



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **Public release of a discussion document on the role of digital platforms in the taxation of the gig and sharing economy**

Date:	2 December 2021	Priority:	Medium
Security level:	In Confidence	Report number:	IR2021/460

Action sought

	Action sought	Deadline
Minister of Finance	Agree to recommendation	20 December 2021
Minister of Revenue	Agree to recommendation Approve and lodge the attached Cabinet paper and draft discussion document	20 December 2021 10am Thursday 3 February 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
Graeme Morrison	Policy Lead, Inland Revenue	s 9(2)(a)
William Edmonds	Senior Policy Advisor, Inland Revenue	

2 December 2021

Minister of Revenue

Public release of a discussion document on the role of digital platforms in the taxation of the gig and sharing economy

Purpose

1. This report seeks your agreement to the release of the attached discussion document on the role of digital platforms in the taxation of the gig and sharing economy. It follows Inland Revenue report IR2021/182 where you agreed officials report back this year with options to include in a discussion document in relation to the taxation of the gig and sharing economy.

Background

2. The taxation of the gig and sharing economy is included on the Government's current tax policy work programme. The gig and sharing economy refers to economic activity facilitated through **digital platforms** (commonly referred to as mobile apps) that connect **buyers** with **sellers** who share their **skills, labour, and assets**. Common examples include ridesharing services (through apps like Ola and Uber), short-stay accommodation (through apps like Airbnb and Bookabach), food delivery (through apps like Delivereasy), and freelance services (through apps like Fiverr).
3. There are no special tax rules for sellers in the gig and sharing economy. They are not employees, so have costs associated with complying with their tax obligations. These include being required to keep records of income and expenses, and potentially paying provisional tax and being required to account for GST. In this regard they are considered self-employed for tax purposes.
4. The gig and sharing economy is growing in popularity as it offers flexible working arrangements and an easy way to connect buyers and sellers. It is difficult to determine the size of the gig and sharing economy in New Zealand as Inland Revenue currently has no reliable data that confirms its size. This is a common problem for tax administrations globally.
5. Against this background, the Organisation for Economic Cooperation and Development (OECD) produced reports that outlined options for jurisdictions to consider implementing that would keep their tax systems fit-for-purpose. The attached discussion document includes discussion on these proposals. In particular, it seeks feedback on the following three areas:
 - 5.1 **Information reporting and exchange.** The document seeks feedback on whether New Zealand should implement rules developed at the Organisation for Economic Cooperation and Development or develop its own rules. The objective is to improve Inland Revenue's visibility of income earned by New Zealand residents on (resident and non-resident) digital platforms. This is discussed further below.
 - 5.2 **How GST should apply.** The document seeks feedback on whether GST should apply to all sales made through digital platforms in the gig and sharing economy. This is consistent with how GST applies to sales of remote services, and low-value imported goods, where electronic marketplaces have

an obligation to collect GST and return this to Inland Revenue. This supports the fairness and long-term sustainability of the GST system.

- 5.3 **Measures to reduce compliance costs.** Sellers who earn income through digital platforms in the gig and sharing economy have, when compared with employees, higher compliance costs associated with their tax affairs. The discussion document seeks feedback on measures that could be implemented which will reduce sellers' compliance costs, such as whether it would be useful for Inland Revenue to determine standard cost deductions for sellers in particular industries.
6. The proposals discussed are consistent with measures being taken by other countries in this context. They are also consistent with the thinking included in outputs from the OECD.

