



## Context

The Government has made clear its intention to transform the UK into a “global centre for the sharing economy.”<sup>1</sup> As part of this commitment, it is has launched a consultation aimed at gathering the ideas and opinions of businesses and the public. This consultation will help shape the foundations of a regulatory framework and tax environment for this fast-growing economic model.<sup>2</sup>

The Institute of Directors has been active on this topic for a number of months, and placed the sharing economy centre-stage at our Annual Convention where we heard from, among other entrepreneurs, Travis Kalanick, the founder of Uber. As part of our response to the Government’s consultation we surveyed over 1,200 members through our award winning Policy Voice members’ panel. This report outlines the findings of that research, and proposes a number of measures that could support, promote and strengthen the sharing economy.

## Introduction

The phrase *sharing economy* refers to the rise and spread of digital marketplaces that allow people to exchange and share skills, time, assets and money.

The sharing economy itself has always existed in one form or another. For example, information was often exchanged at community hubs, such as the local post office message board. However, the modern sharing economy has changed drastically and grown exponentially in the past two years. Technological innovation enables a variety of methods and platforms that connect people who want to share and trade. Prominent examples of the modern sharing economy are Uber<sup>3</sup>, where private owners of cars rent out their passenger seats, and AirBnB<sup>4</sup>, where people rent out spare rooms in their property as an alternative to hotel accommodation. Prominent British examples include BizzBy<sup>5</sup>, a platform that allows consumers to hire professionals like electricians and plumbers, and Spyn<sup>6</sup>, a service that enables people with dirty laundry to have it cleaned, folded, and delivered the next day. These platforms all allow people to make more efficient use of their time and enable others to supplement their income by making use of their underutilized assets.

Although this model is still very much in its infancy, it is possible to see the enormous benefits that the sharing economy could bring about. Individuals can more frequently and efficiently use their capital, labour and assets, allowing them to participate in the economy with ease. It is therefore vital that when the consultation concludes, and in the months that follow, politicians reaffirm their support for this growing sector and the opportunities it presents. The IoD believes that Britain has the capacity to become the Global Capital for the sharing economy. Whilst the Government's enthusiasm for the sector should be applauded, we also urge caution that the Government does not do too much to interfere with the sharing economy itself. Its growth so far has primarily come naturally and via the guiding hand of innovation and opportunity, not Government intervention. We believe that the Government's recent regulation around crowdfunding should be the model followed for the wider sharing economy. There are tax allowances that could be implemented to assist the sector's continued growth and some level of identity assurance provision to encourage those individuals – such as a high proportion of IoD members who are still unsure about interacting with strangers in the sharing economy.

## Government leadership to a clear policy framework

The UK finds itself in a position to become the global hub for the sharing economy. The internet sits at the core of the modern sharing economy and the UK already has an advanced and ubiquitous digital infrastructure in place. It has adapted better to using the internet than almost any other country. Britain's urban centres have among the highest rates of internet usage in the world. Illustrating this<sup>7</sup>, Office for National Statistics data from 2011 indicated that London alone had a penetration rate of 90%, although this number has likely grown<sup>8</sup>. By 2016, the internet will account for around 12.4% of UK GDP, according to the Boston Consulting Group, representing an increase from 8.3% in 2010<sup>9</sup>.

Importantly, the percentage of people using smartphones in the UK is also rising rapidly. Deloitte indicate that over two thirds of adults in the UK (around 35 million) currently own a smartphone, representing an 8% increase on 2013<sup>10</sup>. Given that smartphones are the preferred tool for finding and using sharing economy services, this rapid rise in ownership reflects growing opportunity.

