

POLICY AND REGULATORY STEWARDSHIP**Tax policy report:** Taxation of the gig and sharing economy

Date:	6 May 2021	Priority:	Medium
Security level:	In Confidence	Report number:	IR2021/182

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations	20 May 2021

Contact for telephone discussion (if required)

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Taxation of the gig and sharing economy

Purpose

1. This report seeks your agreement to the development of a discussion document which would consult on options for making it easier for operators in the sharing economy to comply with their tax obligations. The discussion document would consult on whether New Zealand should implement options identified by the Organisation for Economic Cooperation and Development (OECD) in its recent work on the tax implications of the gig and sharing economy. The report also informs you of the OECD's work and officials' initial views in relation to some of the options identified.

Background

2. In IR2021/060 we outlined the GST policy work programme to you. One of the items included on the GST policy work programme was reviewing New Zealand's GST system in the context of the gig and sharing economy. We noted in that report that officials would review both the GST and income tax implications for those operating in the gig and sharing economy and whether there were any improvements which could be made. This project does not, however, consider the taxation of digital service providers (such as Google and Facebook) which is a separate piece of work.
3. There is no standardised definition of the gig and sharing economy. Broadly, the gig and sharing economy refers to economic activity which involves the connection of buyers and sellers through the internet (and more specifically, digital apps) that enable people or businesses to share, sell, or rent property, resources, time, or skills.
4. Common examples of sharing economy activities include the provision of short-stay accommodation through apps like AirBnb and Bookabach, ride-sharing services through apps like Uber and Ola, and personal services through apps like Airtasker and JobHop. Organisations that facilitate the connection between buyers and sellers through these services are known as digital platforms.
5. Under existing tax rules, those who earn income through the sharing economy are required to pay tax on their profits, and charge and collect GST on supplies of goods and services made in New Zealand provided they expect to turn over more than \$60,000 in a 12-month period. In this regard, those who earn income through the sharing economy are treated no differently to those who conduct their business through other (more traditional) methods.
6. The rapid growth and popularity of the sharing economy has led the OECD to review the role of digital platforms as facilitators of the sharing economy, and the VAT/GST implications for those operating in the sharing economy. These reviews have manifested themselves in recent reports produced by the OECD, namely:
 - 6.1 Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy, and
 - 6.2 The Impact and Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration.

7. These reports have recently been published (with the GST report being released in the last few weeks) and provide policymakers with options that could be considered in the context of their tax systems. We can provide your office with copies of these reports if you like, but we have summarised the main points below.
8. In terms of the policy problem and opportunity in the context of this work, there are two main drivers. First, we have concerns with the compliance of sellers on sharing economy platforms in terms of both their income tax and GST obligations. There are opportunities to improve compliance across the board if rules are implemented which provide Inland Revenue with greater access to information about the activities of taxpayers' incomes through digital platforms. Second, the primary objective of New Zealand's GST system is to raise revenue through the taxation of goods and services supplied in New Zealand. The emergence of the gig and sharing economy has resulted in a significant number of low-value suppliers who operate below the GST registration threshold. This results in a significant amount of untaxed consumption in New Zealand, which creates a competitive disadvantage for other suppliers of goods and services who are charging GST.

Publications from the OECD

Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy – published in July 2020

9. The OECD developed and published Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (the Model Rules). These rules address an issue that tax administrations can usually only use their information request powers to obtain data held within their own jurisdiction, but most of the relevant data held by multinational digital platforms will be located in foreign jurisdictions.
10. We expect that most OECD countries will implement these rules in the next few years. If New Zealand were to implement the rules, Inland Revenue would collect, share, and receive information about sellers from tax administrations in other countries that had implemented the rules.
11. Inland Revenue would collect information from New Zealand headquartered digital platforms, and that information would relate to the activities of all sellers on that platform. Inland Revenue would then share this information with other tax administrations whose countries had also implemented the rules. Inland Revenue would also receive information from other countries, and this information could be used for compliance purposes – that is, Inland Revenue could cross-check taxpayers' returns with the information provided by the digital platforms, to ensure that sales revenues were being declared.
12. The Model Rules were developed with input from major digital platforms, who recognised the benefit in an internationally agreed solution, which reduces compliance costs for platforms who do not want to develop different systems for all the various countries in which they operate.
13. Officials consider implementing the Model Rules in New Zealand would provide Inland Revenue with better information that could be used for compliance purposes. It is unlikely that the information could be used to pre-fill taxpayers' returns because the information would be provided on a calendar-year basis. Implementation of the Model Rules in a New Zealand context would therefore arguably be less effective than bespoke rules, but bespoke rules would, in light of the OECD's Model Rules, not likely be welcomed by the digital platforms due to the increased compliance costs associated.

