

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

A Government discussion document



Te Kāwanatanga o Aotearoa
New Zealand Government

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Minister of Revenue

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CHAPTER 1

Introduction

- 1.1 Recent years have seen the rapid development of digital platforms which quickly and easily connect a product or service provider with potential buyers. This emerging model of business, referred to as the gig and sharing economy, is driven by modern technologies that enable digital platforms to facilitate transactions between sellers and buyers, often through a mobile application. A study of the major global markets placed the size of the gig and sharing economy at US\$204 billion in 2018, with that size projected to reach US\$455 billion by 2023. As a result of growth in the gig and sharing economy, many people now have an opportunity to offer their goods and services to a wide audience of potential buyers in a format that is flexible and accessible.
- 1.2 The emergence of the gig and sharing economy has created a need for governments across the world to re-evaluate whether their tax systems remain fit-for-purpose. The Government wants to explore opportunities to ensure that the tax system functions fairly and supports those who earn income through the gig and sharing economy.
- 1.3 The purpose of this discussion document therefore is to consult generally on matters relating to New Zealand's tax settings applicable to the gig and sharing economy. It considers options that the Government is considering that have the objectives of minimising compliance costs for digital platforms, improving fairness for traditional sellers, enhancing tax compliance generally, and making life easier for sellers entering the sector who may not be familiar with business tax obligations.
- 1.4 Chapter two provides background and context on these issues and discusses the opportunities and options available to address these issues.
- 1.5 Chapter three consults on whether New Zealand should implement rules developed at the OECD which require digital platforms to provide information to tax authorities that would then be shared globally. The purpose of these rules is to create a global standardised approach to information collection and exchange to ensure that income from sales is taxed appropriately.
- 1.6 Chapter four considers whether GST should apply to all sales made through digital platforms and whether digital platforms should have a role of collecting GST on behalf of sellers that operate on their platforms. This is to improve fairness and support the long-term sustainability of the GST system. This chapter also draws upon OECD work on the impacts of the gig and sharing economy on GST policy and administration.
- 1.7 Chapter five summarises other potential opportunities to improve the tax system in the context of the gig and sharing economy. It consults on whether there are improvements that could be made to some of the existing tax rules, and whether the Government should consider further measures to help reduce compliance costs for sellers in the gig and sharing economy.
- 1.8 Several key terms are used in this discussion document. Unless otherwise stated, those terms have the corresponding meanings:

Digital platform

These are software platforms that connect buyers and sellers of goods and services through an online marketplace. This is not intended to include Application Programming Interfaces

(APIs). This term is further defined in chapters 3 and 4 for the purposes of the proposals discussed in those chapters.

DAC7	The Council Directive (EU) 2021/514 adopted by the Council of the European Union on 22 March 2021. DAC7 is discussed further in chapter 3.
Gig and sharing economy	Refers to economic activity facilitated by digital applications (often referred to as “apps”) that connect buyers with sellers who provide their skills, labour and/or assets for a consideration.
Model rules	Rules developed by the OECD to allow tax jurisdictions around the world to share information relating to transactions on digital platforms. The model rules are discussed further in chapter 3.
Registered person	A person who is registered for goods and services tax under the Goods and Services Tax Act 1985. This also includes a person who is liable to be registered for GST under the Act.
Seller	People who earn income through their activity on digital platforms.

How to make a submission

- 1.9 Submissions are invited on the options and proposals in this discussion document.
- 1.10 Your submission should include a brief summary of your main points and recommendations. Please also indicate whether officials from Inland Revenue may contact you to discuss the points raised, if required.
- 1.11 The closing date for submissions is **21 April 2022**.
- 1.12 Submissions can be made:
- by email to policy.webmaster@ird.govt.nz with “The role of digital platforms in the taxation of the gig and sharing economy” in the subject line, or
 - by post to:

The role of digital platforms in the taxation of the gig and sharing economy
C/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
Wellington 6140
- 1.13 Submissions may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of responses on the grounds of privacy, or for any other reason, will be determined in accordance with that Act. If you consider that any part of your submission should properly be withheld under the Act, please clearly indicate this.

CHAPTER 2

The gig and sharing economy

- 2.1 The gig and sharing economy generates economic benefits, providing consumers with a wider range of services and sellers with opportunities for work that is flexible and accessible.
- 2.2 However, the gig and sharing economy business model does not fit neatly within existing tax rules and administration which can be to the detriment of the seller, to the tax base and to the economy. This chapter considers these issues.
- 2.3 This discussion document seeks to address these issues and ensure that existing tax settings appropriately cater to the gig and sharing economy in New Zealand. This chapter outlines options to address the identified issues. The options draw heavily on work by the OECD on taxation and information collection and exchange in the gig and sharing economy.
- 2.4 Addressing the issues identified is a crucial step in maintaining the social licence of the gig and sharing economy so that it can continue to develop and support New Zealand's economy into the future.

Making it easier to comply with income tax obligations

- 2.5 A key issue with the current tax settings is that they do not support sellers to comply with their income tax obligations. Many academic authors have commented on the tax compliance challenges facing sellers in the gig and sharing economy.¹ These authors have also expressed concern about the lack of data available in this area. To better understand the challenges they face, tax authorities throughout the OECD are taking steps to improve data collection. For example, a 2017 study prepared for Her Majesty's Revenue and Customs revealed a lack of understanding on the part of sellers earning income through the United Kingdom gig and sharing economy about their tax obligations.
- 2.6 People participating in the gig economy can often be sole operators with little experience in business practices. The gig and sharing economy enables people to access paid work with relative ease. In most cases, simply signing up to a digital platform connects the seller with customers and potential revenue flows. However, once the seller is established on a digital platform, this initial simplicity can give way to complexity. This is because tax obligations remain the responsibility of individual sellers who will, to remain compliant with their tax obligations, need to keep records and set aside some of their earnings in anticipation of a future tax bill.
- 2.7 Those who earn income through digital platforms in the gig and sharing economy have different obligations to those who earn income from investments

¹ Bornman, M., & Wessels, J. (2018). *The tax compliance decision of the individual in business in the sharing economy*. eJTR, 16, 425; Migai, C. O., de Jong, J., & Owens, J. P. (2018); Oei, S. Y., & Ring, D. M. (2015). *Can sharing be taxed*. Wash. UL Rev., 93, 989. *The sharing economy: turning challenges into compliance opportunities for tax administrations*. eJTR, 16, 395. One study looked at conversations between ride-sharing sellers on various internet discussion forums. The authors found that the tax advice shared in these forums ranged in sophistication and accuracy. They concluded that non-compliance was likely to be at its lowest for expenses claimed by ride-sharing sellers: Oei, S. Y., & Ring, D. M. (2017). *The tax lives of Uber drivers: Evidence from internet discussion forums*. Colum. J. Tax L., 8, 56.

and through employment, as investment income payers and employers have obligations to provide Inland Revenue with income information (and withhold tax) which reduces compliance costs for these taxpayers, as they do not have to keep records and save for anticipated tax liabilities.

- 2.8 New Zealand's administration of income tax means that a substantial proportion of individuals – wage and salary earners – do not need to prepare or file income tax returns. Instead, their income tax obligations are largely dealt with by withholding taxes through their employer (PAYE), bank (RWT), or KiwiSaver fund (PIE rules). These third parties also provide a significant amount of information to Inland Revenue which is then used to pre-populate income tax returns. These rules are designed so that individuals do not have to be experts on tax law and preparing tax returns.
- 2.9 As a result, most individuals do not typically need to access software products, accountants or other tax advisors who assist individuals in managing their tax affairs. Many of those who enter the gig and sharing economy may therefore have no, or limited, prior experience of managing their tax obligations outside of being an employee; their participation in the gig and sharing economy will be the first time the obligation to apply more complex rules falls on them.
- 2.10 Internationally, there are hundreds of thousands of sellers engaged in the gig and sharing economy. These sellers are linked directly to digital platforms that collate detailed information on their activities. There is a clear opportunity therefore to improve Inland Revenue's visibility of income information held by digital platforms, which could be used to encourage sellers to comply with their tax obligations. Doing so would support the social licence of the gig and sharing economy in New Zealand.

Improving fairness between similar service providers

- 2.11 Another issue with the current tax settings is that they do not always promote fairness between sellers in the gig and sharing economy and traditional suppliers. This is because the current rules do not create a level playing field between traditional suppliers and sellers operating in the gig and sharing economy. In this discussion document therefore, fairness refers to traditional suppliers and sellers in the gig and sharing economy facing similar GST rules.
- 2.12 New Zealand's goods and services tax (GST) is a broad-based tax on the supply of goods and services in New Zealand. A comprehensive GST ensures that businesses face the same cost and pricing considerations as each other. This is important for maintaining fairness. However, the GST system recognises that imposing GST obligations on businesses increases their compliance costs. Hence suppliers are not required to register for GST if the value of their supplies made in a 12-month period is expected to be less than \$60,000. This registration threshold generally strikes the correct balance between the compliance costs of smaller operators and maintaining fairness between suppliers by reducing competitive distortions.
- 2.13 Many sellers in the gig and sharing economy will not exceed the \$60,000 registration threshold for GST. However, their sales will be charged and collected by a smaller number of digital platforms which collectively facilitate millions of sales of services in New Zealand. While GST is effectively collected on a portion of these sales by non-resident platforms under the remote services

rules,² those who receive services facilitated by digital platforms in the gig and sharing economy are not generally subject to GST themselves.

- 2.14 The current tax rules do not create a level playing field between gig and sharing economy sellers and their more traditional counterparts. While most sellers on digital platforms are not required to charge GST, competing suppliers such as taxi drivers, hotels and motels are generally charging GST. For example, taxi companies often require their drivers to register for GST regardless of whether they meet the registration threshold, as many of their clientele will be registered for GST and will expect to claim a GST refund for their taxi rides.
- 2.15 When considering the gig and sharing economy collectively then, the competitive distortions resulting from the \$60,000 threshold applying become more concerning. As the gig and sharing economy continues to grow and more people start to earn income through digital platforms, there is a risk that this type of business model could erode the GST base. There is a question therefore of whether the GST registration threshold strikes the right balance in the context of the gig and sharing economy.

Developing solutions that involve digital platforms

- 2.16 Many digital platforms are aware of the need to address issues related to tax compliance and fairness in the gig and sharing economy. At the international level they have shown a willingness to engage with jurisdictions to achieve practical outcomes, including those that will improve sellers' compliance with their income tax obligations and improve fairness in the GST system.
- 2.17 Digital platforms have a significant amount of information about sellers that is useful in a tax context. This is because a large part of their business is facilitating transactions between buyers and sellers on their marketplace. There is scope therefore to involve them in measures to increase tax compliance and fairness in the gig and sharing economy.
- 2.18 Unlike traditional suppliers however, digital platforms often operate in many countries with differing tax rules and regulatory requirements. Some digital platforms are start-ups which are initially focused on improving their technology and growing their user-base, and they do not necessarily consider the tax implications of their business model until it has proven to be successful.
- 2.19 These issues may make it difficult for regulators to successfully impose new obligations on digital platforms, particularly if they are jurisdiction specific. If the compliance costs of meeting new regulations are too onerous for digital platforms, some may withdraw from the jurisdiction in question, or simply not comply with the new regulation.
- 2.20 An internationally agreed set of rules will help promote standardisation across the sector, which should result in lower compliance costs for digital platforms. This is what the OECD have sought to develop with their model rules (discussed in detail in chapter 3).

² Digital platforms often charge sellers a fee for facilitating the transaction between the seller and the buyer. Unless these facilitation services are provided to GST registered recipients, they are subject to GST under New Zealand's remote services rules which require non-residents (including offshore platforms) to charge GST on services provided to New Zealand residents. If the platform is New Zealand resident, they will be registered for New Zealand GST and responsible for returning GST on the facilitation fee under our domestic rules.