The UK's competition has taken steps to stymie the sharing economy. European countries such as Germany<sup>11</sup> and Spain<sup>12</sup>, and cities, such as, Brussels<sup>13</sup> and Paris<sup>14</sup>, have taken steps to regulate or ban well known sharing economy brands like Airbnb and Uber. In the US, New York's Attorney General has argued that 72% of the rooms for rent under on the platform are 'illegal' according to the city's zoning Laws. This debate is ongoing and is currently influencing the emerging regulatory framework.<sup>15</sup>

There are numerous examples of where Britain has led the world in a sunrise industry only to see its competitive edge disappear. With PwC predicting that the global sharing economy could be worth £230 billion in 2025, it is vital that the UK makes the most of this opportunity<sup>16</sup>. As Lawrence (Larry) Summers, the former US Treasury Secretary, World Bank Chief Economist and President of Harvard University recently stated, the aims of Government and the sharing economy are closely aligned and it is vital that they work together<sup>17</sup>.

The recent recognition and regulation around crowdfunding and the peer to peer lending industry is a positive example of where regulation solidified and strengthened the positioning of a sunrise industry, rather than undermining it.

*The Financial Times* cited the Financial Conduct Authority's earlier, less defensive approach, in contrast to the US approach, as a major reason for this head start<sup>18</sup>. Barry James, the CEO of the Crowdfunding Centre, corroborated this, saying he was 'stunned' that Britain had come from 'nowhere to be a 'world leader' in crowdfunding in just two years. We have the opportunity to make similar progress in establishing ourselves as a welcoming country for the pioneers of the sharing economy.

## Extension of "Rent a Room" scheme

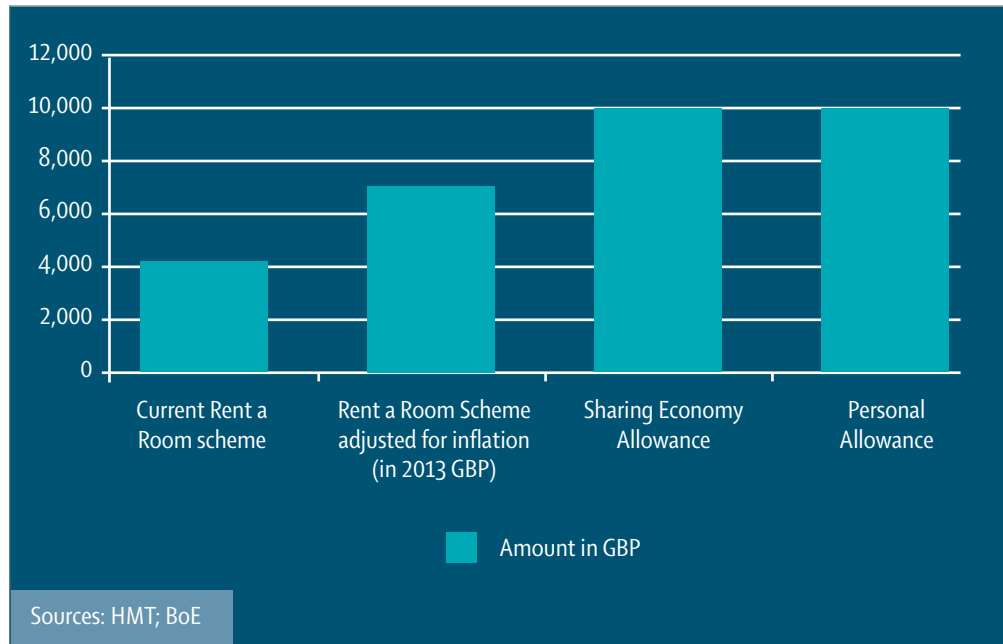
The IoD is in agreement with many other respondents to the consultation that the Government's "Rent a Room" relief scheme, which currently offers £4,250 of tax-free income, is a good model for the sharing economy. However, we believe that this scheme should be extended to include the wider sharing economy and that the exemption limit, which has not been updated for 18 years, should be updated immediately to £6,960, in order to account for inflation.

We would also recommend that the Government peg the sharing economy allowance to the same level as the personal allowance, which is currently £10,000. To be clear, we are calling for two separate allowances: the existing personal allowance, which would primarily exist for employment and skills, and a new sharing economy allowance, which would allow people to make the most of existing property and other assets, whilst making the UK even more competitive in this global industry.

