Regulatory Impact Statement: Taxation of the gig and sharing economy: GST

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions
Advising agencies:	Inland Revenue
Proposing Ministers:	Minister of Revenue
Date finalised:	25 May 2022

Problem Definition

Digital platforms in the gig and sharing economy facilitate income earning opportunities for small-scale operators on a large scale. Because many of these supplies occur below New Zealand's GST registration threshold, they are not subject to GST. This has given rise to two policy problems that these proposals seek to address:

- **Competitive distortion:** A competitive distortion arises between traditional suppliers of these services who charge GST, and services undertaken through digital platforms, which are generally not subject to GST.
- **Sustainability of the GST base:** The ability of digital platforms to facilitate income earning opportunities for individuals on such a large scale and generally below the GST registration threshold (and the growth in activity on these digital platforms) has the potential to erode the GST base over time unless these services enabled by digital platforms are taxed in the same way as supplies of the same services made by other means.

Executive Summary

Overview

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, short-stay accommodation, and food and beverage delivery services. The gig and sharing economy is growing in popularity as it offers flexible working arrangements and an easy way to connect buyers and sellers.

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, potentially paying provisional tax, and being required to account for GST. In this regard they are considered self-employed for tax purposes.

The proposals being considered by this project on the 'Taxation of the gig and sharing economy' cover two main areas. This Regulatory Impact Statement (RIS) explores options relating to GST. Another RIS has been prepared which covers information reporting and exchange for the gig and sharing economy.

How GST should apply in the context of the gig and sharing economy

GST applies to the broadest possible range of goods and services in New Zealand. This keeps GST fair, simple and efficient. New Zealand's GST system operates with a $60,000 GST registration threshold which is intended to recognise there are trade-offs between a broad-based GST system and the compliance and administration costs associated with GST registration.

These compliance and administration costs potentially fall away (or are significantly reduced) in the context of the gig and sharing economy where transactions are facilitated by large and sophisticated digital platforms with the ability to process millions of transactions on a regular basis. Many sellers who currently operate through digital platforms expect to earn below the GST registration threshold so are not registered for GST. The policy question is whether GST should apply to these supplies and, if so, how best to apply it.

Options considered

The Government released a discussion document in March 2022[1] which considered two main options: lowering the GST registration threshold for sellers in the gig and sharing economy or extending current electronic marketplace rules to require digital platforms in the gig and sharing economy to collect GST. Although these were the only options formally consulted on in the discussion document, officials have considered a wider range of options, some of which arose out of the consultation process. Briefly, the options considered were as follows:

Options not involving digital platforms

1. The status quo
2. Lowering the GST registration threshold for all taxpayers
3. Requiring mandatory GST registration for "listed services" (which are specific gig and sharing economy activities)

Options involving digital platforms

4. Extended electronic marketplace rules that would require digital platforms to collect GST in respect of "listed services".[2]

If Option 4 is the preferred solution, there are several other sub-decisions that need to be made from a detailed policy design perspective that inform how the proposals would work in practice. These are:

- **Defining "listed services":** If digital platforms are required to collect GST in respect of activities undertaken by sellers through their digital platforms, it would need to be determined which activities were "listed services" and therefore subject to GST collection by the digital platforms. Two options are considered here:
    1. An approach that focused on the sectors the gig and sharing economy that create the most urgent GST pressures at this time (accommodation, transportation, and food and beverage delivery services).

[1] The role of digital platforms in the taxation of the gig and sharing economy. (2022). Available at: http://taxpolicy.ird.govt.nz/publications/2022/2022-dd-digital-platforms-gig-sharing-economy

[2] A variation of this option would allow sellers that are registered for GST to continue to return GST to Inland Revenue on supplies of services they make through digital platforms, but this is not supported by officials for integrity reasons.

2. A wider approach (which, in addition to those sectors outlined in option 1 also includes a wide range of personal and professional services).

- **Options to allow sellers to claim GST on their costs:** If digital platforms are required to charge GST on supplies made through them, sellers would need a method for claiming back GST on their costs. Three options are considered here:

1. Standard GST registration where sellers would register for GST and provide GST returns in the same way as any other business or self-employed person
2. A flat rate scheme where digital platforms collect GST at the standard rate, and return a portion of this to Inland Revenue, with the remaining amount being paid to the seller in recognition of the GST component of their costs
3. Refunding GST on sellers' costs as part of the annual income tax return process.