Other jurisdictions are also addressing these challenges

- 2.21 The Canadian Government introduced rules to deal with the expanding gig and sharing economy. The value-added tax (VAT) registration threshold no longer applies to sellers providing ridesharing services, so sellers must register for, and charge, VAT on their services. Digital platforms that facilitate taxable supplies of short-term accommodation in Canada are now required to collect GST on supplies made by sellers who are not registered for VAT themselves.
- 2.22 In 2020, reforms were implemented in Mexico to support gig and sharing economy sellers to comply with their tax obligations. The main change was to place withholding and reporting obligations on gig and sharing economy platforms for income tax and VAT owed by the seller.
- 2.23 Under these rules, the platform is required to withhold VAT at a rate of 8%. The rate is reduced to half the standard rate because VAT deductions are not available to sellers for the costs they incur in producing taxable supplies. This means that sellers do not have to register and account for VAT themselves. To ensure that supplies made by sellers are not over-taxed, the platforms charge VAT at the standard rate of 16% and return the 8% not withheld to individual sellers as a proxy for their VAT deductions.
- 2.24 This approach decreases the accuracy of the tax assessment; however, it significantly reduces the compliance costs on sellers. In cases where the seller fails to provide their tax identification number (TIN) to the platform, VAT is withheld at the standard rate of 16% so that the seller is effectively denied any VAT deductions.
- 2.25 The withholding rate for income tax varies depending on the earnings of the individual supplier. A higher rate is also imposed on sellers who fail to provide their TIN.
- 2.26 In July 2021, the United Kingdom Government released a summary of responses to a call for evidence on the VAT challenges created by the growth of the gig and sharing economy. The evidence obtained will be used by them to further develop their understanding of the gig and sharing economy and the potential case for reform to VAT.
- 2.27 The United Kingdom Government will implement the OECD model rules from January 2023. They have released a consultation document seeking views on the optional elements of the rules. The consultation closed on 22 October 2021.
- 2.28 The Australian Government currently collects data from ridesharing and accommodation sharing platforms that operate in Australia. A ridesharing data matching programme has been in place since 2015. Data is provided by platforms to the Australian Taxation Office (ATO) and used to identify individual sellers. Once identified, the ATO can support these sellers to meet their income tax and GST obligations. Where necessary, compliance action may be initiated based on the data collected. The GST registration threshold does not apply to ridesharing (or taxi) drivers, who are required to register for GST.
- 2.29 The Australian Government has also invited submissions on a proposed reporting regime for sharing economy platform providers. The reporting regime is separate to that proposed by the OECD. It would require platforms that allow buyers and sellers to transact electronically to report information on all transactions for services or the sharing and loaning of assets (unless an exemption applies). It would be mandatory to report information identifying the seller such as their Australian Business Number, and information about transactions in the reporting period such as total gross payments to the seller

and GST attributable to them. Reporting would initially be required on a biannual basis.

- 2.30 France has also imposed information sharing requirements on digital platforms whose sellers provide services or carry out sales in France. The digital platform is required to provide sellers with a summary of the transactions carried out by them for the given year. This information must also be passed to the tax authorities on an annual basis. The required information includes identification details of the seller, the number and value of transactions carried out by them that year, and the bank account into which the income is paid. The digital platform may incur a fine if they do not provide the necessary information in a timely manner.
- 2.31 In India, digital platforms facilitating ridesharing and food delivery services are liable to collect and remit GST on the supplies made by sellers operating on their platforms from 1 January 2022.

Options have been developed by the OECD

- 2.32 The OECD has led work that considered the tax implications of the gig and sharing economy. They have produced a range of reports and guidance in this space, including model rules for reporting by platforms with respect to sellers in the gig and sharing economy (OECD model rules),³ a report on the impact of the gig and sharing economy on GST policy and administration,⁴ and a code of conduct for co-operation between tax authorities and gig and sharing economy platforms (Code of Conduct).⁵
- 2.33 The OECD model rules were developed in response to calls for a global, standardised framework for reporting information relating to activities facilitated by digital platforms. The rules apply to digital platforms offering accommodation, transport, and personal services. They require digital platforms to collect information concerning income earned by sellers transacting on their platform and report it to the tax authority in the jurisdiction in which the platform is resident. The rules also have an optional module which extend the coverage of the reporting rules to cover the sale of goods and vehicle rental.
- 2.34 If all jurisdictions adopt the model rules, a digital platform will only need to report information once, to its own tax authority. The tax authority would then exchange that information with tax authorities in other jurisdictions to ensure that each jurisdiction receives information relevant to its residents. Implementation of the rules will thus limit the compliance costs imposed on digital platforms by ensuring consistency in reporting across jurisdictions.
- 2.35 There will be various benefits to tax authorities that choose to implement the model rules. The rules will reduce sellers' ability to hide their income from the tax authorities. Tax authorities will be able to assist sellers with their tax

³ OECD. (2020). *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy*. OECD, Paris. <https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm>

⁴ OECD. (2021). *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*. OECD Publishing, Paris. <https://doi.org/10.1787/51825505-en>

⁵ OECD. (2020). *Code of Conduct: Co-operation between tax administrations and sharing and gig economy platforms*. OECD, Paris. <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/code-of-conduct-co-operation-between-tax-administrations-and-sharing-and-gig-economy-platforms.pdf>

obligations, be it through prompting or pre-population of sellers' tax returns. Having a standardised set of reporting obligations will also benefit platforms as they will not have to comply to regimes with different rules and in different countries. The OECD model rules were developed with direct taxes such as income tax in mind, however they can also be used for GST purposes. The OECD has also developed an optional extension to the rules to align with developments in Europe.⁶ If implemented, the extension would broaden the scope of the rules to cover the sale of goods and vehicle rental.

- 2.36 The OECD has also published a report that outlines the challenges facing GST/VAT policy and administration in the gig and sharing economy space, and policy options to respond to these challenges. It presents a useful framework from which tax authorities can develop a strategy for responding to the growth of the sharing economy. The report does not prescribe any one policy response to address issues with GST compliance and fairness in the sharing economy but recognises that the right policy response will be jurisdiction-specific and may entail a range of options working together. These options are discussed in the following section.
- 2.37 The OECD have also produced a Code of Conduct which is intended to facilitate co-operation between tax authorities and digital platforms in the gig and sharing economy. It sets out core elements of co-operation between tax authorities and platform operators (those who run the digital platforms). The purpose is to promote standardisation of 'soft law' approaches to the provision of information and to help sellers understand their obligations.

Options for improving compliance and fairness

- 2.38 Education is one method by which to increase compliance of sellers with both their income tax and potential GST obligations. Many sellers are likely unaware of their obligations and may not have completed a tax return before. Some sellers may be deliberately non-compliant and not reporting their income to Inland Revenue to avoid having to pay tax on amounts earned from these activities.
- 2.39 Inland Revenue has information on its website directing sellers on their potential tax obligations, however there is scope to be more targeted in the delivery of this information. Another option is to work with digital platforms as distributors of educative material. Digital platforms are well-placed to deliver timely and accurate information to sellers concerning their tax obligations given the data they hold and their digital proximity to sellers.
- 2.40 Assisting sellers with their tax obligations and improving compliance could also be achieved through the provision of data to the tax authorities. Data collected by digital platforms and passed on to the tax authorities (under the OECD model rules, for example) could be utilised by tax authorities to improve compliance in two ways. Firstly, the data could be used to pre-populate income tax returns of sellers. Whether pre-population is a feasible option will depend on the accuracy of the data passed on by the digital platform, and the timing of data provision. Alternatively, tax authorities could inform identified sellers that they have data on them and that they expect to see incomes reported by them at the right time as part of the income tax return process.

⁶ The Council Directive (EU) 2021/514 (known as DAC7) sets out a reporting regime for platforms and will be implemented by EU members by 1 January 2023. DAC7 will be discussed more in chapter 3 but is very similar in function to the model rules (including optional extension).

- 2.41 A third compliance enhancing approach would be to involve digital platforms in collection of the tax. This could be achieved in several ways. For GST purposes, the digital platform could have a role of collecting GST on behalf of sellers in the gig and sharing economy and paying that to Inland Revenue. For income tax purposes, a withholding tax could be introduced. There are difficulties with implementing withholding taxes however, as they impose additional compliance costs on the person responsible for withholding and the rate is often difficult to determine.
- 2.42 Alternatively, the digital platform could be made jointly and severally liable for any GST undeclared by sellers on the platform, so that the platform must return tax in some cases where the seller has failed to. This liability could be triggered where Inland Revenue notifies the digital platform of an instance of non-compliance that it fails to follow up on, or where the digital platform has a reasonable expectation that a seller should be registered for GST but is not.
- 2.43 A problem with these options is that, for GST, the issue in many cases is not about compliance, but is about fairness, as many sellers do not meet the registration threshold while their more traditional counterparts do (for example, a hotel would charge GST on their rooms while an accommodation sharing host might not meet the threshold required to charge GST).
- 2.44 To address this problem of fairness, the registration threshold could be lowered to capture supplies made through the gig and sharing economy. However, the registration threshold is in place for a reason; the compliance and administration costs of imposing GST on low-value supplies are outweighed by the amount of GST that would be collected. One option that could be considered is to reduce the GST registration threshold specifically for sellers operating in the gig and sharing economy. However, this option would ignore the fact that there is a third party capable of collecting and returning GST on behalf of its users, which has the advantage of reducing compliance costs and greater accuracy. A solution that responds to this concern is to deem the digital platform to be the supplier of the goods or services provided by the seller. The platform would then be obliged to return GST on all supplies made through the platform. The registration threshold would apply to the digital platform, rather than the individual seller.
- 2.45 This has the benefit of addressing some of the fairness concerns, however it does not address issues with sellers' compliance costs as; while GST on sales would be managed by the platform (likely increasing platform compliance costs), there is still an issue of how to ensure sellers are able to claim GST deductions in a manner that is easy to comply with. These problems will be discussed further in chapter four.
- 2.46 The options outlined are not mutually exclusive; they may be applied alongside one another. It is noted that any proposals need to be balanced against the impact of those changes on taxpayers' compliance costs (including sellers and digital platforms), Inland Revenue's administration costs, and the fairness, coherence, and efficiency of the tax system more broadly. Submissions are welcomed on whether the proposals discussed below strike the right balance between improving tax revenue and fairness but also not levying undue compliance and administration costs on the parties involved. Specific proposals are discussed in greater detail in the following chapters.

Criteria for assessing the options

- 2.47 The remainder of this discussion document considers options to address some of these issues in greater detail. To determine the most appropriate response,

the options will be assessed against the following standard principles for assessing tax policy changes:

- **Fairness:** Do the preferred options level the playing field between traditional suppliers and sellers in the gig and sharing economy? This is often described as horizontal equity: the idea that people in the same position should pay the same amount of tax.
- **Compliance:** Do the preferred options encourage sellers in the gig and sharing economy to comply with their tax obligations with low compliance costs?
- **Administration:** Are the preferred options possible for Inland Revenue to implement and administer without substantial ongoing administration costs?
- **Efficiency:** Do the preferred options minimise impediments to economic growth? Do the options avoid distortions to taxpayer decisions?
- **Coherence:** Do the preferred options make sense in the context of the entire tax system and New Zealand's international tax relations? Are the preferred options consistent with New Zealand's broad-base low-rate framework?
- **Sustainability:** Are the preferred options future-proofed? Will the options be able to apply and extend to future developments in the gig and sharing economy space without the need for further regulatory change?

