the majority of respondents telling us they were worried about it either a bit or a lot more. 51% said they agreed Sharing Economy platforms have a very or somewhat positive impact for consumers - rising to 68% among 18-24 year olds - while 56% felt the Sharing Economy could help individuals with the cost of living. For those already making money through the Sharing Economy, 38% told us they were using it as a form of passive income, while 70% use it to make money on top of their main source of income.

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70% of 18-24 year olds and **74%** of 25-34 year olds are interested in making money from participating in the Sharing Economy.

Unsurprisingly, interest and support for the Sharing Economy rapidly increases as we move down age brackets: 64% of 18-24 year olds and 73% of 25-34 year olds are interested in making money from the Sharing Economy, rising dramatically to 70% of 18-24 year olds and 74% of 25-34 year olds who are interested in making money from participating in the Sharing Economy.

46% also agreed the Government should do more to enable people to make money via the Sharing Economy, compared to just 11% who disagreed.[5]

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However, one of the most significant issues highlighted by both our polling and conversations with startups, are awareness and trust.

While our polling shows that those engaging in the Sharing Economy have a positive view of it, many startups spoke to us about their concern that lack of trust presents a cultural barrier to participation in the Sharing Economy. Our poll found 67% of consumers said they didn't feel comfortable using a stranger's possessions, while 38% cited a lack of protection for consumers as a reason for reticence, and a further 65% felt that if a user was banned from one Sharing Economy platform, they should be banned from making money on other Sharing Economy platforms to make the system safer.

As the Sharing Economy matures, startups are experimenting with a variety of solutions to increase trust. Options include offering specific insurance from a third-party provider, platforms operating their own guarantee system, and increased refinement of ratings of new users to ensure that they are trustworthy.

Some startups told us that lack of identification online is a blocker to growth and gives preferential treatment to the established big players by forming a de facto entry barrier: when a platform has critical mass, more ratings are available for lenders and borrowers. If a user is choosing between an established platform and a new entrant, the established platform is more likely to have a large number of ratings - either for users on the site or for the platform itself and making the user more likely to choose the established platform.

"Kids outgrow clothes so fast - it's the most extreme fast fashion!" **Founder D, Business-Consumer Sharing Economy Startup**

"There is still a mindset issue about wanting to share. We created our own platform, pitched to press, spoke on local radio" **Founder A, Peer-to-Peer Sharing Economy Startup**

"The main development issue is market maturity. Our user base came from word of mouth or socials. There is an interest in this business model and people bought into the peer-to-peer concept more quickly. There is an opportunity to work with brands directly, to increase awareness and find the brands that people want to rent" **Founder G, Business-Consumer Sharing Economy Platform**

"It can be that Brits like to own stuff, and we came in as a startup trying to change that mentality. We ended up targeting the [core group] who understood the product, got them on board then slowly reached out to the market. During COVID we noticed a shift, that people wanted [product] all of a sudden and wanted to care more for the environment. We have a growing customer base, and invested a lot in digital advertising for the first four years. But then it got a lot more expensive GDPR-wise as we couldn't target customers in the same way." **Founder F, Business-Consumer Sharing Economy Platform**

Case Studies

Infinite Closet

Infinite Closet allows users to create their dream wardrobes without the guilt, renting and returning independent and sustainable brands. Clothes are delivered to the user's door with a 4 or 8 day rental period, then returned to Infinite Closet. The brands are high-end occasion wear, e.g. for weddings or a cocktail party, where the item may otherwise be worn 2-3 times per year.

Bike Club

Children's bikes are expensive and children grow out of them quickly. Founded in 2016 by Alexandra Rico-Lloyd, Bike Club offers parents looking to get bikes for their children an alternative to owning or retail finance. Users pay a fixed sum per month either for a new or refitted bike, ranging from £5.99 per month for a child's balance bike to £22.99 per month for a teenager's mountain bike. They then return the bike to Bike Club when their child has outgrown it, and are able to exchange for a bigger bike for free after 18 months. Bike Club has over 40,000 members and is one of the world's largest bike rental networks.

Superhog

Founder Humphrey Bowles founded Sharing Economy insurance provider Guardhog after working at a rental Sharing Economy business. Following the growth of Guardhog, he began exploring ways to mitigate risk as well as insure against it, which led to the creation of Superhog, a risk management toolkit SaaS platform that provides guest screening, deposit alternatives and protection to property managers in short-term rentals. Superhog's technology is able to process thousands of data points before flagging potential bad actors to Property Managers.