The preferred option

Option 4 is the preferred option. Under this option, digital platforms will be required to return GST on supplies of "listed services" as if the digital platform itself had made the supply, even though the services were performed by the seller through the digital platform. For integrity reasons and to reduce complexity with the design and implementation of the rules, this will apply to all supplies of "listed services" made through the digital platform, irrespective of whether the underlying seller was registered for GST or not.

Under the preferred option, "listed services" are transportation services (which includes ridesharing and food and beverage delivery) and taxable accommodation. These sectors were identified by the OECD as the most significant in terms of the gig and sharing economy currently. Also included in "listed services" are other services closely connected with these services. Existing rules for determining when an electronic marketplace is a supplier for the purposes of the remote services rules will be leveraged to achieve this.

Sellers would be able to recover GST on their costs associated with making supplies through digital platforms through either:

- The standard GST registration: This involves registering for GST and claiming GST deductions in the same way as any other business or self-employed person. In all cases where a seller is registered for GST, the output tax is still returned by the platform.
- The digital platform applying a flat rate of GST: Under a flat rate system, GST is still charged on the supply at a standard rate of 15%. However, only a proportion of this is returned to Inland Revenue, with the remainder given to the underlying seller as a proxy for their GST costs. This amount recognises the seller would otherwise be over-taxed through not having a mechanism to recover GST on costs associated with making supplies through digital platforms. The flat rate would be set at 6.5%, with the remaining 8.5% to be returned to the underlying seller as a proxy for their costs. This amount has been arrived at through an analysis of sellers' costs in these industries. Sellers with turnover greater than $60,000 would still be required to register for GST and would not be able to use the proposed flat rate scheme, however digital platforms would still be responsible for collecting and paying GST to Inland Revenue.

The preferred option would impact the following stakeholders in the following ways:

- **Digital platforms:** They would be required to collect GST on sales made by sellers through their platforms and pay this to Inland Revenue. Digital platforms would need to account for this additional tax which could reduce their competitive advantage currently held over traditional suppliers of the same services that generally have been collecting and paying GST already.

- **Sellers on digital platforms:** Sellers on digital platforms that are registered for GST would no longer be required to return output tax, as this would be collected by digital platforms on their behalf. GST registered sellers would continue to claim GST on their expenses in the usual way. Sellers operating through digital platforms that are not registered for GST would be subject to a flat rate of GST at a reduced rate to account for the otherwise unrecoverable GST on their expenses.
- **Inland Revenue:** As a result of requiring digital platforms to collect GST in respect of "listed services" through digital platforms, Inland Revenue would potentially have to monitor and police a large influx of GST registered sellers seeking to claim GST on their expenses (to the extent they elected to register over a flat rate scheme). Inland Revenue would also have to undertake monitoring to ensure compliance with the rules. This would require Inland Revenue resource and therefore have administration costs.

Consultation

There were 13 submitters on the discussion document: Airbnb, the Asia Internet Coalition, Baker McKenzie, Booking.com, Chartered Accountants Australia and New Zealand, the Corporate Taxpayers Group, Delivereasy, EY, KPMG, the New Zealand Law Society, PwC, Trade Me, and Uber NZ. Submitters did not support implementing extended electronic marketplace rules for activities in the gig and sharing economy noting the complexities involved and the lack of evidence available to suggest that the absence of GST on most supplies of services through gig and sharing economy digital platforms is distorting consumer decisions.

Limitations and Constraints on Analysis

The main constraint or limitation on the analysis is that the gig and sharing economy is difficult to measure. This problem is international and not specific to New Zealand.

While the OECD's extended model rules for information reporting and exchange might start to provide information on the size of the gig and sharing economy in New Zealand, the information exchange will take some time to implement and for the information to be flowing.

The number of sellers that operate in the gig and sharing economy in New Zealand in the sectors of short-stay accommodation, transportation, and food and beverage delivery services is expected to be in the 10s of thousands, but it has been difficult to verify this with any degree of certainty.

This still represents a significant amount of economic activity that is not subject to GST and in officials' views waiting for more information on the size of the gig and sharing economy will not influence the outcomes of the thinking that has been done to date.

There were no other significant constraints or limitations on the analysis in this statement.