CHAPTER 3

Information reporting and exchange

- 3.1 Access to accurate and timely income information is crucial for the smooth and efficient running of the tax system. It allows Inland Revenue to check that people are paying the appropriate amount of tax and reduce opportunities for avoidance.
- 3.2 This chapter outlines proposals to increase Inland Revenue's visibility over the activities of sellers on digital platforms in the gig and sharing economy. Inland Revenue does not currently receive regular information from digital platforms about sellers' activities on digital platforms. However, Inland Revenue can, and has, obtained information from digital platforms using its information collection powers. This approach lacks transparency and is inefficient for Inland Revenue and digital platforms, who may need to spend considerable time and energy to comply with an information request.
- 3.3 There is therefore an opportunity to improve the framework under which Inland Revenue accesses information held by digital platforms, improving transparency and making the model more efficient for digital platforms and for Inland Revenue. The benefits of a more transparent information reporting framework include providing Inland Revenue with more consistent access to information about sellers' activities on digital platforms (and this information could be used by Inland Revenue to support tax compliance, such as by pre-populating sellers' income tax returns), and improved certainty and lower compliance costs for digital platforms that are providing the information.
- 3.4 As noted in chapter 2, the OECD have developed rules that would help achieve these objectives. This chapter seeks public feedback on whether New Zealand should implement the rules developed at the OECD which would enable Inland Revenue to receive regular income information from digital platforms about their sellers' activities and incomes. This chapter also consults on how the information could be used.
- 3.5 If implemented, the proposals discussed in this chapter would affect:
- **New Zealand resident digital platforms:** They would be required to provide Inland Revenue with information about sellers' incomes earned on those platforms by both New Zealand tax residents and non-residents.
 - **Sellers on digital platforms:** This includes both resident and non-resident sellers, as information provided by digital platforms could be included in sellers' income tax returns, which would reduce their compliance costs and reduce possibilities for motivated sellers to conceal income information from Inland Revenue. Information reported by New Zealand digital platforms to Inland Revenue that related to non-resident sellers' activities could also be shared with that sellers' tax authority.
 - **Inland Revenue:** Under the OECD rules, Inland Revenue would be required to obtain information from New Zealand resident digital platforms, and then share relevant information about non-resident sellers with their tax authority. Inland Revenue would also use the information collected (and received) in its tax administration functions.

Why does Inland Revenue need more regular income information?

- 3.6 Inland Revenue does not receive regular information on income earned by sellers in the sharing economy like it does for those who earn salary and wages or investment income. As the introduction to this chapter mentions, Inland Revenue can obtain information from digital platforms using its information collection powers but this is cumbersome and inefficient.
- 3.7 The Government considers that there is currently a lack of transparency because tax reporting systems do not regularly or systematically capture information about transactions in this part of the economy. This transparency gap means that Inland Revenue often lacks information on the incomes earned by sellers on digital platforms, which increases the risk that sellers may not be paying the correct amount of tax.
- 3.8 The gig and sharing economy is expected to continue growing, taking a larger share of the economy. As such, failing to have adequate information on this sector could jeopardise the tax base. It is therefore important to increase Inland Revenue's visibility over sellers' activities on digital platforms in the gig and sharing economy. This increased visibility could enable Inland Revenue to pre-populate sellers' income tax returns, which would reduce compliance costs for sellers, and improve general compliance with income tax obligations more broadly.

The OECD's model reporting rules for digital platforms

- 3.9 The OECD worked with digital platforms and member jurisdictions to develop a standardised approach to information reporting and information exchange involving digital platforms. There are two main objectives of the OECD developed rules.
- **Ensure that sellers on digital platforms and tax authorities have access to relevant income information to support tax compliance.** The model rules require digital platforms to provide tax authorities and sellers with information on sellers' income earned through digital platforms. Access to this information helps sellers to comply with their own tax obligations and can also be used by tax authorities to enforce tax compliance and ensure that seller activities do not go undetected.
 - **Create a standardised approach to information collection for digital platforms.** A multilateral, standardised information exchange would result in reduced compliance costs for digital platforms compared with unilateral rules designed individually by jurisdictions. If jurisdictions designed their own rules, the variations between jurisdictions would result in increased compliance costs for digital platforms that had to design their information systems to satisfy the requirements designed by each individual jurisdiction.
- 3.10 The rules were published by the OECD in July 2020. Broadly, the rules require digital platforms to collect and report information on the income earned by sellers on digital platforms in the gig and sharing economy. The areas covered include income earned through personal services and accommodation.
- 3.11 The exchange of information with other jurisdictions will primarily be conducted under the *Multilateral Convention for Mutual Administrative Assistance in Tax Matters* (the Multilateral Convention). New Zealand signed the Multilateral Convention in 2012, and it currently extends to 144 jurisdictions. Article 6 of the Multilateral Convention authorises automatic programmes of exchange of information at a high level, leaving the specific details of such exchanges to be

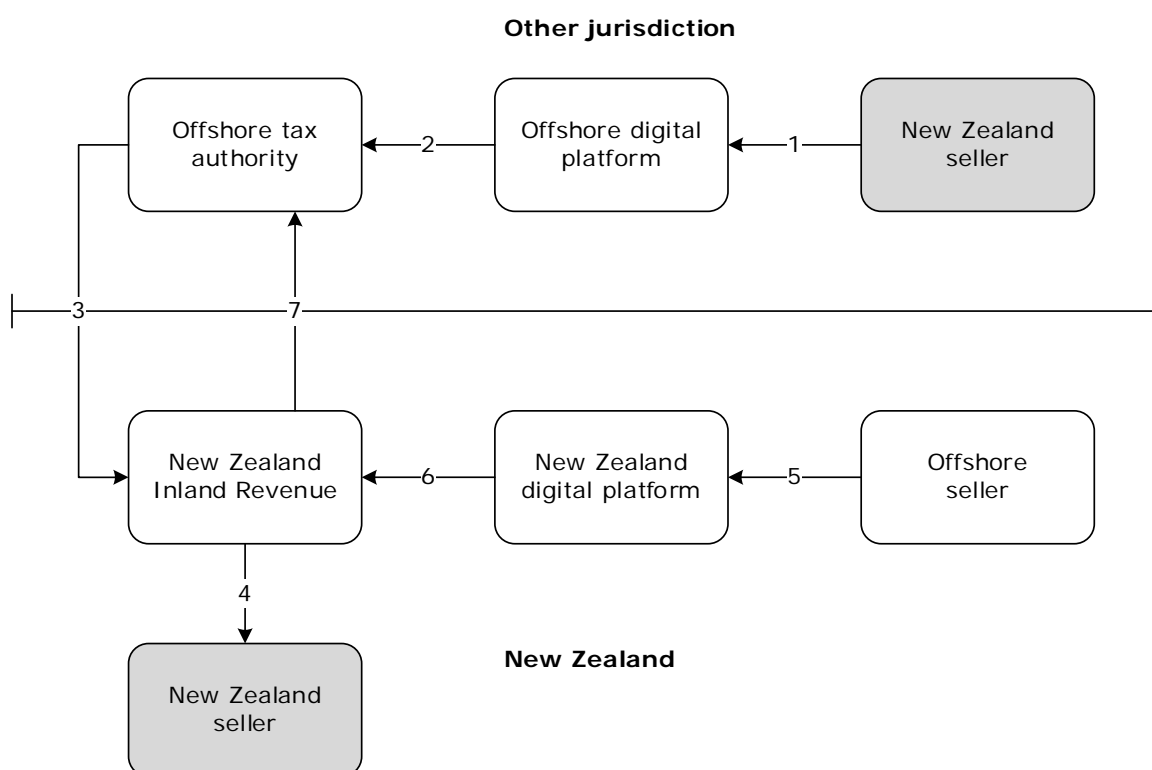
set out in a subsidiary instrument. The subsidiary instrument developed by the OECD for the gig and sharing economy is the *Multilateral Competent Authority Agreement on Automatic Exchange of Information on Income Derived through Digital Platforms* (the DPI MCAA).

- 3.12 Shortly after the OECD published their model rules, the European Commission published a directive on reporting obligations for digital platform operators that led to the Council of the European Union formalising a directive known as DAC7. This directive builds on the OECD rules and requires all digital platforms that are active in the EU to report information about sellers to the relevant tax authority. The information that is required to be reported under DAC7 is broader than the model rules and covers the sale of goods and vehicle rental (in addition to personal services and accommodation as required by the model rules). EU member states have until 31 December 2022 to implement the DAC7 amendments into their national tax laws and the directive will apply from 1 January 2023 throughout the EU.
- 3.13 In June 2021, the OECD moved to complement the broader scope of DAC7 by including an optional module in the Multilateral Competent Authority Agreement on Automatic Exchange of Information on Income Derived through Digital Platforms (the DPI MCAA) to cover jurisdictions with an interest in information relating to the sale of goods and vehicle rental (known as the extended model rules).

How the model rules work

- 3.14 Jurisdictions which implement the rules are required to collect certain information about the activities of sellers on digital platforms that are tax resident in their country. This information must then be shared with tax authorities of other countries that have also implemented the rules to the extent that the information relates to persons resident in that jurisdiction. Tax authorities will also receive information from other jurisdictions' tax authorities where the rules have been implemented. The model rules provide a standardised reporting framework and information exchange.

Figure 1: An example of the information flows under the model rules



Step	Description
1	A New Zealand resident seller uses an offshore digital platform.
2	The offshore digital platform provides the offshore tax authority with information about the New Zealand resident seller.
3	The offshore tax authority then provides that information to Inland Revenue in New Zealand.
4	Inland Revenue could use that information in its compliance activities, including pre-populating the sellers' income tax return with the information it received.
5	An offshore seller operates through a New Zealand digital platform.
6	The New Zealand digital platform provides information to Inland Revenue about all the sellers on that platform, including the non-resident sellers' activities.
7	Inland Revenue shares that information with the offshore tax authority and that information could be used by them in their tax administration functions.

3.15 The information could be used in several ways to help sellers on digital platforms comply with their tax obligations. For example, the data provided to tax authorities will provide them with information that could be used to determine what, or whether, income should be included in an income tax return, and this would provide a good indication as to whether sellers should be registered for GST.

Example 1: The basic operation of the OECD's model rules

Smithy's Rides is a successful ridesharing platform that is tax resident in jurisdiction A and has an international presence.

If jurisdiction A had implemented the model rules, Smithy's Rides would be obliged to provide jurisdiction A's tax authority with information relating to all its sellers, including residents and non-residents.

Jurisdiction A would then exchange this information with other jurisdictions that had implemented the model rules, where the information was about sellers who were resident in those jurisdictions it was providing the information to.

This would mean that, if New Zealand had implemented the rules, Inland Revenue would receive information from jurisdiction A's tax authority about New Zealand residents' activities on Smithy's Rides.

- 3.16 This way of operating supports the standardisation of reporting rules between jurisdictions and makes it easier for digital platforms to comply with their reporting obligations across jurisdictions. This is because information is only required to be disclosed to one tax authority rather than several. This also means that digital platforms will follow largely similar processes for gathering and reporting information on transactions, and means that digital platforms can avoid unnecessary compliance costs which might arise if each jurisdiction implemented its own rules with different data requirements and due dates.
- 3.17 The more jurisdictions that seek to implement the OECD rules, the more effective the rules will operate. This is because digital platforms are tax resident in various jurisdictions, and tax authority will have greater access to information the more jurisdictions seek to implement the rules and exchange information.
- 3.18 At a basic level, the model rules require digital platforms to provide the following information about each reportable seller:
- The name, address, date of birth, and taxpayer identification number (TIN) – for New Zealand residents, the TIN would be their IRD number.
 - The total consideration paid or credited during each quarter of the reportable period. The rules define the reportable period as being a calendar year.
 - For the rental of immovable property, the address of that property.
- 3.19 In terms of timing, the model rules require digital platforms to provide information about a calendar year to the tax authority in the country that they are tax resident by the end of February following the end of that calendar year. The receiving tax authority would then have until the end of April to exchange that information with other tax authority. This reported information is required to be broken down into quarterly periods.
- 3.20 The rules also manage circumstances where there could be multiple digital platforms that have the same income information on sellers. These rules broadly allow a nominated digital platform to be the responsible platform for reporting this income information, and prevents digital platforms that operate in multiple jurisdictions from having to report the same income information more than once.