The Impact and Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration - published in April 2021

14. The report on the Impact and Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration identifies a broad range of options that countries could consider implementing in their domestic legislation. The report, which involved significant contributions from several digital platforms, focuses mainly on what role the digital platforms themselves could play in a GST context, with a focus being on platforms operating in the accommodation and transportation sectors.
15. The options are broad and range from requiring digital platforms to perform an educational role (which could see the platforms educate and assist sellers with their tax obligations), formal cooperation agreements (which would see protocols for information-sharing between platforms and tax administrations), through to requiring digital platforms to collect and withhold tax on behalf of their sellers.
16. Officials' initial views are that there is a strong case for amending New Zealand's GST rules so that digital platforms account for GST on behalf of the sales made through their platforms. This would put those operating through the sharing economy on a more even-footing with traditional suppliers of similar services (such as those in the taxi and hotel industries) and could reduce competition issues. Options would need to be developed to ensure that the sellers were able to claim back GST on their costs, as many sellers in the sharing economy may not be registered for GST because they operate below the \$60,000 registration threshold.
17. This option of making the digital platforms account for GST would also be consistent with the marketplace rules that apply to digital platforms which arrange sales of remote services (such as smartphone apps and online streaming services) or low-value imported goods (such as AliExpress). These marketplace rules have been a key component to the success of these earlier 2016 and 2019 reforms in efficiently collecting GST.

Other international developments

18. In light of the rise of the sharing economy, several countries have either announced an intention to make changes to their tax settings, or have already made changes.
19. In Austria, digital platforms are subject to documentation and notification requirements which require them to produce the Austrian tax administration with information about sellers' activities on their platform on request. If digital platforms do not comply, they can be liable for the VAT obligations if the provider of the service does not comply with their VAT obligations.
20. Similarly, in Canada, all money made from participation in the sharing economy is subject to income tax and may be subject to GST. The Canadian Government recently announced changes to their GST rules which ensure that all short-stay accommodation provided through an online platform is subject to GST, with GST being charged and remitted to the Canadian tax authority by the online platform. Ride-sharing is already subject to GST in Canada under existing rules which require all ride-sharing drivers to register for GST.
21. The United Kingdom released a Call for Evidence in December 2020. It sought feedback from submitters on the UK Government's assessment of the VAT challenges created by the sharing economy. No specific proposals were contained in the Call for Evidence. A summary of submissions and next steps is expected towards the end of the month.
22. Officials have had an initial discussion about the issues and options noted in this paper with the Australian Taxation Office. At this stage no announcements have been made by the Australian Government in light of the OECD's recent work.

Future discussion document

23. Subject to your agreement, officials will prepare a discussion document which would, subject to Cabinet approval, seek feedback on proposals to change New Zealand's tax rules to make it easier for those operating in the gig and sharing economy to comply with their tax obligations.
24. In particular, the discussion document would also seek submitters' views on amending New Zealand's GST rules so that the digital platforms themselves would be liable to account for GST on sales made through their platforms (with GST on expenses incurred by the platform operators being claimable through the usual GST return process for the sellers). Officials consider this is justifiable from a GST policy perspective on the basis that it puts those operating in the gig and sharing economy on an equal footing with more traditional suppliers of the same kind of goods and services.
25. It would seek submitters' views on whether New Zealand should implement the OECD's Model Rules. Several prominent digital platforms were involved by the OECD in the development of the rules, and have stressed the benefits of keeping the rules consistent across countries which would reduce the compliance costs for digital platforms who do not want to build different reporting systems for each country that they operate in.
26. Officials consider implementation of the Model Rules in New Zealand would be an improvement over the status quo (where Inland Revenue only receives information from digital platforms on an ad-hoc, as-requested basis) but are of the view that implementation of the rules will not make taxpayer experiences as seamless as they could be in the event bespoke rules for New Zealand were developed. The discussion document would seek submitters' views on their preferences, but we note that departure from internationally agreed rules would likely not be welcomed by the digital platforms.
27. The discussion document would also consult on whether there are any other opportunities which could be considered in the context of making it easier for those operating in the gig and sharing economy to comply with their income tax obligations.
28. Feedback following the discussion document could then be used to shape final policy recommendations which could be included in a future taxation bill. Officials note that based on experiences in implementing changes to the taxation of remote services and low-value imported goods, digital platforms need sufficient lead-in time to make changes to their systems to be compliant with any new rules. This was also stressed by the digital platforms in discussions at the OECD.
29. Officials note that any changes in this space are likely to be fiscally positive on the basis that they will contribute to improving the general tax compliance of those operating in the gig and sharing economy, and could result in an increase of GST if amendments were made to bring within the GST system all sales made through digital platforms.

Consultation

30. The Treasury were informed about the contents of this report.

Recommended action

We recommend that you:

- (a) **note** that the Organisation for Economic Cooperation and Development (OECD) have produced reports which outline changes that could be made to tax systems to better cater for the rise and growth of the gig and sharing economy

Noted

- (b) **agree** that officials prepare a discussion document for Cabinet consideration that would consult publicly on options for implementing changes outlined by the OECD in their reports on the taxation of the gig and sharing economy

Agreed/Not agreed

- (c) **agree** to allow officials to consult with digital platforms, their representatives, and other tax professionals on proposals which could be included in the discussion document (if you agree with the recommendation in paragraph b.)

Agreed/Not agreed

Graeme Morrison

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Policy and Regulatory Stewardship

Hon David Parker

Minister of Revenue

/ /2021