

# Hon David Parker, Minister of Revenue

## Information Release

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

March 2022

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2022/2022-ir-cab-dev-22-sub-0018>

#### Documents in this information release

| # | Reference       | Type              | Title   | Date            |
|---|-----------------|-------------------|---|-----------------|
| 1 | IR2021/182      | Tax policy report | Taxation of the gig and sharing economy   | 6 May 2021      |
| 2 | IR2021/460      | Tax policy report | Public release of a discussion document on the role of digital platforms in the taxation of the gig and sharing economy | 2 December 2021 |
| 3 | DEV-22-SUB-0018 | Cabinet paper     | Public consultation on the role of digital platforms in the taxation of the gig and sharing economy                     | 2 March 2022    |
| 4 | DEV-22-MIN-0018 | Minute            | The role of digital platforms in the taxation of the gig and sharing economy: release of discussion document            | 2 March 2022    |

#### Additional information

The Cabinet paper was considered by the Cabinet Economic Development Committee on 2 March 2022 and confirmed by Cabinet on 7 March 2022.

One attachment to the Cabinet paper is not included in this information release as it is publicly available:

- The role of digital platforms in the taxation of the gig and sharing economy – a Government discussion document (March 2022)<sup>1</sup>

<sup>1</sup> Available at <https://taxpolicy.ird.govt.nz/publications/2022/2022-dd-digital-platforms-gig-sharing-economy>

## Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

- 9(2)(a) to protect the privacy of natural persons, including deceased people
- 9(2)(f)(iv) to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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## POLICY AND REGULATORY STEWARDSHIP

**Tax policy report:** Taxation of the gig and sharing economy

|                        |               |                       |            |
|------------------------|---------------|-----------------------|------------|
| <b>Date:</b>           | 6 May 2021    | <b>Priority:</b>      | Medium     |
| <b>Security level:</b> | In Confidence | <b>Report number:</b> | IR2021/182 |

### Action sought

|                     | Action sought                   | Deadline    |
|---------------------|---------------------------------|-------------|
| Minister of Revenue | <b>Agree</b> to recommendations | 20 May 2021 |

### Contact for telephone discussion (if required)

| Name            | Position                  | Telephone |
|-----------------|---------------------------|-----------|
| Graeme Morrison | Policy Lead, Indirect Tax | s 9(2)(a) |
| Ben Smith       | Senior Policy Advisor     |           |

6 May 2021

Minister of Revenue

## **Taxation of the gig and sharing economy**

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### **Purpose**

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

### **Background**

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

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

## **Publications from the OECD**

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

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

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

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

**Other international developments**

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

## **Future discussion document**

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

## **Consultation**

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

## **Recommended action**

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We recommend that you:

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

Noted

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

Agreed/Not agreed

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

Agreed/Not agreed

### **Graeme Morrison**

Policy Lead, Indirect Tax

Policy and Regulatory Stewardship

### **Hon David Parker**

Minister of Revenue

/ /2021



## POLICY AND REGULATORY STEWARDSHIP

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

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|                        |                 |                       |            |
|------------------------|-----------------|-----------------------|------------|
| <b>Date:</b>           | 2 December 2021 | <b>Priority:</b>      | Medium     |
| <b>Security level:</b> | In Confidence   | <b>Report number:</b> | IR2021/460 |

### Action sought

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

### Contact for telephone discussion (if required)

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| <b>Name</b>     | <b>Position</b>                       | <b>Telephone</b> |
|-----------------|---------------------------------------|------------------|
| Graeme Morrison | Policy Lead, Inland Revenue           | s 9(2)(a)        |
| William Edmonds | Senior Policy Advisor, Inland Revenue |                  |