Implementing the extended model rules in New Zealand

- 3.21 The Government is consulting on whether New Zealand should implement the OECD's extended model rules rather than developing its own rules. The model rules would require changes to New Zealand's tax laws to require New Zealand tax resident digital platforms to provide Inland Revenue with information about sellers' incomes earned through that platform for personal services, accommodation rental, the sale of goods, and vehicle rental. Inland Revenue would also receive information from other tax authorities about New Zealand tax resident sellers' incomes in those categories.
- 3.22 The benefits of implementing the OECD's model rules include consistency with international best practice and greater access to information for Inland Revenue in a compliance context. Digital platforms have also expressed support for the model rules at the OECD, and it is understood that the rules, or rules of equivalence, will be implemented by Europe, where a lot of digital platforms are tax resident. For New Zealand to benefit from the information collected under the model rules by European digital platforms, New Zealand would need to implement the extended model rules or rules of equivalence.
- 3.23 The implementation of DAC7 in European Union (EU) member states may already impose reporting obligations on some electronic marketplaces and digital platforms in New Zealand to the extent that they have any sellers who are tax resident in EU member states or other sellers for which they have facilitated the sale of goods, the rental of modes of transportation, personal services, or the rental of immovable property in an EU member state. If New Zealand implemented the extended Model Rules, these electronic marketplaces and digital platforms would only have a reporting obligation to Inland Revenue which would then exchange information with EU member states as well as other countries which have adopted the model rules. In this regard, the affected electronic marketplaces and digital platforms may prefer to provide information to Inland Revenue rather than provide the information to potentially multiple European Union member tax authorities.

How the information could be used in New Zealand

- 3.24 Implementation of the extended model rules in New Zealand would result in Inland Revenue receiving information about sellers' activities on digital platforms in the gig and sharing economy for **accommodation, professional and personal services, the sale of goods, and vehicle rental**. The first two categories correspond to the OECD's model rules, and the second two categories correspond to the extended rules (designed to be rules of equivalence to the European DAC7 requirements).
- 3.25 Although the Government supports the adoption of the extended model rules in New Zealand, it is proposed that the information would be used in different ways depending on the category.
- 3.26 If the rules were implemented, Inland Revenue could seek to use the information about accommodation rental and professional and personal services in sellers' income tax returns. The incomes earned through digital platforms in these circumstances would, generally speaking, be amounts that needed to be declared by sellers themselves for income tax purposes. That is, sellers are required to declare this income in their income tax returns and pay tax on any profits they make for these activities.
- 3.27 The sale of goods and vehicle rental are not traditional gig and sharing economy activity types. For the sale of goods, this is because it does not involve the sharing of assets, skills, or labour. It would also be unclear from a platform

perspective whether the sale of goods was part of a taxable activity of the seller or merely an individual selling personal items that would not attract GST. For vehicle rental, it is the digital platform that is the seller. This would be different if a digital platform offered a service of vehicle rental, with the vehicles themselves being provided by a seller. In this situation, the seller would be sharing an asset, and this would be a reportable activity. For these reasons, it is not proposed that income information in these areas would be used for pre-population of income tax returns.

Timing and different options to address this

- 3.28 One of the obstacles with the OECD's rules is that information is provided for each calendar year (as opposed to a tax year, which ends 31 March). This could make it difficult for tax authorities that have a tax year other than a calendar year to pre-populate sellers' income tax returns.

Example 2: Assumes OECD rules implemented in New Zealand and jurisdiction A

Smithy's Rides is a ridesharing digital platform that is tax resident in jurisdiction A. Kelvin earns income through the digital platform of \$50,000 between 1 January 2024 and 31 December 2024 (the 2024 calendar year).

The tax authority in jurisdiction A provides Inland Revenue with information about the \$50,000 that Kelvin earned through Smithy's Rides in April 2025. The information can be broken down on a quarterly basis.

Some of the information Inland Revenue receives relates to the:

- 2024 tax year – specifically, the information relating to the period between 1 January 2024 and 31 March 2024, and
- 2025 tax year – the information between 1 April 2024 and 31 December 2024.

Inland Revenue would not have complete information about Kelvin's 2025 tax year until the following year, when it would receive information from jurisdiction A's tax authority that covered the period between 1 January 2025 and 31 March 2025.

- 3.29 For Inland Revenue to pre-populate sellers' income tax returns with information it receives from digital platforms in New Zealand (and other tax authorities who exchange information under the OECD's rules) there are two different methods to explore that could achieve this. These methods are attributing calendar-year income to the New Zealand tax year and partial pre-population.

Attributing calendar-year income to the New Zealand tax year

- 3.30 Under this method, income earned through digital platforms for a calendar year could be attributed to the corresponding tax year. This would mean, for example, that income information obtained under the model rules for the calendar year 2024 (1 January to 31 December) would be attributed to the 2024–25 tax year (1 April 2024 to 31 March 2025). This would result in a full years' worth of income being pre-populated and would not rely on sellers doing an exercise apportioning and attributing incomes to different tax years. These rules could be designed based on similar rules that allow taxpayers to attribute

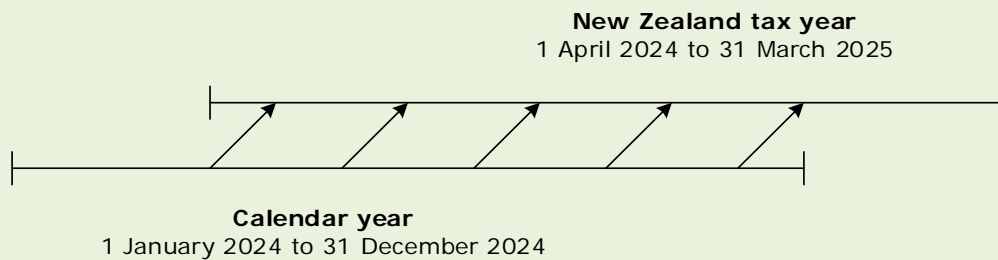
overseas income below \$100,000 earned to a different balance date to be attributed to the New Zealand tax year.

Example 3: Attributing calendar-year income to the New Zealand tax year

Inland Revenue would receive information by 30 April 2025 for Kelvin’s activities on Smithy’s Rides for the 2024 calendar year.

The income Kelvin earned through Smithy’s Rides in the 2024 calendar year would be attributed to the corresponding tax year – the 2025 tax year.

Figure 2



The income information would then be included in Kelvin’s pre-populated account for the 2024–25 tax year along with any other income Kelvin had. Kelvin would then finalise his income tax return in the usual way.

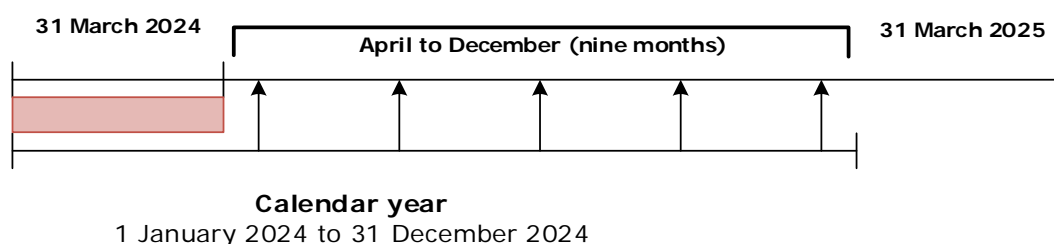
- 3.31 The attribution method would need to be phased in. For example, during the first year that the rules were in force only nine months of income information could be pre-populated. This is because income information relating to the period for 1 January to 31 March would have been accounted for in the prior tax year and prior to these rules being in force. After this period of transition this measure would be largely effective at achieving complete pre-population of income derived through sharing economy platforms.

Partial pre-population

- 3.32 Under this method, Inland Revenue would use the information from April to December to include in sellers’ income tax returns, and prompt sellers to include the income information that relates to the period between January and March themselves. This information should be readily accessible to sellers, however, as it is understood that most digital platforms provide regular information to their users. As Inland Revenue would receive information relating to the January to March period in the following years’ information exchange, Inland Revenue could use that information to ensure that sellers had declared the right amount of income.

Figure 3

New Zealand tax year
1 April 2024 to 31 March 2025



- 3.33 Pre-populating sellers' income tax returns relies on the information exchanges containing high quality data which requires minimal processing. For example, if Inland Revenue received information where New Zealand resident seller IRD numbers were inaccurate, this would make it difficult for Inland Revenue to attribute income to the correct seller. This could mean more manual intervention from Inland Revenue given the need to then contact sellers to confirm that income information it received from other tax authorities should be attributed to them.
- 3.34 The clear advantage of pre-population is that it would make it easier for sellers to comply with their tax obligations and therefore reduce their compliance costs. It also makes it difficult for sellers to hide incomes earned on digital platforms in the gig and sharing economy from Inland Revenue. Individuals would just need to confirm that the income information was correct and complete, and include any expenses incurred in the return. This would simplify the obligations for these individuals and would treat this income source like salary, wages, and investment income.

Implications for digital platforms that are tax resident in New Zealand

- 3.35 The model rules would require digital platforms that were tax resident in New Zealand to collect and report to Inland Revenue information about sellers' activities on those platforms to the extent that they related to accommodation rental, personal and professional services, and, if New Zealand implemented the extended rules, the sale of goods, and vehicle rental.
- 3.36 Digital platforms would need to collect information about New Zealand tax residents and non-residents. The information would need to be reported to Inland Revenue for the calendar year, by the end of February of the following year. That will enable Inland Revenue to share that information with other tax authorities where their jurisdictions had also implemented the OECD rules (and, if applicable, the extended rules).
- 3.37 Digital platforms tax resident in New Zealand that collected information about the activities of European sellers would also report information to Inland Revenue so this information could be provided by Inland Revenue to the relevant European countries. This would mean that platforms would not need to provide the information to those individual European countries themselves.

Optional *de minimis* exclusion for small New Zealand resident digital platforms

- 3.38 Jurisdictions that implement the OECD's model rules can implement a modification to the definition of "platform operator" which would exclude digital

platforms that operated below a threshold of €1 million in the preceding calendar year from the reporting requirements.

- 3.39 If New Zealand implemented this modification, the effect of it would be that smaller-scale New Zealand digital platforms that were below the threshold in the preceding calendar year would not need to provide Inland Revenue with information about the activities of sellers on its platform.
- 3.40 Implementing the modification may reduce upfront compliance costs for new digital platforms starting out in New Zealand. These compliance costs, however, would eventually be borne by the digital platform once it stopped meeting the criteria for exclusion. Further, the information held by these digital platforms would still be useful to Inland Revenue, which could use its information gathering powers to require the information be provided in an alternative format. For these reasons, an initial view is that this modification should not be implemented if the Government decided to implement the OECD's model rules. Submissions on this point are encouraged.

An alternative approach

- 3.41 Another option would be for New Zealand to design and implement its own rules for information collection and reporting. One clear advantage of developing bespoke rules is that we could prescribe the data we wanted to collect from platforms along with the frequency and timing of this information, which would allow for easier pre-population of income information. This advantage could be outweighed by the increased compliance costs on digital platforms that might end up needing to build their systems to be compliant with the OECD's rules and bespoke New Zealand rules thereby significantly increasing compliance costs.
- 3.42 Table 1 summarises the advantages and disadvantages of both options.