Responsible Manager	
Graeme Morrison Policy Lead Policy and Regulatory Stewardship Inland Revenue 25 May 2022	
Quality Assurance	
Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance panel at Inland Revenue has reviewed the *Taxation of the gig and sharing economy: GST* Regulatory Impact Statement prepared by Inland Revenue and considers that the information and analysis summarised in the Regulatory Impact Statement **meets** the quality assurance criteria.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

GST is designed to apply to the broadest possible range of goods and services supplied in New Zealand. This keeps GST fair, simple and efficient. New Zealand has a GST registration threshold of $60,000 and suppliers with turnover under this threshold are not required to (but still can choose to) register for GST. GST registered persons need to add GST to their supplies of goods and services (unless they are exempt supplies) and can claim a credit for the GST on the costs they incur in producing those supplies.

Recent years have seen the rapid development of digital platforms and electronic marketplaces which quickly and easily connect a product or service provider with potential buyers. This is driven by modern technologies (such as mobile phone applications and online websites) that enable digital platforms to facilitate transactions between sellers and buyers. Many sellers operating through gig and sharing economy digital platforms are small suppliers who are not required to be registered for GST, but viewed collectively, facilitate hundreds of millions of dollars of sales through digital platforms that are not subject to GST (or where GST applies to a small component – the facilitation services from the digital platforms to the underlying sellers – instead of the overall transaction).

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.[3] The estimated size of the gig and sharing economy in New Zealand is $1.9 Billion excluding GST.

What is the policy problem or opportunity?

The proliferation of the gig and sharing economy and this unique business model gives rise to two key policy considerations. The first is that a competitive distortion arises between traditional suppliers who compete with digital platforms and who generally do charge GST, and digital platforms which generally do not charge GST on services provided through them, and therefore have a competitive advantage. This problem arises particularly in the context of the gig and sharing economy because large digital platforms facilitate an income earning opportunity for small economic actors on a large scale. This means that, viewed collectively, sellers in the gig and sharing economy have a large and disruptive effect on traditional industries that provide the same services.

The second key policy issue is that the large-scale nature of the gig and sharing economy has the potential to erode the NZ GST base as more people switch to this way of working and away from other more traditional business models that do charge GST. It is therefore important from a tax policy perspective to consider whether current GST policy settings are appropriate in light of the growth of the gig and sharing economy to ensure the sustainability of the GST base going forward.

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 digital platforms and electronic marketplaces. Special rules treat electronic marketplaces as the supplier of goods or services provided through their platforms

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[3] https://newsroom.mastercard.com/wp-content/uploads/2019/05/Gig-Economy-White-Paper-May-2019.pdf. (This study was conducted prior to COVID-19. It is unclear what impact COVID-19 will have on the global gig and sharing economy long term.)

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.

If the status quo continues there is a risk of erosion of the GST base as the gig and sharing economy continues to grow and the disruptive effect that gig and sharing economy platforms have on traditional business models will continue. Changes are therefore necessary to ensure the sustainability of the GST base and a level playing field with traditional business models.

What objectives are sought in relation to the policy problem?

The objectives are to:

- Address issues relating to competitive neutrality caused by the GST system by ensuring that supplies of services provided through digital platforms have a similar GST treatment to supplies of the same kind of services made through other means.
- Protect the long-term sustainability of the GST base in New Zealand by maintaining a broad-based GST system that is responsive to emerging trends and technologies.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The criteria that have been used to assess the options are:

- **Fairness**: Is the preferred option effective at ensuring that those in the same position pay the same amount of tax (horizontal equity)? Fairness refers to traditional suppliers and sellers in the gig and sharing economy facing similar GST rules.
- **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?
- **Compliance costs**: Do the preferred options encourage sellers in the gig and sharing economy to comply with their tax obligations with low compliance costs? (Regarding options to claim input tax credits.) Does the preferred option impose disproportionate compliance costs on digital platforms?
- **Administration**: Are the preferred options possible for Inland Revenue to implement and administer without substantial ongoing administration costs?
- **Sustainability**: Is the preferred option future-proofed? Is it scalable for other activities in the future? Will the preferred option protect the sustainability of the GST base going forward?
- **Administration**: Are the preferred options possible for Inland Revenue to implement and administer without substantial ongoing administration costs?

What scope will options be considered within?