Information reporting and exchange

7. Inland Revenue receives regular income information from employers and financial institutions which it then uses to help pre-populate taxpayers' income tax returns. This reduces taxpayers' compliance costs, and also improves compliance because it reduces the likelihood that taxpayers will (either knowingly or not) not declare income.
8. Inland Revenue does not receive regular income information from digital platforms. It can, however, require digital platforms to provide income information using its information gathering powers. The use of these powers, however, lacks transparency and imposes high compliance costs on digital platforms. This problem is further exacerbated by the fact that many digital platforms operate in many different jurisdictions. This is a problem for tax administrations internationally. To address this problem the OECD, in consultation with several digital platforms, developed an information reporting and exchange framework. The OECD solution also ostensibly matches separate rules that European Union member countries are required to implement before the end of 2022.
9. The purpose of these rules is to improve tax administrations' visibility of income earned by sellers on digital platforms, so that it can use this information for compliance purposes (for example, pre-filling taxpayer income tax returns), and to reduce compliance costs for digital platforms through a standardised set of rules that digital platforms can comply with instead of having to develop different information reporting systems for different jurisdictions.
10. If New Zealand implemented these rules, amendments to the Tax Administration Act would be needed to require digital platforms that were based in New Zealand to disclose to Inland Revenue income information about sellers on their platforms. The information being collected would relate to accommodation, personal and professional services, the sale of goods and vehicle rentals.¹ To the extent that this information related to New Zealand residents, Inland Revenue could use this information in its compliance functions. For accommodation, personal and professional services this could include pre-population of income tax returns.²
11. Information relating to non-residents would need to be shared with that person's tax administration, so they could use the information in their compliance functions. Inland Revenue would also receive information from other tax administrations in relation to income earned by New Zealanders on offshore digital platforms.

¹ These areas were identified by the OECD as the largest areas of the gig and sharing economy internationally.

² A person who sells goods (for example, a car or artwork) on a digital platform might not have a corresponding income tax obligation, so pre-population would not be proposed here. Officials understand vehicle rentals do not typically involve a buyer, a seller, and a digital platform in New Zealand, and so unless consultation suggests otherwise, this information also would not be used for pre-population of sellers' income tax returns.

12. Income information would be reported on a calendar-year basis and the discussion document consults on several ways Inland Revenue could use the information, in particular given taxpayers are required to return income to a 31 March tax year. The options include an attribution method, which deems income earned through a digital platform to 31 December to be earned to 31 March; and a partial pre-population method, which would result in Inland Revenue pre-populating income tax returns for 9/12 months of the tax year.
13. In addition to consulting on whether New Zealand should implement the OECD rules, the discussion document also seeks feedback from submitters as to whether New Zealand should design and implement its own rules. Our current view is that the OECD rules are preferable to a bespoke reporting regime for New Zealand.

How GST should apply

14. GST applies to the broadest possible range of goods and services supplied in New Zealand. This keeps GST fair, simple, and efficient. GST should apply to services provided through digital platforms in the gig and sharing economy like any other services.
15. However, in practice, because many who operate through digital platforms are expected to earn below the registration threshold of \$60,000 per 12-month period, it is anticipated that there is a significant proportion of economic activity which is not currently subject to GST. This raises concerns from a fairness perspective, as same or similar services being provided through digital platforms have a different GST treatment to those same services being provided through other means (for example, motels and taxis). It also raises concerns from the perspective of the long-term sustainability of the GST base.
16. The discussion document notes that there are two main options to address these concerns. The first is lowering the GST registration threshold specifically for types of sellers on sharing economy platforms, and although submissions on this are sought, we expect most of the discussion will be on the second option. This is to involve digital platforms in the collection of GST. This could be achieved through extending existing marketplace rules that require platforms to collect GST in relation to supplies of remote services and low-value imported goods. The discussion document focuses on how the second option could work in practice, including the implications for digital platforms and sellers on those platforms.
17. When compared to the rules for remote services and low-value imported goods, the gig and sharing economy is more complex from a GST perspective. This is because unlike underlying suppliers of remote services and low-value imported goods, many of the sellers will be located in New Zealand and will be incurring New Zealand GST on the costs associated with operating through the digital platforms. For example, a New Zealand accommodation host will pay GST on their council rates and insurance premiums; and ridesharing drivers will pay GST on fuel and vehicle registration. One of the core principles of GST is that it is not a cost to businesses, and so in the scenario where digital platforms are returning GST on behalf of these sellers supplies through digital platforms, there should be a method for sellers to recover GST on costs incurred in producing their supplies.
18. To address this, the discussion document outlines three different options. All have advantages and disadvantages. These options include:
 - 18.1 **Requiring sellers to do a special GST registration to recover GST on their costs.** This is the most obvious solution but increases compliance costs on sellers and administration costs on Inland Revenue.