Table 1: Summary of options to improve information collection on incomes earned through digital platforms

Option	Advantages	Disadvantages
Implement the extended OECD model rules	<ul style="list-style-type: none"> • Reduced compliance costs: A standardised reporting regime across jurisdictions reduces compliance costs for digital platforms relative to several different bespoke reporting regimes. Further, many digital platforms have engaged in the design of the rules at the OECD and so are familiar with them. • International consistency and coherence: By implementing rules of equivalence with Europe to ensure exchange with digital platforms based in Europe. • Tax compliance, fairness, and horizontal equity: Tax authorities will have access to good quality and accurate information to support potential pre-population and drive tax compliance. • Sustainability: Internationally driven solution backed by the OECD ensures schema can be updated as and when required and remain fit for purpose. 	<ul style="list-style-type: none"> • Timing of information: The information will be received based on a calendar year not for the New Zealand tax year (to 31 March). This means modifications are required to enable pre-population of income information in sellers' income tax returns.
Bespoke reporting regime	<ul style="list-style-type: none"> • Flexibility: A bespoke regime allows New Zealand to prescribe the timing, frequency and type of information required from digital platforms without having to follow the OECD schema. The main advantage this option offers relative to the OECD solution is that the reporting obligation could be made for the New Zealand tax year as opposed to the calendar year. 	<ul style="list-style-type: none"> • Increased compliance costs for digital platforms: This could result in digital platforms having to design systems to comply with New Zealand rules in addition to the OECD rules, which increases compliance costs. • A longer lead-in time would be required: Developing a bespoke regime would take longer and would require greater consultation with digital platforms compared to adopting an internationally agreed schema.

Questions for submitters

- Should digital platforms be required to provide Inland Revenue with regular income information about sellers' activities? Do you agree it is a problem Inland Revenue does not receive regular income information from digital platforms about sellers' activities on those platforms?
- Should the Government implement the OECD solution or design its own rules to ensure Inland Revenue receives regular income information from digital platforms?
- If New Zealand did implement the OECD's model rules, how should Inland Revenue seek to use the information it receives? Should pre-population of income tax returns which would require the seller to confirm the accuracy of information be the ultimate goal?
- If the OECD solution were implemented, should smaller-scale New Zealand resident digital platforms be exempt from income reporting requirements? If so, on what basis?

CHAPTER 4

Goods and services tax

- 4.1 This chapter discusses whether, and how, services provided through digital platforms in the gig and sharing economy should be subject to GST. It seeks submitters' views on two key questions: whether services supplied through digital platforms in the gig and sharing economy should be subject to GST, and if so, how GST should apply.

Background

- 4.2 The rapid growth of the gig and sharing economy has resulted in a growing number of small suppliers, many of whom operate under the GST registration threshold of \$60,000 in a 12-month period. Generally speaking, GST is not levied on the services they provide (unless these sellers have chosen to voluntarily register for GST).
- 4.3 The GST threshold recognises that the compliance costs for these small suppliers applying GST would be high, and that because of their size, exempting them from applying GST would not result in competitive distortions. However, viewed collectively, digital platforms facilitate millions of dollars of sales in New Zealand through individual sellers – most of which are not subject to GST. A competitive distortion therefore arises, as traditional suppliers who compete with digital platforms generally do charge GST. As the gig and sharing economy is expected to continue growing, it is timely to review whether supplies of goods and services made through digital platforms in the sharing economy should be subject to GST, putting sellers in the sharing economy on a more level playing field with other businesses.
- 4.4 In April 2021, the OECD published *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*. This report outlines the impact that the growth of the gig and sharing economy has had on VAT and GST systems worldwide and sets out a broad range of options that countries could consider implementing to address these impacts.
- 4.5 The options included in the report include promoting education campaigns, developing new information-sharing protocols, and involving digital platforms in the collection of GST. These options all address different problems. For example, if countries wanted to promote compliance with existing GST settings, it might be appropriate to look at implementing education campaigns and new information-sharing protocols. On the other hand, if countries are concerned with the uneven playing field that exists for traditional suppliers and those sellers on digital platforms in the gig and sharing economy, it could be more appropriate to examine whether it is appropriate for digital platforms to return GST on supplies made through them.

The case for applying GST

- 4.6 The gig and sharing economy provides smaller-scale operators with the ability to earn income through a digital platform with relative ease. This is facilitated by platforms on a large scale and many of these supplies occur below our GST registration threshold and so are not subject to GST. Viewed collectively, the gig and sharing economy has had a disruptive effect on traditional business models who are generally charging GST. The gig and sharing economy has the potential to erode the GST base as more small suppliers shift to operate on

digital platforms. It is important we consider applying GST to activities facilitated through digital platforms to ensure that the GST base is protected against this new economic reality and ensure a level playing field with traditional suppliers.

- 4.7 New Zealand's GST system has been expanded in the last decade to apply to offshore suppliers of remote services and low value imported goods. A key feature of these recent changes is the role of electronic marketplaces. Special rules treat electronic marketplaces as the supplier of goods or services provided through their platforms instead of the underlying suppliers who include the likes of software developers and goods sellers. These electronic marketplaces have similar characteristics to the digital platforms that facilitate activity in the gig and sharing economy. One view is that the existence of these digital platforms reduces the compliance and administration costs associated with collecting GST revenues for tax authorities. This is because digital platforms have a business model which necessitates them being able to deal with thousands of transactions on an on-going basis, and most digital platforms will already be registered for GST in New Zealand because of the remote services rules.
- 4.8 If sellers' activities on digital platforms were to be subject to GST at the level of the digital platform, this would increase compliance costs for sellers who are not engaged in the GST system (to the extent that the sellers wanted to recover GST on the costs associated with making their supplies), and for digital platforms who would need to adjust their systems to ensure they were compliant with any new rules. The design of any new rules could mitigate these increased compliance costs, and this is explored in further detail later in the chapter.
- 4.9 Collecting GST on transactions facilitated by digital platforms in the gig and sharing economy would have impacts on the fairness of the GST system. Imposing GST on supplies made through these digital platforms could improve fairness in the GST system when making comparisons between sellers on digital platforms in the gig and sharing economy and traditional suppliers (for example motel operators and taxi drivers) who are generally required to register for GST. However, if GST applied to platform supplies regardless of the supplier's turnover, this could give rise to equity issues as GST would be imposed on sales made by small sellers that operate through digital platforms but not on other small sellers who make sales below the GST registration threshold. One justification for this is that compliance costs are still reduced for sellers, as it is the digital platforms themselves responsible for collecting GST and paying that to Inland Revenue.
- 4.10 The Government is interested in exploring how GST could apply in the context of the gig and sharing economy. This is for reasons noted earlier: it improves the fairness of the GST system and ensures it remains broad-based and sustainable. The two main options for ensuring activities in the gig and sharing economy are included in the GST base are modifying the GST registration threshold, or extending electronic marketplace rules to make digital platforms liable for the collection of GST. These options are discussed below.

Modifying the GST registration threshold

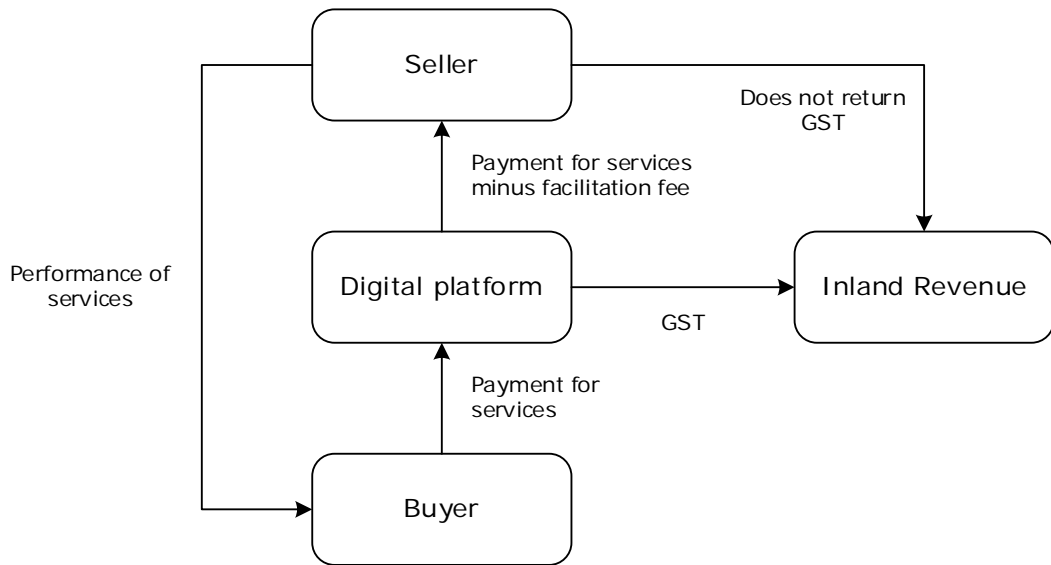
- 4.11 One of the options that would support the objectives of maintaining a broad base GST, and fairness in the GST system, is lowering of the GST registration threshold. This could bring more sellers who operate in the gig and sharing economy within the GST system and level the playing field between them and other suppliers who are registered for GST.

- 4.12 This discussion document does not propose lowering the registration threshold for GST generally. This is for two reasons. First, any general changes to the GST registration threshold would have a broad impact across all sectors of the economy. It is noted that New Zealand's GST registration threshold is in the middle of the range when compared with other countries' VAT (value-added tax) systems. The current GST registration threshold seems to strike the right balance between supporting a GST system with a broad base and not biasing competition between suppliers with different business sizes and structures against compliance and administration costs. Second, lowering the GST registration threshold would create a different set of issues in terms of ensuring sellers were compliant with their GST obligations.
- 4.13 It would be conceptually possible to lower the GST registration threshold for sellers in the gig and sharing economy specifically. This option has been implemented to some degree in other jurisdictions. For example, Australia and Canada require all ridesharing drivers to register for GST even if they are below the registration threshold. This option would ignore the fact that there is a third party capable of collecting and returning GST on behalf of their users which reduces the potential for sellers to inadvertently miss (or avoid) their GST obligations.
- 4.14 The option considered best at addressing the issues of ensuring a broad and sustainable GST base, increasing fairness between suppliers of the same (or similar) services, and reducing opportunities for sellers to avoid their GST obligations would be to extend the current marketplace rules that apply GST to supplies of remote services and low value imported goods provided to New Zealand residents so that these rules also apply to gig and sharing economy activities.

Extended marketplace rules

- 4.15 Under extended marketplace rules, digital platforms in the gig and sharing economy would be responsible for collecting GST as if the digital platform itself had made the supply, even though the services were performed by the seller on the digital platform. For example, a digital platform that facilitated short-stay accommodation would be treated as the supplier of that short-stay accommodation even though the accommodation was provided by the seller on the digital platform. This would mean that the digital platform is solely responsible and fully liable for collecting and returning GST on the activity that occurs through the platform. To prevent over-taxation of sellers, a mechanism would need to be developed to enable sellers to recover the GST component of the costs incurred in making their supplies through the digital platforms.
- 4.16 GST would be collected on all in-scope services facilitated through digital platforms in the gig and sharing economy where those services were supplied to customers in New Zealand at the time the services were performed. GST would also apply to supplies of services involving land in New Zealand. This is so short-stay accommodation provided in New Zealand would be liable for GST even if the underlying owner of the land was not a New Zealand resident.
- 4.17 The benefits of extending the existing marketplace rules to apply to digital platforms in the gig and sharing economy include a more level playing field with traditional sellers. It also reduces opportunities for non-compliance because digital platforms would be responsible for returning GST rather than the sellers themselves. Figure 4 illustrates a basic example of how extended marketplace rules for digital platforms in the gig and sharing economy could work.