The scope of options was initially informed by the work completed by the Organisation for Economic Cooperation and Development in a report on "The impact of the growth of the sharing and gig economy on VAT/GST policy and administration". New Zealand specific proposals were developed and consulted on in the discussion document *The role of digital platforms in the taxation of the gig and sharing economy* which was published in March 2022.

The discussion document canvassed the relevant experiences of other countries in this area, and this informed the scope of options which were consulted on (for example, Canada implemented reforms to require digital platforms to return GST on supplies of short-stay accommodation made through them; and Mexico implemented a flat rate of GST to account for sellers' costs which was consulted on in a New Zealand context).

There are no non-regulatory options (being options that do not involve the amending of New Zealand's legislation) that would achieve the policy objectives. This is because the existing law, and the $60,000 GST registration threshold, means many sellers in the gig and sharing economy are not required to charge GST on their supplies. Non-regulatory options would not achieve the stated objectives which, given their nature, would require amendments to New Zealand's GST legislation.

Stakeholder views

Submitters did not support extending the electronic marketplace rules for remote services and low value goods to also apply to supplies of short-stay accommodation and personal services facilitated through digital platforms in the gig and sharing economy because:

- Doing so would introduce additional complexity to New Zealand's GST system. This includes increasing compliance costs on digital platforms and underlying sellers who would need to comply with any new GST rules.
- The discussion document did not contain economic modelling or analysis that suggested the lack of GST on many services in the gig and sharing economy resulted in distortions.
- It would be inconsistent with the approach taken by many other OECD countries, where the focus was on implementing the OECD's information reporting and exchange framework and using that information to improve compliance with existing GST rules.

What options are being considered?

Option One – Status quo

Individual sellers in the gig and sharing economy will only be required to register, and collect, GST on supplies they make provided they exceed the registration threshold of $60,000 in a 12-month period.

Digital platforms are not responsible for collecting GST on supplies made through them.

As the gig and sharing economy is dominated by small operators operating below the GST registration threshold, the status quo would not achieve the policy objectives of treating supplies of the same or similar services in the same way for GST purposes and ensuring the sustainability of the GST base.

Option Two – Lowering the GST registration threshold across the board

New Zealand's GST registration threshold of $60,000 could be lowered so that more sellers were required to be registered for GST, including those who operate in the gig and sharing economy.

The advantage of this approach over the status quo is that it would help achieve the stated policy objective of treating supplies of the same or similar services in the same way for GST purposes and promotes the objective of ensuring the sustainability of the GST base.

The disadvantages of this option are that any general changes to the GST registration threshold would have a broad impact across all sectors of the economy. This option also does not eliminate the competitive distortion problem. This is because digital platforms would still be facilitating income earning opportunities for many people beneath the new registration threshold in direct competition with traditional businesses that were subject to GST. Similarly, this option does not ensure the sustainability of the GST base into the future, as it would depend on where the new registration threshold was set. There could still be a considerable number of "smaller" sellers beneath the threshold that would have a disruptive effect on these sectors of the economy. It is also noted that lowering the GST registration threshold would create a different set of issues in terms of ensuring sellers were compliant with their GST obligations. The option fails to recognise the role that large digital platforms with oversight of transactions running through them could have to support the policy objectives more effectively.

Option 3 – Requiring sellers in specified industries to be registered for GST

This option would require GST registration of sellers that provided specifically prescribed activities, for example short-stay accommodation, transportation/ridesharing, and food and beverage delivery services. This would result in a targeted reduction of the GST registration threshold for specific areas of the economy.

This option could achieve the stated policy objectives, but it would result in significant compliance costs for sellers in specific areas of the economy who would be required to register for GST. This also has administrative implications for Inland Revenue as there would be an increase in the number of GST registered persons in the system, which has corresponding administrative implications, for example the processing of GST returns and registrations and general support which would be required.

Option 4 – Extended electronic marketplace rules that require digital platforms to collect GST on listed services

Digital platforms (which are currently recognised in the GST Act as "electronic marketplaces") 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 provided by the seller on the digital platform.

To minimise the disruptive effect of any proposals on large commercial operators who are already complying with GST obligations, we recommend that the proposals include a way for digital platforms and large commercial operators to agree to allow large commercial operators to continue returning GST themselves. This is consistent with the general purpose of the proposals, which is to minimise compliance costs to the extent possible while ensuring GST applies to activities in the gig and sharing economy.