- 18.2 **Implementing a flat rate scheme.** This involves collecting GST from buyers at the standard GST rate, with digital platforms returning, for example, 10 percent (instead of 15 percent) to Inland Revenue as GST, and the remaining 5 percent to the sellers. This 5 percent is intended to recognise (but not approximate) the GST embedded on sellers' input costs. This method has the least accuracy in terms of recognising actual GST incurred, and as a result, stakeholders may suggest that if this method is chosen, sellers should have the option of a standard GST registration to prevent over-taxation. This method is intended to result in lower compliance costs for sellers.
- 18.3 **Integration of GST refunds into the income tax return.** This would see sellers claim, as part of their income tax return, the GST component of their income tax expenditure (ignoring expenditure for which there is no GST component) as a refundable income tax credit. As sellers will need to be completing income tax returns, this method should reduce their compliance costs when compared with a standard GST registration; however, from a cashflow perspective, as sellers would only be refunded GST once a year (compared to the ability for them to be refunded on a monthly basis, if they choose so, under a standard registration) they would be disadvantaged.
19. The chapter also discusses other technical amendments to the GST rules which are intended to reduce compliance costs for digital platforms and sellers. This includes rules digital platforms could apply to determine whether supplies made through their platform should be subject to GST: this is to prevent New Zealand GST from applying to services which are exported (for example, an Australian resident could purchase web design services through a digital platform in New Zealand and those services should not be subject to GST). It also includes considering the GST treatment of fees charged by digital platforms to sellers.

Measures to reduce compliance costs

20. This chapter seeks feedback from submitters on whether it would be useful to require Inland Revenue to determine, and publish, standard cost deductions for income tax purposes. Inland Revenue currently determines standard cost deductions for certain purposes (for example, motor vehicle expenditure) and this simplifies the tax calculation for those who are eligible to use them by enabling them to claim a "standard cost" deduction instead of determining their actual expenditure. It is noted that determining standard cost deductions in the gig and sharing economy could be difficult, if not impossible, because different sellers will have different costs. For example, a ridesharing driver who leases the vehicle they use to provide ridesharing services will have different costs to a driver who has borrowed to purchase their own vehicle.
21. The chapter also refers to other consultation on the GST apportionment and adjustment rules. This is being consulted on in a proposed officials' issues paper, but the option to exclude significant assets from the GST base is particularly relevant for sellers in the gig and sharing economy.


Release of the discussion document

22. Subject to any further changes, including technical and editorial changes, a draft of the discussion document has been prepared for your approval to submit to the Cabinet Economic Development Committee for consideration for a public release. We have also included a draft paper for the Cabinet Economic Development Committee which outlines the core proposals and purpose of the discussion document.

Consultation

23. The Ministry of Business, Innovation and Employment were consulted on the draft discussion document. The Treasury were also informed. No issues were identified during this consultation.
24. Officials have also had initial discussions with several accounting firms and signalled this was an area that would be the subject of further consultation. As the proposals are consistent with those discussed at the OECD, which involved consultation with digital platforms, we do not anticipate digital platforms will be surprised with the material included in the discussion document. We intend to meet with digital platforms once the discussion document, which seeks feedback on these proposals, is released.

s 9(2)(f)(iv)






Next steps

30. If you agree to the material in the discussion document, the next step would be to submit it to Cabinet for approval to release.
31. Legislative changes would be required to give effect to the options included in the discussion document. These changes could be included in an omnibus taxation bill next year, subject to your agreement and final policy recommendations being taken by Cabinet. We will report to you with final policy recommendations following consultation.

Recommended action

We recommend that you:

Recommendations	Minister of Finance	Minister of Revenue
(a) note the contents of the attached draft Cabinet paper and draft discussion document "The role of digital platforms in the taxation of the gig and sharing economy"	Noted	Noted
(b) note the draft discussion document is subject to minor technical and editorial changes	Noted	Noted
(c) s 9(2)(f)(iv) 		
(d) s 9(2)(f)(iv) 		
(e) approve and lodge the attached Cabinet paper and draft discussion document with the Cabinet Office by 10am on Thursday 3 February 2022, for consideration by the Cabinet Economic Development Committee on Wednesday 9 February 2022.	N/A	Approved and lodged

s 9(2)(a) 

Graeme Morrison
 Policy Lead, Indirect Tax
 Policy and Regulatory Stewardship

Hon Grant Robertson

Minister of Finance
 / /2021

Hon David Parker

Minister of Revenue
 / /2021