Figure 4



4.18 The implications of extended marketplace rules for sellers and the digital platforms are further explained in the Table 2.

Table 2: Implications of the extended marketplace rules

Party	Implications
Sellers	<ul style="list-style-type: none"> • Could have a deemed zero-rated supply of services to the digital platform. This would enable the seller to claim GST back on their costs associated with making supplies through the digital platform. • Would not return GST to Inland Revenue for supplies made through the digital platform.
Digital platforms	<ul style="list-style-type: none"> • Charges GST to buyers on all supplies made through the digital platform. Is deemed to be the supplier of services to the buyer. • Returns GST to Inland Revenue on a quarterly basis. • Continues to pass on revenues earned from services provided through the platform to sellers.

Digital platforms

4.19 Under this approach, a digital platform could be defined consistently with the definition of “platform operator” in the OECD’s model rules which is:

...any software, including a website or a part thereof and applications, including mobile applications, accessible by users and allowing Sellers to be connected to other users for the provision of Relevant Services, directly or indirectly, to such users. The operations of the Platform may also include the collection and payment of Consideration in respect of Relevant Services. The term Platform does not include software exclusively allowing the:

- a) processing of payments in relation to Relevant Services;
- b) listing or advertising of Relevant Services; or
- c) redirecting or transferring of users to a Platform

without any further intervention in the provision of Relevant Services.

- 4.20 “Relevant Services” includes the rental of immovable property and personal services. Under the extended rules, “Relevant Services” also includes the rental of a means of transportation. These definitions are discussed further below.

Platform supplies – what activities GST would apply to

- 4.21 The services that would be in scope of the extended marketplace rules are the rental of immovable property (this includes short stay accommodation services and excluding residential accommodation), the provision of personal services (this includes ridesharing and other gig work facilitated through a digital platform and is discussed further below) and vehicle rental (provided the digital platform itself is not the underlying supplier of the transportation). The definitions used in the OECD’s model rules for information exchange could be adapted for GST purposes (recognising that certain modifications would be necessary to maintain consistency with New Zealand’s GST framework).

- 4.22 The OECD’s model rules define “personal services” as:

A “personal service” is a service involving time- or task-based work performed by one or more individuals at the request of a user, unless such work is purely ancillary to the overall transaction. A Personal Service does not include a service provided by a Seller pursuant to an employment relationship with the Platform Operator or a related Entity of the Platform Operator.

- 4.23 The OECD notes that a personal service usually falls into one of two categories. This includes work that can be carried out online and is capable of being delivered to other users anywhere in the world (examples include tutoring, IT services, data entry and copywriting). This also includes services that, while facilitated by a digital platform, are physically carried out offline, usually at a specific physical location (examples include transportation and delivery services, housekeeping, gardening, or renovation work). These are all types of services that would be subject to GST in New Zealand if the person performing the services were registered for GST.

- 4.24 The rental of immovable property includes both residential and commercial property, as well as other immovable property and parking spaces. The supply of accommodation is not always subject to GST in New Zealand (that is, sometimes the supply is exempt). If the OECD’s definitions were to be used in a GST context, certain modifications would be necessary to maintain consistency with New Zealand’s GST framework.

- 4.25 The rental of transportation means would cover situations where a digital platform facilitates transactions between vehicle owners and customers of the digital platform. It would not be in scope of the extended marketplace rules where the digital platform is the underlying supplier of the vehicle (that is, where the digital platform itself owned the vehicle).

GST returns

- 4.26 If adopted, extended marketplace rules would require digital platforms to provide GST returns to Inland Revenue on a periodic basis. This could be aligned with the quarterly return periods for remote services and low value imported goods to reduce compliance costs associated with changing digital platforms’ systems. GST would also be payable to Inland Revenue in one lump-sum based

on the same rules that apply to GST due from electronic marketplaces under the remote services rules. It would not be necessary for digital platforms to provide Inland Revenue with schedules showing GST attributable to individual sellers, as this information could be obtained by Inland Revenue in another way (see chapter three).

An example of the extended marketplace rules

- 4.27 Example 4 shows how extended marketplace rules would work in the context of digital platforms returning GST on behalf of sellers in the gig and sharing economy. For simplicity, the example ignores the fee the digital platform would charge the seller for connecting the seller with a buyer of the service.

Example 4: Basic operation

Smithy's Rides is a digital platform that connects Kelvin (a driver and the "seller") with Laura (a traveller and the "buyer") from the airport to her home. Smithy's Rides charges Laura \$115 including GST for this ride.

With extended marketplace rules, Smithy's Rides would return GST of \$15 to Inland Revenue on behalf of Kelvin. If Kelvin were registered for GST, he would not include the \$115 of sales in his own GST return (to ensure GST is not collected for the same supply twice).

Kelvin will also incur expenses in making his ridesharing sales and some of these expenses will include GST. These implications are discussed later in the chapter.

Impact of extended marketplace rules on existing GST registered persons

- 4.28 If extended marketplace rules were adopted, this could have an impact on persons who are already registered for GST and who were currently returning GST for their platform supplies. Either the rules would allow those sellers to continue returning GST (and the rules would also enable other sellers to register for GST themselves and manage their own GST obligations) or the rules would not allow sellers a choice, and that would mean that digital platforms would be responsible for returning GST for all platform supplies. These two options are discussed further below.

Sellers could opt to return GST for their platform supplies

- 4.29 This could allow sellers who were registered for GST (or who wanted to register for GST) to elect to collect GST for their platform supplies themselves. This would require digital platforms to be able to identify which sellers on their platform were registered for GST and which sellers were not, so that it could charge the correct GST itself.
- 4.30 The Government is interested in whether there would be practical issues for sellers and digital platforms in implementing this option. For example, would it increase compliance costs for digital platforms if required to determine the GST status of all sellers on the platform? Are there issues for sellers who would want to charge GST themselves?

Example 5

Graeme owns a holiday home in Queenstown that he rents out on the accommodation sharing platform Ben's Baches (which is digital platform that connects sellers of short-term accommodation with buyers). Graeme's bach is extremely popular and is booked through Ben's Baches about 70 percent of the year.

Graeme also runs a bed and breakfast through his own website. As Graeme's holiday home is attached to his main home, he can offer a service to clients who book through his website where he provides them with breakfast. This allows Graeme to charge a higher price and, by advertising on his own website, he does not have to pay any fees to the digital platform. Graeme's website does not generate much traffic and consequently the holiday home is only booked 20 percent of the year through his website.

Graeme is currently registered for GST and returns GST on both his platform sales and bed and breakfast sales.

- 4.31 Allowing sellers to opt out of the extended marketplace rules could present compliance risks and result in GST not being collected that should be. This is because sellers could purport to be registered for GST to the digital platform to reduce their pricing (making them more competitive to potential buyers) even if they were not registered. There is also a risk that some sellers could register for GST and not comply with their GST obligations (for example they may not charge or return the correct amount of GST to Inland Revenue). Lastly, if the extended marketplace rules were elective then this would reduce the efficiency of these rules. This is because individual sellers would still be returning GST to Inland Revenue when GST collection could be more efficiently dealt with at an aggregate level by the platform.

Digital platforms would return GST on behalf of sellers for all platform supplies

- 4.32 The other option is that digital platforms return GST on all supplies made through their platforms, irrespective of whether the sellers are registered for GST or not. GST registered sellers who make other supplies would still be responsible for accounting for GST on those supplies in the ordinary way, but would no longer be responsible for accounting for GST on supplies made through digital platforms.
- 4.33 Compared with option 1, this option seems to have reduced complexity. This is because digital platforms would not be required to determine the underlying GST registration status of the seller. Digital platforms would collect GST for all sales through the platform which simplifies processes for the digital platform. Requiring digital platforms to collect GST on all sales through the platform also means that sellers would not be able to avoid their obligation to charge GST on their supplies made through digital platforms.

Digital platforms would need to determine whether GST applied or not

- 4.34 If digital platforms were involved in collecting GST on behalf of sellers, the digital platforms would need to know when to charge GST and at what rate. In many cases it would be clear that GST should apply as the services facilitated by digital platforms would be physically performed in New Zealand and would not be remote services (such as ridesharing services or short-stay

accommodation). Some personal services that fall within the scope of the extended marketplace rules would currently be caught under the remote services rules and would therefore already be subject to GST. If extended marketplace rules were implemented in the gig and sharing economy, the interaction between those changes and the existing remote services rules would need to be reviewed to address any overlap.

- 4.35 Extended marketplace rules would also need to come with rules that made it clear when digital platforms were required to charge GST and at what rate. For example, exported services through digital platforms would not be subject to GST at the standard rate and would instead be zero-rated. It is not the intent to change the GST treatment of exports. GST would apply at the standard rate to services provided in New Zealand – for example, short-stay accommodation and ridesharing services, irrespective of the tax residence of the recipient.

Facilitation services

- 4.36 Extended marketplace rules would require digital platforms to return GST to Inland Revenue on all supplies made through the platform. One question that arises in this context is how to deal with the GST treatment of facilitation services provided by digital platforms to sellers,⁷ as fees for these services make up a component of the total price that is paid by buyers.
- 4.37 In the remote services rules, facilitation services provided to GST registered persons are generally non-taxable or zero-rated. If this rule were to be maintained in the context of extended marketplace rules that require platforms to withhold GST on sales made through their platforms, then this imposes compliance costs on the digital platform as they need to determine the GST registration status of sellers and charge different fees depending on whether the seller is GST registered or not.
- 4.38 It follows then that consistent treatment of the facilitation fee is desirable in the context of the extended marketplace rules to reduce compliance costs on platforms. To ensure consistency, facilitation fees charged by digital platforms to sellers could be zero-rated or standard-rated. Officials consider that zero-rating facilitation fees would be the preferable option but are open to submissions on this point.
- 4.39 In the context of the extended marketplace rules where GST is charged on the entire value of the supply by the platform, there is no risk of GST not being paid by zero-rating the facilitation fee. The advantage of zero-rating over standard rating is that platform sellers will have one less GST cost that they would need to recover. As one of the key questions of extending the marketplace rules to unregistered sharing economy sellers is how these sellers will recover their GST costs, removing the need for input recovery on the facilitation fee helps lessen this concern.
- 4.40 The way that this would work in the context of extended marketplace rules is that the platform, as the deemed supplier, would return GST on the entire supply in their GST return (including the facilitation component). The key point of difference is that GST would not be charged on the separate supply of the facilitation fee. Consider example 6.

⁷ A facilitation fee is a fee that digital platforms charge sellers for connecting them with buyers.

Example 6

Michelle pays \$230 (including GST) to stay one night in Sam's apartment and books her stay via the platform Hannah's Hideaways. The platform returns \$30 of GST to Inland Revenue for this transaction under the extended marketplace rules.

If the facilitation fee charged by Hannah's Hideaways is 20 percent and is subject to a zero-rate of GST, then the platform would charge Sam \$40. As there is no GST cost on the supply of the facilitation fee, Sam will not be able to claim any GST costs for this supply.

If the facilitation fee charged by Hannah's Hideaways was standard rated, the digital platform would charge Sam \$46 (including \$6 of GST). Sam would be able to claim a GST deduction of \$6 (being the GST component of the facilitation fee). This reflects the fact that the facilitation service is cost relating to the supply of guest accommodation.

In both cases, the net amount of GST paid by the final consumer is 3/23rds (the tax fraction) of the \$230 accommodation service, or \$30.

From the perspective of the seller, the advantage of the facilitation fee being zero-rated is that they will not need to claim their GST costs on this supply.