The new sharing economy allowance would empower micro entrepreneurs to maximise their assets and fund other ventures. As an example, SpareRoom, a prominent flat-sharing website, notes that 52% of potential landlords are put off taking in a lodger due to the prospect of filling out additional tax forms<sup>19</sup>.

Removing this requirement on earnings in this sector up to £10,000 would also have the added advantage of allowing the Government and sharing economy businesses to explain how the sharing economy is contributing to the UK exchequer.

## Allowances



## Opening up the sharing economy market to more than just a 'cosmopolitan generation'

The sharing economy is based upon trust. Interacting participants provide as much information as possible, such as full name, phone number, address, and social media handles. Once engaged with the service or product, the issue of trust is then translated into positive or negative user reviews. Those who are not as comfortable using the sharing economy tend to place greater importance on these reviews. While not quite acting as insurance, due to the reviews' public nature and the repeated interaction element of the sharing economy, they are likely to guard against a negative experience.

84% of surveyed IoD members stated that insurance would be important to them when using a sharing economy platform. The IoD believes that firms acting in the sharing economy will respond to these market forces by providing their own checks and balances. For example, in the early 2000s, eBay introduced a mechanism whereby it guaranteed to investigate all transactions over £50 that received complaints. More recently, some platforms provide insurance. AirbnbB

offers Host Insurance of £600,000<sup>20</sup> while others will if given the opportunity, like Uber's US\$1,000,000 insurance policy for journeys in Washington DC<sup>21</sup>. Professor Sofia Ranchordas of Tilburg University argues that, as the market becomes more competitive and the consumer base expands out of the cosmopolitan generation, this demand for insurance will be met<sup>22</sup>.

We do believe, however, that Government can support identity assurance provision. For example, Policy Exchange has explained how extending the IDA programme, GOV.UK/Verify, for businesses to use will guarantee the integrity of users' identities<sup>23</sup>. The IDA programme verifies a user's identity with a respected third party organisation, such as credit score provider or the Post Office. All the agencies involved will have to work with international partners to establish global schemes in due course.

## Conclusion

The IoD welcomes the approach that the Government has taken to the sharing Economy to date, and we are pleased to have been able to contribute to the consultation. We also welcome the open-minded approach that policy makers have taken in launching consultations into disruptive technologies in general. These include an ongoing open consultation into digital currencies. The UK should be proud of pioneering an environment that welcomes the sharing economy and allows individuals to harness the potential of their spare capital.

The Government should continue to approach the sharing economy in an open-minded way, recognising its reliance on the building of trust between users. Implicit within this reliance is the creation of a system of checks and balances that promote fair competition and strong consumer protection.

The UK continues to outstrip its competitors in the global economy and this is in no small part down to labour market flexibility at a time of unprecedented pressure. The growth and potential of the sharing economy reflects the success of this versatile attitude. It is also the case that living standards have been hit by a prolonged period of earnings lagging behind inflation. The IoD believes that creating an opportunity for people to top-up their incomes in a flexible way, whilst taking ownership of their own property or labour, could go a long way towards raising living standards and restoring faith in enterprise.

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# Appendix

FIGURE 1

To what extent do you agree or disagree with the following statement: "I am comfortable interacting with people I don't know using sharing economy services"?