Why a solution that involves digital platforms?

The policy rationale for the GST registration threshold is to recognise that there is a trade-off between having a broad GST base that minimises distortions against the compliance and administration costs associated with GST registration.

Looked at individually, many sellers in the gig and sharing economy operate below the GST registration threshold of $60,000 in a 12-month period and the compliance and administration costs associated with GST registration outweighs the benefits of GST registration. Looked at collectively, however, digital platforms facilitate a considerable proportion of economic activity which is not currently subject to full GST.[4] This is counter to the principle of maintaining a broad GST base that minimises distortions.

These compliance and administration considerations are largely mitigated in the context of the gig and sharing economy where a large platform with the ability to manage hundreds of thousands of transactions on an on-going basis and facilitates and has oversight over all the activity of the underlying seller through that platform. By placing the compliance costs on the platform of collecting and returning GST, this option reduces compliance costs that may be faced by the underlying sellers themselves if they had to comply with GST registration and return filing obligations.

Like many other countries, New Zealand has implemented expansions to its GST rules in the last decade to require digital platforms/electronic marketplaces to return GST on supplies of remote services and low value imported goods. These 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 rules are working well and have shown that the GST system can adapt to new technologies and in cross-border situations. They have also improved the fairness of the GST system by treating supplies of similar goods and services in the same way. The natural next step is that the involvement of digital platforms in the gig and sharing economy be examined in the same way, as collecting GST from digital platforms helps minimise compliance costs for sellers and simultaneously addresses the desired policy objectives of a sustainable GST system that minimises distortions.

Another advantage of requiring the digital platforms to collect GST rather than the individual sellers themselves is that it reduces opportunities for non-compliance. This is because GST is collected and returned by the platform directly.

Option 4: Sub-decision: What services would be in scope of extended electronic marketplace rules?

If digital platforms were required to collect GST on activities undertaken by sellers through platform, the activities that were "listed services" would need to be determined. There are two options for determining what activities would be in scope of extended electronic marketplace rules:

1. **Focused approach:** This focuses on the sectors the gig and sharing economy that create the most urgent GST pressures. These are currently short-stay accommodation, transportation/ridesharing, and food and beverage delivery services.

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4 Digital platforms will generally charge and collect GST on the facilitation services they provide to sellers in the gig and sharing economy under the GST rules for remote services. This is a small proportion of the overall transaction.

2. **Broad approach:** In addition to those sectors in option 1, this also includes a broader range of personal services which includes other professional services such as freelancing, translation services, web, and graphic design, etc.

The focused approach is the preferred approach. This is because it accounts for sectors in the gig and sharing economy that are already well developed and create the most urgent pressures from a GST perspective.

While the broad approach brings in a broader range of economic activity that should, prima facie, be subject to GST in light of this analysis, it is not supported. This is because GST is already collected on many personal services through the remote services rules and bringing personal services in scope would result in additional complexity and cross-over with the remote services rules which officials consider are working well.

While tax policy officials consider there are good arguments for including a broad range of personal services in the GST system where those services are facilitated through digital platforms, additional time is needed to develop proposals that minimise complexity. As the gig and sharing economy is expected to continue to grow over time, as new and emerging business models gain in popularity, any solution that is implemented now should be scalable in the future. The preferred option therefore includes the ability to add additional activities that would be subject to the same rules as are proposed for supplies of taxable accommodation, transportation, and food and beverage delivery services. This approach would allow the GST Act to be amended in the future as the gig and sharing economy develops.

Option 4: Sub-decision: GST on sellers' costs

The decision to implement electronic marketplace rules for remote services and low value imported goods did not give rise to how GST on sellers' costs might be recovered. This is because the underlying suppliers in these circumstances would generally be unlikely to have New Zealand GST embedded in the costs associated with producing these types of supplies.

This is not the case for the gig and sharing economy where the underlying suppliers (sellers) will have New Zealand GST on the costs they incur in producing the supplies in New Zealand through digital platforms.

The discussion document considered three different methods for enabling sellers to recover GST on their costs. The discussion document also noted that there was no obvious solution and that all options recognise there are trade-offs between accuracy, compliance and administration costs.