From the perspective of the digital platform, it would not have to determine whether the hosts are registered for GST as the facilitation fee would always be zero-rated.

- 4.41 As example 6 demonstrates, zero-rating the facilitation fee means that platform sellers will not have to claim back the GST cost of the facilitation fee. Options to allow sellers to claim back their GST costs are considered in the next section of this chapter, but depending on what option was chosen the zero-rating of the facilitation fee could provide some benefits. For example, if a seller was required to register for GST to claim inputs, they may not necessarily choose to do so (particularly if they only provided services through a digital platform on a part time basis and considered the compliance costs of registering was not worth any GST deductions they may recover). Zero-rating the facilitation fee means this particular GST cost would not be incurred by a seller who chose not to register for GST.
- 4.42 From the perspective of the platform, both options (either zero-rating or standard rating all facilitation fees) means platforms would not be charging a variable amount of GST depending on the GST registration status of the platform seller, and so is a reduction in compliance costs for the platform.
- 4.43 Submissions are welcome on whether the Goods and Services Tax Act 1985 should be amended to zero-rate facilitation services, whether to standard-rate facilitation services or whether the status quo should be retained.

GST on sellers' costs

- 4.44 If digital platforms start charging GST on supplies made through their platforms, sellers will still need a method for claiming back GST on their expenses. For example, a ridesharing driver will buy fuel and might buy a car on which they have been charged GST and a guest accommodation host will be charged GST on electricity, rates and insurance and cleaning, repairs, or property management services. If sellers are not able to claim back GST on

their inputs, then they would be over-taxed, and this would create a competitive distortion when comparing those sellers with traditional suppliers who are able to claim back GST on their costs.

- 4.45 The best method for sellers to claim back GST on their costs is difficult to determine and submissions on this point would be welcome. There are trade-offs between accuracy and simplicity. Some sellers, who are already registered for GST for example, might not experience an increase in compliance costs. However, for many sellers who have not needed to interact with the GST system in the past, if digital platforms were charging GST for their sellers' activities, there will be an increase in compliance costs for sellers who want to claim back GST on their costs. There may be additional compliance costs if sellers need to account for GST and make adjustments for their private use of some assets they use in their activities in the gig and sharing economy such as holiday homes or a ridesharing vehicle (some options to reduce these costs are discussed in chapter 5).
- 4.46 There will also be an increase in administration costs faced by Inland Revenue if thousands of new digital platform sellers are brought into the GST system.
- 4.47 This chapter discusses three different methods for sellers to claim back GST on the costs of their expenses. None of these methods involve the seller being responsible for returning GST for supplies made through the digital platforms. The first method requires sellers to register for GST and file returns, claiming GST back on their expenses and applying the apportionment and adjustment rules if applicable. The second method is a flat rate scheme, which involves digital platforms charging GST at the standard GST rate and returning only a proportion of that to Inland Revenue, with the remainder being passed on to the seller in recognition of the fact that there will be unrecoverable GST on their costs. The third method involves sellers claiming GST back on their expenses through their end of year income tax return.

Standard GST registration

- 4.48 Under this option, sellers would be required to register for GST and file GST returns in the usual way to claim back the GST on their expenses. Sellers would only be required to account for GST on sales made for other supplies off the digital platform, and provided they met the criteria for a standard GST registration.
- 4.49 New rules would need to be added to the Goods and Services Tax Act 1985 to deem a zero-rated supply of services from sellers to the digital platform. This would be necessary to enable sellers to recover costs for making those supplies.

Example 7

Carmen is a driver on a ridesharing platform San Diego Drivers. She earned \$25,000 on the platform between April 2022 and March 2023.

San Diego Drivers returned GST of \$3,750 to Inland Revenue on behalf of Carmen.

Carmen completes GST returns every six months. She claims GST on the expenses she incurs (such as car maintenance and petrol costs) in the normal way.

- 4.50 One clear advantage of this approach is that it provides the greatest level of accuracy as it allows sellers to claim a GST deduction for the GST incurred on their **actual** costs. This approach also achieves consistency with other GST

registered suppliers who also claim a GST deduction on the actual costs of their expenses through the same mechanism. This approach would also require the least amount of change for taxpayers who were already registered and filing returns for GST, and for Inland Revenue because GST returns, and registration processes already exist and would require few changes.

- 4.51 This option is expected to result in a significant increase in GST registrations. Sellers required to register for GST to recover costs related to their platform supplies would therefore face an increase in compliance costs relative to the status quo. Sellers already registered would change their practices in completing their GST returns from including standard-rated sales to zero-rated sales, and would otherwise face comparable compliance costs to now.
- 4.52 Another disadvantage of this option is that when a platform seller has some private or exempt use of their assets then they would need to apply the GST apportionment and adjustment rules to account for this private use. These rules are currently complex and have high compliance costs. Some options for simplifying these rules in the context of the gig and sharing economy are discussed in further detail in chapter 5.
- 4.53 With this option, it is possible that a special type of GST registration may need to be designed to make it clear that the GST registration was for the purposes of enabling sellers to recover GST on their platform-related costs. This would mean that sellers who registered for this purpose only would not then be required to return GST on supplies made provided they did not satisfy the standard GST registration criteria. For sellers that are already registered for GST, they would continue filing GST returns in the normal way (but would not account for GST on sales made through the digital platforms).

Flat rate scheme

- 4.54 Flat rate schemes are not uncommon in countries with VAT systems.⁸ New Zealand does not have one, but one could be considered in the context of the gig and sharing economy.
- 4.55 Under a flat rate scheme, suppliers collect GST at a rate determined specifically for the industry that the supplier operates in. The rate is lower than the standard GST rate. Where suppliers use a flat rate scheme, they are not able to claim GST deductions for expenses incurred in making their supplies. This is because the reduced GST rate should account for these expenses to some degree. The supplier will still collect GST at the standard rate, but they will only remit the amount specified by the flat rate to the tax authorities. This means they can keep the difference between the standard rate and the flat rate as a proxy for the GST on their costs. In this sense, a flat rate scheme is less accurate than a scheme in which suppliers calculate their individual inputs, however, it does reduce the compliance costs of individual sellers.
- 4.56 In the context of the gig and sharing economy, a flat rate scheme could be designed that would require digital platforms to collect GST at the standard rate, with them only being required to return a proportion of this to Inland Revenue. The difference between the standard rate and the amount returned to Inland Revenue would then be passed on to sellers in recognition of the GST embedded in their costs.

⁸ The United Kingdom and Mexico are examples.

Example 8: A flat rate scheme

If Smithy's Rides drivers were subject to a flat rate scheme, a standard transaction could work as follows (for the purposes of this example it is assumed that the flat rate of GST that would apply is 10%):

- Bradd pays Smithy's Rides \$115 (which includes GST of \$15) for a ride from his place of business to his house.
- The driver is not registered for GST and the flat rate scheme applies. For the sake of simplicity, the fees the digital platform charges the seller are ignored. This means that of the \$15 GST collected by Smithy's Rides for this ride:
 - \$10 is paid to Inland Revenue, and
 - \$105 is paid to the driver.
- The extra \$5 paid to the driver is intended to recognise the driver would have been able to claim GST on costs associated with the ride had the driver been registered for GST.

- 4.57 If a flat rate scheme were implemented, the effect on already GST registered sellers would depend on whether changes were made to require all supplies made through digital platforms to be subject to the flat rate scheme. For example, changes could be made to enable GST-registered sellers to continue filing their own GST returns, whereas the flat rate scheme would apply to unregistered sellers.
- 4.58 The advantage of a flat rate scheme is that it can reduce compliance costs for sellers who solely make supplies on digital platforms. In an apportionment context, a further advantage of a flat rate scheme is that sellers may not need to account for private use of assets as no GST deduction could be claimed.⁹ As sellers do not claim inputs under a flat rate scheme, the risk of fraudulent input claims is eliminated.
- 4.59 The flat rate scheme concept is simple but a problem with it is determining the rate that should apply. Compared to a standard GST registration, the flat rate scheme would result in some sellers being over-taxed, and some sellers being under-taxed.
- 4.60 To determine a rate that approximates the amount of GST sellers would be able to claim back through a standard GST registration would be difficult, if not impossible. This is because different activities have different cost ratios, and different business set-ups have different cost profiles. For example, a ridesharing driver who leases their vehicle would have different GST costs to a driver who does not. Those who provide short-stay accommodation services will have different costs to those who provide web design services through a digital platform.
- 4.61 Furthermore, the goal of reducing complexities and compliance costs is compromised when sellers either are, or must be, registered for GST in terms of the standard rules. This might happen when a seller has off-platform

⁹ It is noted that this would require the design of the flat rate scheme to account for capital assets. Some flat rate schemes, such as those in the United Kingdom, do not account for GST deductions on capital assets as part of the flat rate scheme and allow actual input tax deductions to be claimed for them.

supplies. Examples of this include sellers who provide short-stay accommodation through a digital platform and run a bed-and-breakfast, along with sellers who provide ridesharing services who may also be required to be registered for GST for taxi rides they supply to passengers as a self-employed driver for a traditional taxi company. These factors complicate the operation of a flat rate scheme.

- 4.62 Some flat rate schemes overseas allow for actual GST to be claimed for assets over a certain cost threshold, despite the flat rate that applies. To improve the fairness of the flat rate scheme this would need to be considered further. Another key consideration is whether transitional rules would apply to those who had previously purchased assets for use in their taxable activity and are currently filing GST returns. The solutions to these issues could increase the complexity of the flat rate scheme.

Refunding GST on costs as part of the annual income tax return process

- 4.63 This option would allow sellers who were not registered for GST to claim GST back on costs with a GST component as part of the process of filing their income tax returns. This would be achieved by enabling sellers to get a refundable tax credit, which represents the GST component of their income tax expenditure, when they file their income tax return. It would not apply to sellers who were registered for GST, because GST on their costs would be recovered using the GST return process.
- 4.64 This method could be compulsory or optional for sellers. If compulsory, sellers would only be able to recover GST on their costs associated with making platform supplies by claiming their credits through the income tax return process. If optional, sellers could opt-out of this process by registering for GST and accounting for GST on their expenses in the normal way.

Example 9

Smithy's Rides driver Kelvin supplies \$50,000 of ridesharing services between 1 April 2023 to 31 March 2024. The platform returns \$7,500 of GST to Inland Revenue for Kelvin's ridesharing services.

Even though Kelvin is not registered for GST, he still must complete an income tax return which shows his profit or loss from his ridesharing activities through the digital platform.

Kelvin has kept track of his ridesharing expenses for income tax purposes. Some of these expenses do not include a GST component (such as interest) but most do.

An additional box is included on the income tax return that enables Kelvin to claim back a refundable income tax credit that represents the GST component of the costs he has incurred in making platform supplies.

This box could separate out costs for which Kelvin can claim a deduction for income tax purposes but for which he cannot claim GST for (such as interest). This would enable Inland Revenue to determine a refundable income tax credit which represents the GST component of Kelvin's expenses from a GST perspective.

- 4.65 This method is intended to reduce compliance costs for sellers by integrating the method for claiming GST back on their expenses into the income tax return process. It means that sellers do not need to register for GST and comply with, GST rules.

- 4.66 This method could also reduce opportunities for fraudulent GST refund claims. This is because, to obtain a refund, the seller would need to demonstrate that expenses have been incurred for sales facilitated by a digital platform and include this information in their income tax return.
- 4.67 The main disadvantage with this method is that sellers would not get the benefit of the GST refund until they file their end of year income tax return. From a timing perspective this is less frequent than if the seller was registered for GST and filing returns on a monthly, two-monthly, or six-monthly basis.