Recommendations

It is important to acknowledge that access to talent and finance are fundamental challenges that all startups deal with. These are core campaigning issues for the Startup Coalition and were consistently the most pressing issues the Sharing Economy startups we talked to wanted to discuss. But, in addition to these bread and butter issues, we see Sharing Economy startups in the UK facing specific challenges. For us these roughly divide into recommendations that should make it easier for Sharing Economy startups to compete - such as regulations that need updating to account for new business models - and recommendations focused on ensuring the ecosystem that Sharing Economy platforms are built upon functions well - such as ensuring future regulations enable consumers to easily take advantage of the Sharing Economy.

Enabling Sharing Economy Platforms to Compete Fairly

- Review the list of "excluded activities" for the SEIS and EIS incentives and introduce a de minimis threshold for leasing businesses.
- Introduce a de minimis threshold for either the value of an item or the value of leasing payments before FCA authorisation is required.
- When reporting rules for digital platforms are implemented, HMRC should ensure startups can easily engage.

Enabling Sharing Economy Platforms to Thrive

- Create national clarity on short-term lets regulation - any new registration scheme should be simple and centralised in order to keep barriers to entry low.
- Improve understanding of Sharing Economy earnings and tax by creating a "one stop shop" Government page that outlines legal obligations in plain English.

Enabling Sharing Economy platforms to compete fairly:

Review the list of "excluded activities" for the SEIS and EIS incentives and introduce a de minimis threshold for leasing businesses:

Early stage startups often rely on Angel investment to create a minimum viable product. Angels invest venture or debt capital in start-ups, typically at the earliest stages - the median sum being £25,000.[6] Targeted tax reliefs, such as the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Schemes (EIS) help de-risk investment in startups and have been phenomenally successful at channelling investment into early stage startups. Currently both SEIS and EIS schemes exclude leasing

businesses. Rules around leasing are written on a grand scale - for example, large container ships or construction equipment.

Increasingly Sharing Economy models want to use the same business-user lending model but when they do this they find they are excluded from tax relief schemes for which they would otherwise be eligible. This suppresses innovation in a sector that could prove to be critical to achieving sustainability goals, as well as making the cost of living cheaper - and it means rules written for the tax treatment of large-scale maritime businesses are now effectively governing providers of rented baby clothes.

Recommendation: update SEIS and EIS rules to enable Sharing Economy startups to participate.

Case Study: Bundlee

Babies outgrow seven clothing sizes in just two years. After seeing how quickly her siblings outgrew clothes, Eve Kekeh founded Bundlee: the UK's first rental subscription for baby clothes. Parents subscribe to Bundlee and receive a bundle of clothes for a fixed sum per month, which they typically keep for three months. When their child outgrows the bundle, they can conveniently swap for the next size up, delivered through Royal Mail. Bundlee professionally clean and sanitise returned outgrown clothes, ready for the next renting family. Bundlee estimate that their model saves 86% of the CO_2 emissions and 96% of water usage compared to buying new.

Introduce a de minimis threshold for either the value of an item or the value of leasing payments before FCA authorisation is required:

Consumer credit (i.e. businesses lending to consumers) is regulated within the UK by the Financial Conduct Authority (FCA). The legislation uses time as a de minimis threshold - any business loaning assets for longer than three months requires FCA authorisation. Historically, the three-month time frame was used as a way to distinguish whether large loans were viable. However, that was prior to the explosion of the Sharing Economy. Now, business-to-consumer Sharing Economy platforms are caught in the same legislative framework as car dealerships. In theory, loaning a child's bike for four months requires the business to have similar authorisations as would be needed to loan a car on a four year car finance deal. This creates an unfair burden for business-to-consumer Sharing Economy startups.

Recommendation: Introduce a de minimis threshold for either the value of an item or the value of leasing payments before FCA authorisation is required that would take everyday goods (e.g. bicycles, tents, baby clothes, power tools, fashion) out of scope.

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When reporting rules for digital platforms are implemented, HMRC should ensure that startups can easily engage:

In 2020 the intergovernmental Organisation for Economic Cooperation and Development (OECD), published a set of model tax reporting rules for the Sharing Economy. This covered requiring Sharing Economy businesses to report the following each quarter:

- Tax identification number of Sellers/Sharers
- Each jurisdiction in which the Reportable Seller is resident
- The total Consideration paid or credited during each quarter
- Any fees, commissions or taxes withheld

In 2021 and 2022 the UK Government consulted on the implementation and detail of the rules. Concurrently, in 2022 the EU Council introduced its own Directive - DAC7 - which requires platforms to provide their tax authorities with more information on users than the OECD regime - including the name, address, tax identification number, date of birth and VAT identification number of users. DAC7 also covers both EU and non-EU operators: in theory, a French student providing French language tuition to an English speaker in England, via an English platform, would put that platform in scope of DAC7.

The UK Government is still considering its response. The risk is that overly complex rules lead to noncompliance or confusion amongst startups - especially those operating with a small and niche user base. It is crucial that whatever the UK Government implements makes it easy for platforms to be able to verify the necessary information from sellers, that the system is user friendly, and it avoids a “death by 1,000 cuts” red tape requirements on startups.

Recommendation: When the reporting rules are implemented within the UK, the Government ensures that the reporting requirements are easy and understandable for Sharing Economy startups, and not create a regulatory burden that will only allow big players to compete in the space.

Case Study: Tentshare

Tentshare is a peer-to-peer Sharing Economy startup founded by Rebecca Heaps. Tents can be an expensive purchase and then only used two to three times per year, Tentshare matches tent owners with those wishing to rent a tent. Users upload a picture of their tent to the Tentshare platform and users wishing to rent a tent can browse and find a match, making camping more affordable and accessible. The model is peer-to-peer with users interacting with each other, facilitated by the platform.

Enabling Sharing Economy platforms to thrive:

Create national clarity on short-term lets regulation - any new registration scheme should be simple and centralised in order to keep barriers to entry low:

For many people their first exposure to participating in the Sharing Economy has been to temporarily rent out their most valuable assets, such as bedrooms or whole homes. This has been phenomenally popular and has more recently led to new markets, including startups specialising in the curation of listings for people to offer their homes as creative and performance spaces as well as venues for pop ups, alternative weddings, intimate supper clubs and parties. Platforms have also sprung up to enable their users to list spaces - such as unused loft or cellar space - that can be rented out for storage.

"The more divergent the regulation between different parts of the UK, the more difficult it'll be for people to engage meaningfully with the Sharing Economy. Forcing people into a weird guessing game about where regulation will be in five years time tilts the balance further in favour of large operators who can play the regulation shopping game. You see this a lot in the US, it doesn't seem like a great path for the UK." **Co-founder C, home rental startup**

However, an underdeveloped regulatory environment has led to piecemeal regulation on short-term lets whereby local authorities are responsible for regulating their own rental markets and have a variety of enforcement tools at their discretion.[7] This has resulted in a system in England that varies depending on postcode, as some local authorities have regulated whilst others have not: Brighton, for example, advises homeowners to take legal advice or a Certificate of Lawful use from the local authority;[8] in

contrast, in Liverpool, parts of the city need a licence for private rented accommodation, and parts do not.[9] In London, the requirement for planning permission is determined by how many days in a year the property is rented out (the “90 day rule”); whilst in other local authorities the enforcement is limited - so far.

We know from polling that both awareness of opportunities to earn more within the Sharing Economy and awareness of the existing tax breaks are low: just 28% were aware of the £1,000 per year Trading Allowance, and even fewer (24%) of the Rent a Room Scheme. A piecemeal regulatory environment on short-term lets where requirements change via local government area risks confusion and pushing potential users away from the Sharing Economy.

We also know from our polling that low barriers to participation are key for the Sharing Economy. A total of 65% agreed with the statement that "the sharing economy would lose some of its appeal if it became difficult for lenders to list items". A further 61% of respondents would probably or definitely not use the Sharing Economy if income required filling in a half-hour tax return.[10] That figure increased to 71% if the red tape would take up to four hours. Users are most likely to use the Sharing Economy if it is easy to do so.

In 2022 the Government consulted on and committed to introducing a registration scheme for short-term lets. The view from the startups we spoke to was that this was broadly a useful approach that should help raise awareness and trust in the sector - as long as the details of the scheme, as it developed, focused on keeping the process easy to understand and digital. Founders who had looked at Scotland’s new short term licensing scheme, for example, pointed out that failing to have a digital process where documents, such as fire safety certificates, could be easily uploaded was a significant barrier to entry. Recommendation: Ensure the upcoming English short-term let registration system is simple, centralised and digital in order to lower barriers to participation.

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Making legal obligations and tax rules clear:

The Government currently offers a generally supportive environment for earnings through the Sharing Economy. Users are able to earn up to £1,000 for casual activity/trading without needing to pay Income Tax - or up to £7,500 per year by letting out furnished accommodation in their home (the Rent a Room scheme). However, awareness and understanding of this is low: our polling showed that 72% are not aware of the income tax exemption for casual activity/trading under £1,000 per year, while 76% are not aware of the Rent a Room scheme.

To an extent, this issue may be solved by increasing cultural awareness of the Sharing Economy - however startups operating within it have said they feel that understanding of the Sharing Economy can be low within HMRC. Our polling found 46% of people thought the Government should do more to enable people to make money via the Sharing Economy - compared to just 11% who disagreed - and

given that participation can help with the cost of living and sustainability goals, we feel this would be a low cost action that could further strengthen the Sharing Economy ecosystem.

Recommendation: Improve understanding of Sharing Economy earnings and tax by creating a "one stop shop" Government page that outlines legal obligations in plain English.

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