The three options to address this issue were:

1. **Standard GST registration:** Sellers could register for GST and complete GST returns in the usual way to claim credits for the GST on their expenses. Sellers would only be required to account for GST on sales made for other supplies they make outside of the digital platform to Inland Revenue. The advantage of this option is it allows sellers to claim the GST component of their actual costs as a credit (the same as any other self-employed person who is registered for GST), but this increases compliance costs for sellers who otherwise would not have an incentive to register for GST. There was mixed support from submitters for this option on the discussion document.

2. **Flat-rate scheme:** GST would be collected by digital platforms at the standard rate of 15 percent, but 6.5 percent would be returned to Inland Revenue as GST with the difference (8.5 percent) being returned to the seller in recognition of the GST component of their

costs.[5] Sellers would not be able to claim actual GST deductions for expenses incurred in making their supplies as the reduced GST rate would be a proxy for recognising the GST costs on their expenses. This option reduces sellers' compliance costs but the amount a seller receives back to account for their GST costs is an approximation only. There was also mixed support from submitters for this option on the discussion document.

3. **Refunding GST on costs as part of the annual income tax return process:** This option would allow sellers who were not registered for GST to claim back GST on their costs by providing them with a refundable tax credit when they provided their annual income tax return. In theory, this method reduces compliance costs relative to Option 1 (because sellers will always have to provide an annual income tax return) and would be more accurate than the flat rate scheme in Option 2 because it provides an opportunity for GST on actual costs incurred (rather than applying a proxy) but it is complex. It also means that sellers would only get the tax credit annually (as opposed to more frequently compared with Options 1 and 2) and could be confusing because it incorporates GST in the income tax return process in a novel way. This option was not supported by submitters on the discussion document.

The preferred option is a combination of Options 1 and 2: optional **GST registration with a flat rate scheme applying for sellers that choose not to register for GST**. Under the preferred option, sellers could choose to register for GST in the usual way and claim back any GST on their expenses. Sellers with turnover greater than $60,000 would be required to register for GST and would not be able to use the flat rate (the platform would still return their output tax).

If sellers with turnover under $60,000 chose not to register for GST, the flat rate would apply and the digital platforms would apply a flat rate treatment where GST was returned to Inland Revenue at a 6.5% instead of the standard rate, with the 8.5% difference being passed on to the sellers by the platform. This option was suggested by several submitters on the discussion document.

This option is preferred because it provides sellers with flexibility to claim GST on their actual costs if they choose to, but it also ensures that those who are not registered for GST are recognised in some way without needing to increase their compliance costs through GST registration.

At the margins, this option also has administrative benefits for Inland Revenue as it should reduce the incentive to be registered for GST for those who operate through digital platforms.

Financial implications of preferred option (Extended electronic marketplace rules that require digital platforms to collect GST on listed services)

The preferred option is expected to raise approximately $47 million per annum. This fiscal estimate was arrived at using a 'bottom up' approach. Digital platforms currently return GST on their facilitation fees. GST returns of specific digital platforms who provided "listed services" were analysed to determine the amount of GST paid on their facilitation fees. This amount was then grossed up to impute the underlying sales to the customer of the service and then scaled appropriately.

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[5] The specific percent split ascribed to the flat rate of GST (6.5%) and the amount returned to sellers to account for GST on their expenses/inputs (8.5%) was not covered in the discussion document. This was determined after this option was chosen through an analysis of sellers' costs as included in GST returns for the relevant sectors of the gig and sharing economy.

The fiscal estimate then accounted for the GST component of sellers' costs, with the projections accounting for both GST registered sellers and those that would be subject to the 6.5% flat rate. Once sellers' costs were taken into consideration, this resulted in an estimate of $47 million revenue gain per annum from these proposals. This estimate does not account for any future growth in the gig and sharing economy and assumes all sellers who would be better off registering for GST than under a flat rate elect to do so (some will not due to inertia which would result in a greater revenue gain than the forecast amount).

Example key for qualitative judgements:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual

How do the options compare to the status quo/counterfactual?

	Option One – Status quo	Option Two – Lowering the GST registration threshold across the board	Option 3 – Requiring sellers in specified industries to be registered for GST	Option 4 –Extended electronic marketplace rules that require digital platforms to collect GST on listed services
Fairness	0	--	+	++
Compliance costs	0	-	-	0
Admin costs	0	--	-	-
Efficiency	0	0	+	++
Coherence	0	-	0	+
Sustainability	0	+	+	++
Overall assessment	0	--	+	++

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

The option that is most likely to achieve the policy objectives outlined in this statement is Option 4.

By requiring digital platforms to collect GST, Option 4 ensures that compliance costs are reduced for sellers and that GST will be reliably collected on supplies made through them. This model applies to a set of listed services, being activities that are well developed in the gig and sharing economy and for which there is a strong evidence base for urgent pressures from a GST perspective. For sellers to recover the GST on the costs, the combination of an optional GST registration and the flat rate scheme for GST unregistered persons to enable sellers to claim a credit for the GST on their costs ensures fairness and reduced compliance costs for sellers.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Regulated groups (Sellers in the gig and sharing economy that provide listed services)	Sellers may face a marginal increase in their compliance costs to the extent that they choose to register for GST. Supplies of listed will now be subject to GST. Although it is likely that digital platforms would raise their prices to account for GST, this could result in some drop in demand. This would impact sellers' incomes.	Low	Medium
People who purchase listed services through digital platforms in the gig and sharing economy	If GST is required to be collected by digital platforms on these services, it is assumed this will be passed on fully to consumers. This will increase the cost to consumers of purchases made through digital platforms by up to 15 percent.	Medium/High	Medium/High
Digital platforms	Would have to start collecting GST on supplies of listed services made through them. This would have pricing implications and systems implications. .	High	High

Regulators (Inland Revenue)	Inland Revenue would be required to administer a flat rate of GST and monitor compliance for an increased number of GST registered platform sellers	There is an up-front system build cost of $0.3 million. There are also ongoing administration costs for Inland Revenue.[6]	High
Total monetised costs		Medium/High	High
Non-monetised costs		Medium	High
Additional benefits of the preferred option compared to taking no action			
Regulated groups (platform sellers)	Increased certainty regarding their tax obligations due to platform intervention	n/a	n/a
Regulators (Inland Revenue)	Improved tax compliance as GST collected by platform. Improved sustainability of the GST base by virtue of GST being collected on supplies of listed services through digital platforms	Refer to column below	High
Others (Government)	Will receive additional GST revenue collected by digital platforms in respect of listed services undertaken by sellers on these platforms	$47 million per annum	Medium – this amount has been forecast based on the current size of the "listed services" sectors of the gig and sharing economy and is a conservative estimate.
Total monetised benefits		$105.75 million across the forecast period.	
Non-monetised benefits		*Low to Medium*	

[6] The estimated costs are up to $2 million (excluding depreciation and capital charge), which includes $0.3 million for the capital system building and $1.7 million for administration costs over the forecast period.

Section 3: Delivering an option

How will the new arrangements be implemented?

The preferred option (Option 4 – extended electronic marketplace rules that require digital platforms to collect GST on listed services) would require amendments to the Goods and Services Tax Act 1985 and the Tax Administration Act 1994.

Inland Revenue would be responsible for the implementation and administration of the new rules. Inland Revenue will provide guidance to digital platforms and sellers affected by any changes to ensure there is an understanding of the new rules. This would include supporting digital platforms through ongoing discussions with them.

The usual guidance would be published on the changes on Inland Revenue's website and in a *Tax Information Bulletin* shortly after any changes were enacted into law.

Submitters on the discussion document noted the importance of development time to make the necessary changes to their systems. It was noted that a period of 12 months following enactment of any changes and the publication of clear guidance was generally necessary. Officials' advice on the effective date of any proposals would therefore take this into account.

How will the new arrangements be monitored, evaluated, and reviewed?

Inland Revenue would seek funding for additional resource to monitor the estimated increase in GST registrations and additional contacts from taxpayers because of these changes. Inland Revenue would also undertake increased compliance activity for unfiled returns, other general non-compliance (such as debt collection), and complaints. The GST proposals discussed in this RIS are alongside a proposal on information reporting and exchange (which is discussed in a separate RIS) that, if implemented, will result in Inland Revenue having better information about sellers' activities on digital platforms in the gig and sharing economy. There is an obvious synergy here in that the receipt of these information flows would further help to bolster compliance initiatives for the GST proposals.

More generally, policy officials would also maintain strong communication channels with stakeholders in the tax advisory community and these stakeholders will be able to correspond with officials about the operation of the new rules at any time. If problems emerge, they will be dealt with either operationally, or by way of legislative amendment if agreed by Parliament.