Table 3: Summary of options to claim GST on sellers' costs

Option	Advantages	Disadvantages
Standard GST registration	<ul style="list-style-type: none"> • Accuracy: Sellers would claim GST on actual costs rather than deemed amounts which may be inaccurate. • Consistency: Consistent treatment with other registered suppliers which reduces maintains the simplicity of the GST system. 	<ul style="list-style-type: none"> • Increased compliance costs: Sellers would need to register for GST to claim costs and may need to apply apportionment rules (to account for private use of assets) whether or not they exceeded the GST registration threshold.
Flat rate scheme	<ul style="list-style-type: none"> • Reduced compliance costs: Sellers would not be required to register for GST and comply with the associated obligations of being registered for GST. • Reduces the risk of fraudulent refund claims: This is because there is no ability to claim GST deductions and the flat rate of GST accounts for these GST costs. 	<ul style="list-style-type: none"> • Complexity: Hard to determine what rate should apply as businesses have different cost profiles and different rates could be required for different activities. • Treatment of those already GST registered: Flat rate option does not account for those who are required to be GST registered for their off-platform supplies. • Inaccuracy: Some sellers will be over or under taxed as a flat rate is an approximation.
Refunding GST on costs as part of the annual income tax return process	<ul style="list-style-type: none"> • Reduced compliance costs: Sellers would not be required to register for GST, keep records, claim back GST on expenses, or deal with apportionment rules. • Administrative efficiencies: Inland Revenue would be able to review a sellers' position for income tax and GST at the same time. • Reduced opportunities for fraudulent refund claims: To obtain a refund, the seller needs to demonstrate expenses have been incurred for activities through a digital platform and include this information in their income tax return. 	<ul style="list-style-type: none"> • Timing of refund: Sellers would not get the benefit of a GST refund until their end of year income tax return was finalised. This would delay refunds compared to a standard GST registration in which the person could receive a refund based on their GST filing frequency (monthly, two monthly or six monthly). • Treatment of those already GST registered: This option does not account for those who are required to be GST registered for non-platform supplies. • Potential administrative complexity: This option could be difficult to incorporate into the income tax return.

Questions for submitters

To help make your points clearly understood, please provide supporting rationale or examples with your answers.

- Do you agree that supplies of goods and services made through digital platforms should be subject to GST?
- What are your views on lowering the GST registration threshold specifically for sellers on digital platforms in the gig and sharing economy?
- If digital platforms are to be made responsible for returning GST on behalf of sellers, should sellers be able to opt to return GST themselves or should this be undertaken by the digital platform on a mandatory basis?
- If digital platforms are to be made responsible for returning GST on behalf of sellers, what is the preferred method for enabling sellers to obtain GST refunds for their costs? Is there another method that could work better than those described in the chapter?
- Are there other practical difficulties that might arise as a result of requiring digital platforms to collect and return GST on behalf of sellers in the gig and sharing economy?
- Would you be opposed to facilitation services being standard rated under any future changes to the GST rules in the context of the gig and sharing economy?

CHAPTER 5

Other measures to reduce compliance costs

- 5.1 The Government is also interested in whether there are other changes that should be made to the tax system to reduce compliance costs associated with earning incomes and complying with tax obligations through the gig and sharing economy. For example, for sellers on ridesharing platforms, are there improvements that could be made to the rules for determining motor vehicle expenditure for income tax and GST purposes? For sellers on platforms that facilitate short-stay accommodation, are there changes that would be desirable from a compliance costs perspective?
- 5.2 There are a number of areas where changes to the tax system could be made to reduce compliance costs in the gig and sharing economy. Submitters views are welcome in this area along with any other initiatives that submitters consider beneficial.

Standard costs for those who earn income through the gig and sharing economy

- 5.3 One of the options available would be to introduce new standard costs for those who earn income through the gig and sharing economy. This would involve the Commissioner of Inland Revenue being responsible for setting standard cost deductions so that taxpayers who did not want to keep actual expenditure records could claim a deduction that was calculated with reference to averages across the industry.
- 5.4 Inland Revenue determines annually standard costs for those providing home-based boarding services. If a person chooses to apply these standard costs in determining their tax obligations with respect to their home-based boarding services, as long as the income they receive is below the annually determined amount, the person does not need to declare this income (or expenditure) to Inland Revenue in their income tax return. A person who chooses this method will not be able to claim a loss.
- 5.5 It is expected that the individual income-earning circumstances of each seller through digital platforms in the gig and sharing economy could differ quite substantially. Each seller could have completely different cost profiles (for example, a ridesharing seller who leases their vehicle to other drivers will have different costs to a person who pays to lease a vehicle; and a person who does not have a mortgage for a property they use in their short-stay accommodation activities will have different costs to someone who does). This would make it difficult for Inland Revenue to determine standard costs that catered for these variations. The determinations would therefore be unlikely to be a representative proxy for the actual costs incurred.
- 5.6 The Government is interested in submitters' views in this area, and, whether standard costs could be determined in a sensible manner.

Accounting for private use of assets used in the gig and sharing economy

- 5.7 If a seller on a digital platform in the gig and sharing economy platform becomes registered for GST to recover GST deductions, this will raise issues of how they should account for GST for an asset such as a holiday home or a ridesharing vehicle which would now be used to make both taxable supplies and

for private use. The apportionment and adjustment rules apply when a GST-registered person uses (or intends to use) goods and services for both taxable and non-taxable purposes. Following acquisition of an asset, the GST-registered person must annually compare the intended taxable use of an asset with the actual taxable use of an asset and apportion accordingly.

- 5.8 The current GST apportionment and adjustment rules which apply to such assets are complex and have high compliance costs as they require monitoring of the percentage of taxable use and annual adjustments. Imposing these rules on thousands of sellers in the gig and sharing economy who may have otherwise relatively simple tax affairs and may only participate temporarily in a taxable activity would exacerbate existing issues with tax compliance and compliance costs.

Example 10

Svenja owns a beachside property that she rents out on a digital platform called 'book-a-crib.' Svenja usually only rents her place out for a couple of months of the year (the rest of the time it is used for her private use), and she has never previously registered for GST. This means that Svenja is not required to charge GST on the fees she charges for accommodation, but also means Svenja cannot claim GST deductions for her costs such as cleaning, power, internet along with rates and interest payments.

If extended marketplace rules were implemented, the supply of accommodation would be subject to GST and 'book-a-crib' would be required to pay 15% of the short-term accommodation hire to Inland Revenue. To avoid over-taxation, Svenja should be able to claim back the GST component of the costs she incurred in providing short term accommodation. This means she would also be required to apply GST apportionment rules to account for her taxable and non-taxable use of the asset for these costs.

- 5.9 We are therefore interested in any specific considerations that may apply for apportionment and adjustment in the sharing economy context that could help lead to a reduction of compliance costs for sellers on digital platforms in the gig and sharing economy.
- 5.10 Inland Revenue officials are currently consulting on options to simplify the GST apportionment and adjustment rules, set out in the officials' issues paper *GST apportionment and adjustment rules*.¹⁰ The proposed options would significantly reduce the number of registered persons who face compliance costs and unexpected liabilities under the current rules. The proposed options could be applied to holiday homes and ridesharing vehicles to help mitigate some of the compliance costs which would arise if sharing economy sellers were required to register for GST to claim GST deductions.

Holiday homes

- 5.11 Because most owners of holiday homes are not currently registered for GST, they are unable to claim GST deductions for these properties and are not liable charge GST on the properties if they sell them. To maintain this treatment, it is proposed that GST registered owners of holiday homes would be able to elect to exclude their purchase and disposal of the holiday home from being

¹⁰ Inland Revenue. (2022). *GST apportionment and adjustment rules – an officials' issues paper*. <https://taxpolicy.ird.govt.nz/publications/2022/2022-ip-gst-apportionment-rules>

considered part of their taxable activity (even if it is partly used to make taxable supplies of short-term guest accommodation services).

- 5.12 This means if an owner of a holiday house registers for GST, they would usually choose to not claim a GST deduction¹¹ for purchasing the holiday home or on capital spending on the house. GST would then not apply to any subsequent sale or disposal of the holiday home. However, the GST registered person would still claim GST deductions on operating expenses (cleaning, property managers, rates and insurance, repairs to the extent these costs are incurred in supplying short term accommodation services). Owners would not need to return GST on the income they received as this would be done by the digital platform.
- 5.13 Another option could be to introduce a special rule which would prevent GST deductions from being claimed¹² for the purchase of a holiday home (and any capital improvements) unless the registered person made at least \$60,000 of supplies to guests (ignoring supplies made to associated persons such as the owners or close family members as this is more akin to private consumption rather than a commercial activity). Such a rule would only allow GST to be deducted on the land and capital of a holiday home when the holiday home operates on a similar scale to other commercial accommodation operators such as hotels or motels which would typically have more than \$60,000 of supplies to guests.
- 5.14 In any case where a GST registered guest accommodation host had claimed a GST deduction for buying their holiday house, they would be liable for GST if they sold the house or stopped their taxable activity of selling guest accommodation. However, it is also proposed that if a GST registered person did not choose to claim a GST deduction for an asset, such as a holiday house, they would not be subject to output tax on disposal of that asset.

Ridesharing vehicles

- 5.15 Most ridesharing vehicles are dominantly used to make taxable supplies, with occasional private use. To reduce compliance costs of apportioning GST deductions on the purchase of a vehicle by a registered person, it is proposed that if the vehicle is 80 percent or more used to make taxable supplies (based on mileage), then this could be rounded-up to a deemed 100 percent taxable use. This would mean a full GST deduction could be claimed on the purchase of the vehicle and the GST apportionment rules would not apply as long as the taxable use remained above 80 percent (and if the taxable use dropped below 80 percent, apportionment adjustments would then be required).
- 5.16 Many of the ridesharing vehicles would have been purchased prior to the driver becoming registered for GST. Under the current apportionment rules, a registered person needs to have had 100 percent taxable use of an asset at the end of two of their annual balance dates to perform a wash-up calculation to claim a full deduction of the GST incurred on the purchase price. It is proposed that the wash-up calculation be amended so it can be applied at the end of the current adjustment period if there has been a permanent change in use. If this proposal proceeds, a GST registered driver would be able to claim a GST deduction for the GST they incurred when they purchased the vehicle at the

¹¹ Or make an adjustment to return output tax of plus 15% GST on the zero-rated purchase price in cases where they purchased the house as a zero-rated supply of land or a going concern from another registered person.

¹² Or require an adjustment to return output tax of plus 15% GST on the zero-rated purchase price in cases where they purchased the house as a zero-rated supply of land or a going concern from another registered person.

end of their first adjustment period (their next balance date) after they become registered.

- 5.17 In any case where a GST registered driver claimed a GST deduction for their taxable use of the vehicle, they would need to account for GST if they sold the vehicle or stopped their taxable activity of ridesharing. However, it is also proposed that if a GST registered person chose to not claim a GST deduction for an asset such as a vehicle, they would not need to account for GST on disposal of that asset.
- 5.18 It is also proposed that if a GST registered person had less than 20 percent taxable use of their vehicle (for example because they use it privately and only operate as a ridesharing driver on Friday and Saturday nights) that the taxable use of the vehicle could be deemed to be 0 percent. This would mean they would be unable to claim any GST deductions, but would also not be liable to account for GST if they sold the vehicle or stopped their taxable activity of ridesharing.
- 5.19 It is proposed the above rounding rules would only apply to capital spending. This means that GST on operating expenses such as petrol, insurance, repairs and maintenance, and vehicle licencing could only be deducted to the extent they were used to make taxable supplies (generally apportioned based on mileage).

Question for submitters

- Are there other options that the Government should consider implementing to make it simpler for those with tax obligations as a result of earning income through the gig and sharing economy to comply?