

# Tax compliance at a crossroads

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## PROPOSITIONS FOR ADDRESSING THE INCOME TAXATION OF COLLABORATIVE ECONOMY PLATFORM WORKERS

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The findings set out in this research underpin the following propositions for addressing the income taxation of collaborative economy platform workers:

1. Policymakers should move away from false notions that a one-size-fits-all approach could exist to secure effective taxation. The collaborative economy is a heterogenous environment that encompasses capital- and labor-intensive income-generating activities, performed by workers with varying degrees of frequency. The under-taxation of income derived by collaborative economy platform workers is the result of a plurality of determinants of non-compliance. Fiscal equity requires that these distinctions be taken into consideration in determining how the income taxation of workers should be regulated. The income taxation of collaborative economy platform workers should be devised by reference to a strategy, composed of processes that seek to be directly conducive to compliance whilst concurrently limiting opportunities for non-compliance. This could be achieved by reference to the norms embedded in the OECD's Compliance by design initiative. A strategy for addressing the income taxation of collaborative economy platform workers involves (1) the broadened introduction withholding taxes and (2) a reformed approach to self-assessment and self-reporting, which would limit reliance on taxpayer inputs opportunities for taxpayer non-compliance.
2. At the present time, the application of withholding taxes in respect of income derived by collaborative economy platform workers is hampered by two main sets of issues, which may and should be overcome:
  - a) **The challenges to the enforceability of withholding agency obligations against platform operators that neither reside nor maintain a presence in jurisdictions requiring withholding.** However, this issue may be overcome through the assignment of withholding obligations to entities other than platform operators, such as banks or other credit institutions to which workers deposit payments received as consideration for activities performed through platforms to act as withholding agents in respect of such income;

**b) The difficulties associated with the design of a unitary system for withholding, as posed by the heterogeneity of circumstances for workers undertaking income-generating activity within the collaborative economy.** However, this issue may be overcome in several ways:

- i ***By extending a withholding arrangement to a limited category of workers.*** Notably, the application of a final withholding tax may not be feasible in systems that allow independent contractors (including platform workers) to claim a broad span of deductions for expenses incurred in connection with income-generating activities undertaken through platforms. However, even in such systems, the collection of tax through withholding is an appropriate mechanism for collecting tax in respect of workers that only engage in such activities on a small-scale or on an intermittent basis;
  - ii ***Through the design of differentiated withholding schedules.*** This approach would entail the application of distinct withholding rates for workers depending on whether their activities are capital- or labor-intensive and depending on the scale and frequency of their activities;
  - iii ***Through the design of the withholding tax arrangement as a prepayment of income tax rather than a final tax.*** This approach would mitigate the inaccuracies that are commonly at play in respect of final withholding taxes;
  - iv ***Through the design of the withholding tax as an opt-in framework, complemented with the application of distinct Compliance by design frameworks for platform workers that do not opt in, in particular compliance assistance tools developed by tax administrations.***
3. DAC7 and the OECD Model Rules are a welcome development in the area of third party information reporting over income derived by workers from activities undertaken through collaborative economy platforms. However, third party information reporting alone does not guarantee tax compliance and the effective collection of tax in the context of the collaborative economy. The OECD and EU Commission should strive to prevent domestic policymakers from framing third party information reporting arrangements as a panacea. The availability

of information for tax administrations cannot be directly equated with effective taxation.

4. Tax administrations should broaden the availability of compliance assistance tools for taxpayers. Such tools should be designed with a view to overcoming the weaknesses of ordinary self-assessment and self-reporting frameworks, which are deeply reliant on taxpayer inputs and which enable opportunities for willful and inadvertent non-compliance to subsist. There is an imperative need for compliance assistance tools that are capable of naturalizing the process of ascertaining tax liabilities, through the establishment of direct and immediate links between taxable events and their afferent tax consequences.
  
5. Whereas simplified income taxation rules (exemptions for hard to capture income, standard deductions or mechanisms which establish artificial proxies for net income) may alleviate the otherwise pervasive complexity of the income tax rules relevant to the circumstances of collaborative economy platform workers, states should not rely on this approach for addressing the income taxation of collaborative economy platform workers extensively. Simplified mechanisms for the assessment of income and tax compound the artificiality of income tax systems and are prone to produce outcomes that do not reflect taxpayers' genuine ability to pay. For these reasons, the scope of such arrangements should remain narrow. Where they are applied or introduced, such mechanisms should merely extend to:
  - a) **Alleviating meaningful and legitimate compliance and administrative concerns.** For example, whereas the provision of an exemption for *de minimis* amounts of income derived by platform workers from intermittent activities may be justified and appropriate. Conversely, exemptions that overtly or covertly amount to tax incentives should be avoided; or
  
  - b) **Supporting the functioning of non-employee withholding arrangements for the prepayment of tax.** This could be achieved, for example, through the introduction of standard deductions that differentiate between labor- and capital-intensive income-generating activities, to be applied against gross income as a precursor to the collection of non-final tax through withholding.

6. The OECD and EU Commission should promote Compliance by design and bring this concept to the forefront of strategies for addressing the income taxation of collaborative economy platform workers, and other hard to tax groups in the future.
7. Policymakers should attempt to involve intermediaries other than platform operators in the measures and strategies for addressing the income taxation of collaborative economy platform workers. Whereas platform operators are the most obvious repository of information and intermediary between workers and tax administrations, they are certainly not the only one.
8. The OECD and EU Commission should actively and consistently encourage states, countries and jurisdictions to exchange experiences with the application of different measures and approaches for addressing the income taxation of collaborative economy platform workers. The exchange of experiences allows for a clear pragmatic identification of the shortcomings and benefits of different approaches for securing the effective taxation of platform workers. In turn, best practices identified should be replicated by other states, countries and jurisdictions in their efforts to secure the effective taxation of collaborative economy platform workers.
9. The collaborative economy is likely to only be a first expression of the changing labor market harbored by the digitalization of economies. For this reason, approaches currently contemplated for safeguarding the effective income taxation of collaborative economy platform workers should be scalable and lend themselves to a possible subsequent extension to other emerging hard to tax groups.
10. Effective income taxation does not presuppose full or perfect income tax compliance. Even in the context of Compliance by design arrangements, some measure of non-compliance may persist.