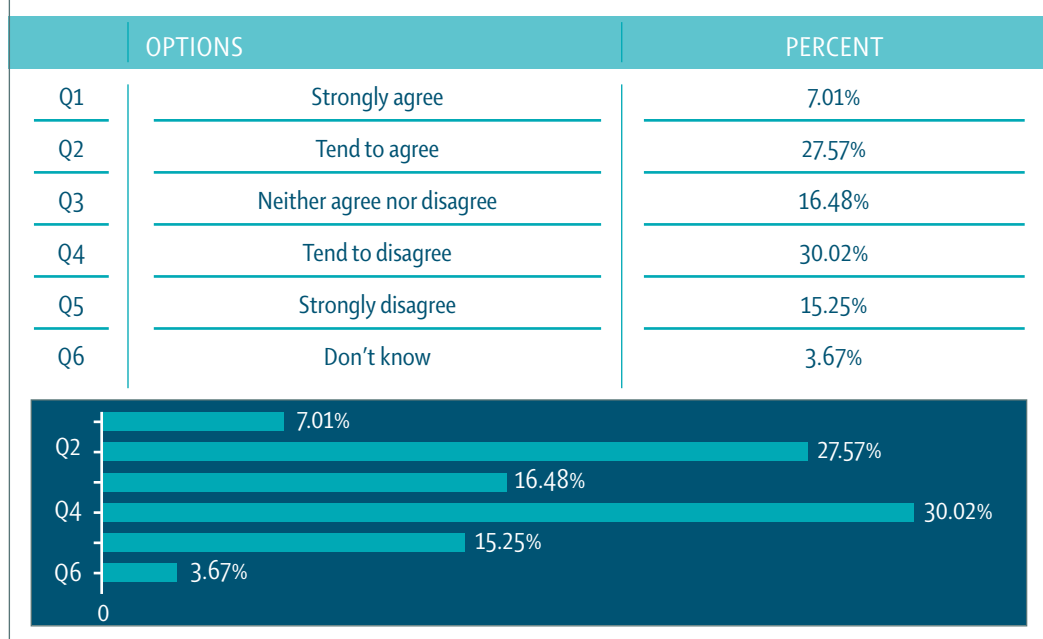
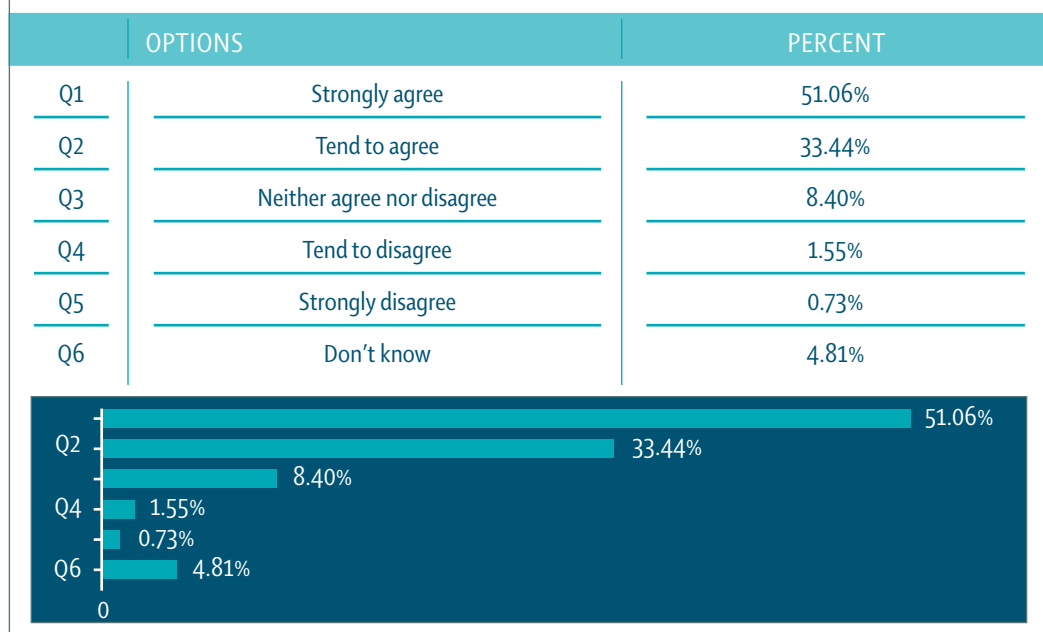


FIGURE 2

To what extent do you agree or disagree with the following statement: "It is important to me that I am insured when using sharing economy services"?



The IoD surveyed 1,226 of its members online between 23 October and 6 November 2014 via its award winning Policy Voice panel.