2 December 2021

Minister of Revenue

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

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### **Purpose**

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

### **Background**

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

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

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

### Information reporting and exchange

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

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

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

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

### How GST should apply

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

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

### **Measures to reduce compliance costs**

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

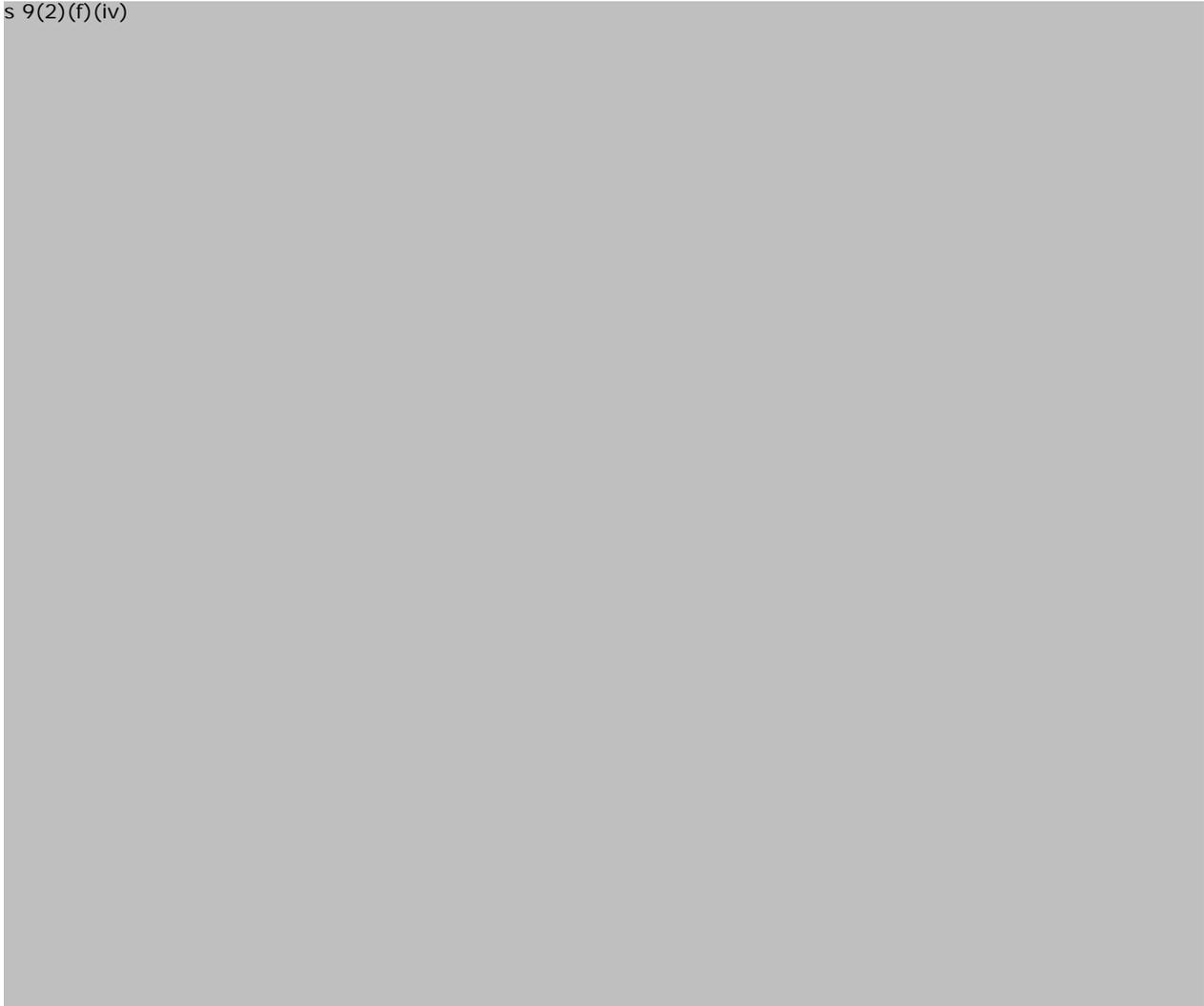
### **Release of the discussion document**

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

## Consultation

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

s 9(2)(f)(iv)



## Next steps

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

**Recommended action**

We recommend that you:

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

s 9(2)(a) 

**Graeme Morrison**

Policy Lead, Indirect Tax

Policy and Regulatory Stewardship

**Hon Grant Robertson**

Minister of Finance

/ /2021

**Hon David Parker**

Minister of Revenue

/ /2021



In Confidence

Office of the Minister Revenue

Chair, Cabinet Economic Development Committee

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

### **Proposal**

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

### **Relation to Government Priorities**

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

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

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

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

#### **Improving Inland Revenue's visibility on income information**

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

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

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

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

#### **Other compliance cost reduction measures**

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

#### **Implementation**

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

#### **Financial Implications**

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

#### **Legislative Implications**

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

#### **Impact Analysis**

##### **Regulatory Impact Assessment**

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

### **Climate Implications of Policy Assessment**

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

### **Population Implications**

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

### **Human Rights**

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

### **Consultation**

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

### **Communications**

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

### **Proactive Release**

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

### **Recommendations**

The Minister of Revenue recommends that the Committee:

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

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

Authorised for lodgement

Hon David Parker  
Minister of Revenue





# Cabinet Economic Development Committee

## Minute of Decision

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*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

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### The Role of Digital Platforms in the Taxation of the Gig and Sharing Economy: Release of Discussion Document

**Portfolio**                      **Revenue**

On 2 March 2022, the Cabinet Economic Development Committee:

- 1        **noted** that the government's tax policy work programme currently includes an item on the taxation of the gig and sharing economy;
- 2        **noted** that the discussion document *The Role of Digital Platforms in the Taxation of the Gig and Sharing Economy: A Government Discussion Document* (the discussion document), attached to the submission under DEV-22-SUB-0018, seeks feedback on three main areas of the tax system:
  - 2.1      improving Inland Revenue's visibility of sellers' income information;
  - 2.2      how GST should apply to sales made through digital platforms in the gig and sharing economy;
  - 2.3      other opportunities to reduce compliance costs for sellers on digital platforms in the gig and sharing economy;
- 3        **agreed** to the release of the discussion document, subject to any minor, editorial or technical changes that may be authorised by the Minister of Revenue;
- 4        **authorised** the Minister of Revenue to determine the date of release of the officials' issues paper;
- 5        **noted** that the Ministry of Business, Innovation and Employment (MBIE) was separately considering issues relating to contractors and employment status, which may have implications for the gig economy;
- 6        **directed** Inland Revenue and MBIE to work together to ensure that any overlaps between their respective workstreams are identified and managed appropriately.

Janine Harvey  
Committee Secretary

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**Present: (see over)**

**Present:**

Hon Grant Robertson (Chair)  
Hon Carmel Sepuloni  
Hon David Parker  
Hon Poto Williams  
Hon Stuart Nash  
Hon Kris Faafoi  
Hon Willie Jackson  
Hon Michael Wood  
Hon Dr David Clark  
Hon Dr Ayesha Verrall  
Hon Meka Whaitiri  
Hon Phil Twyford  
Dr Deborah Russell MP

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV