

In Confidence

Office of the Minister Revenue

Chair, Cabinet Economic Development Committee

PUBLIC CONSULTATION ON THE ROLE OF DIGITAL PLATFORMS IN THE TAXATION OF THE GIG AND SHARING ECONOMY

Proposal

1. This paper seeks the Cabinet Economic Development Committee's agreement to the release of the discussion document "The role of digital platforms in the taxation of the gig and sharing economy".

Relation to Government Priorities

2. The Government's current tax policy work programme has an item on the taxation of the gig and sharing economy. This is intended to include this public consultation on possible changes to the tax system that are intended to ensure the tax system remains fit-for-purpose given the growing popularity of digital platforms that facilitate economic activity in the gig and sharing economy.

The discussion document: The role of digital platforms in the taxation of the gig and sharing economy

3. The gig and sharing economy refers to economic activity which is facilitated by software applications (often referred to as "apps") which connect buyers and sellers of skills, labour, and assets. Common examples of activities in the gig and sharing economy include ridesharing services, short-stay accommodation, professional services, and free-lancing services.
4. The rapid growth of the gig and sharing economy poses challenges for tax administration and GST systems internationally. This has led the Organisation for Economic Cooperation and Development (OECD) to review options available for countries to consider implementing in response to the rise of the gig and sharing economy. This has also led to countries taking steps to make changes to their tax administration and GST systems to ensure they remain appropriate.
5. Against this background, the discussion document seeks feedback on three main areas of the tax system. These areas are:
 - 5.1 Improving Inland Revenue's visibility on sellers' income information
 - 5.2 How GST should apply to sales made through digital platforms in the gig and sharing economy, and

- 5.3 Other opportunities to reduce compliance costs for sellers on digital platforms in the gig and sharing economy.
6. The options discussed are consistent with international trends and thinking by the OECD.

Improving Inland Revenue's visibility on income information

7. Inland Revenue receives regular income information in relation to employment and investments for taxpayers. This information is used to help taxpayers comply with their tax obligations by including this information in income tax returns. This helps ensure that people pay the right amount of tax.
8. In relation to income earned on digital platforms in the gig and sharing economy, Inland Revenue does not receive regular income information. It can use information powers to request information from digital platforms, but this process lacks transparency and imposes compliance costs on digital platforms. This results in Inland Revenue not being able to assist those on digital platforms in the same way it assists employees and investors with pre-filling of income information in income tax returns.
9. To address this gap, the discussion document seeks feedback on whether New Zealand should design its own information disclosure rules or implement the Model Reporting Rules for Digital Platforms with Respect to Sellers in the Gig and Sharing Economy which were developed at the OECD. These rules leverage existing frameworks that enable information sharing between tax administrations of information that is useful for tax administrations in a compliance context. That is, implementing these rules would:
 - 9.1 Require New Zealand digital platforms to report to Inland Revenue information about incomes earned on these platforms. This information would then either be used by Inland Revenue (if the sellers were based in New Zealand) or Inland Revenue would share information about non-residents with jurisdictions where they were tax resident.
 - 9.2 Result in Inland Revenue receiving information from other tax administrations about incomes earned by New Zealand residents on offshore digital platforms. This information could then be used for compliance purposes and pre-filling of income tax returns.

How GST should apply to sales made through digital platforms in the gig and sharing economy

10. New Zealand's GST applies to the broadest possible range of goods and services. This keeps GST simple to understand, fair, and efficient at raising revenue. GST is required to be charged when a person is carrying on a taxable activity, and the consideration received for their supplies of goods and services is expected to exceed the registration threshold of \$60,000 in a 12-month period.
11. Electronic marketplaces currently have a role in collecting GST on supplies of remote services and low-value imported goods to New Zealand resident consumers. These changes were made to ensure that the GST system remains fair and sustainable.

12. The discussion document notes that to further improve fairness and support the long-term sustainability of the GST system, there is a strong case for GST applying to sales of services made through digital platforms in the gig and sharing economy. The discussion document explores how digital platforms could collect GST, and how sellers could recover GST on costs incurred in operating through digital platforms. Other technical proposals to the GST rules are discussed in this context.

Other compliance cost reduction measures

13. The paper also seeks feedback on other changes to the tax system that would make it easier for sellers to comply with their tax obligations. Examples include a simplified approach to determining deductions and an option to exclude significant assets from the GST base, where those assets are used in the gig and sharing economy activity.

Implementation

14. The proposals in this discussion document would require legislative changes to the Inland Revenue Acts. The proposals would also affect digital platforms in New Zealand, taxpayers who operate on digital platforms, and Inland Revenue. The purpose of the discussion document is to seek feedback on the proposals, including implementation implications, which will be reported back to Cabinet at the time final policy decisions are sought.

Financial Implications

15. There are no financial implications associated with releasing this discussion document.
16. The options included in the discussion document will have financial implications if implemented. These will be reported to Cabinet at the time final policy approvals are sought.

Legislative Implications

17. There are no legislative implications associated with releasing this discussion document. The proposals in this paper would require changes to the Inland Revenue Acts, if implemented. The legislative vehicle for any such changes would be determined at the time final policy decisions are taken by Cabinet in the future.

Impact Analysis

Regulatory Impact Assessment

18. The Regulatory Impact Analysis panel at Inland Revenue has reviewed and confirmed that “The role of digital platforms in the taxation of the gig and sharing economy” discussion document can substitute for an interim Regulatory Impact Statement. It will lead to effective consultation and support the eventual development of a quality Regulatory Impact Statement.

Climate Implications of Policy Assessment

19. The Climate Implications of Policy assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

20. Releasing the consultation document does not have any population implications. Any population implications resulting from the proposals will be included in final policy advice to Cabinet following consultation.

Human Rights

21. The proposals discussed in the consultation document are not inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Consultation

22. Inland Revenue officials consulted with the Treasury the Ministry of Business, Innovation and Employment in developing the proposals included in this discussion document.
23. The proposals discussed in the discussion document are consistent with proposals that were consulted on at the OECD. This included discussion with digital platforms and tax specialists. The intent of this discussion document is to seek feedback from digital platforms on the workability of proposals in a New Zealand context. This feedback will be used to determine final policy recommendations for Cabinet to take in the future.

Communications

24. The discussion document would be released on Inland Revenue's tax policy website.

Proactive Release

25. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers in whole within 30 working days of the release of the discussion document.

Recommendations

The Minister of Revenue recommends that the Committee:

1. note that the Government's tax policy work programme currently includes an item on the taxation of the gig and sharing economy
2. approve the release of the attached discussion document "The role of digital platforms in the taxation of the gig and sharing economy"
3. authorise the Minister of Revenue to determine the date the discussion document will be released

4. authorise the Minister of Revenue to make further changes to the discussion document that are of a minor, editorial, or technical nature before it is released.

Authorised for lodgement

Hon David Parker
Minister of Revenue