

# Tax compliance at a crossroads

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## IMPACT PARAGRAPH

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### 1. Societal value of the research

The broad-based digitalization of economies is reshaping pre-existing notions related to the supply and consumption of services. The collaborative economy is an emerging digitalized business model, which contributes to this ongoing trend. The collaborative economy fosters opportunities for individuals ('platform workers') to monetize the idle capacity of private assets. Prior to the emergence of the collaborative economy, peer-to-peer work was never deemed a sustainable path to generate personal income. In this respect, the formalization of peer-to-peer, quasi-professional work is a welcome development. However, income-generating activities undertaken by individuals in the collaborative economy remain opaque. Income derived by platform workers is routinely under-reported and therefore under-taxed.

This determines a number of social inequities. Firstly, the under-taxation of one segment of taxpayers compromises inter-individual fairness. This is notably relevant, since peer-to-peer services rendered by platform workers are in most cases economically interchangeable with services supplied outside the realm of the collaborative economy. Secondly, assuming the persistence of the existing trend in the under-taxation of platform workers, the continuing growth of collaborative economy labor markets implies a corresponding increase in the absolute scale of the tax gap. In turn, this increases the pressure on the mobilization of public revenues through the collection of tax in respect of other taxpayers, ultimately determining an obtuse, economically inefficient and inequitable incidence of tax burdens.

This research analyzes possible approaches for safeguarding the effective taxation of income derived by collaborative economy platform workers. I argue that the under-taxation of collaborative economy platform workers is rooted in a plurality of factors, related to circumstantial and behavioral considerations, on the one hand, and to weaknesses in existing income tax rules and purported compliance safeguards, on the other hand.

I question some common views related to the collaborative economy and the legal and regulatory challenges it poses, as far as these are ultimately linked with the income taxation of platform workers. In particular, I argue that policymakers should view the collaborative economy as a heterogeneous environment, rather than a unitary labor market. The nature of income-generating activities undertaken by platform workers in different segments of the collaborative economy determines different legal questions and potentially distinct opportunities for tax non-compliance. Additionally, I strive to contribute and add nuance to the wider debate about the misclassification of collaborative economy platform workers as independent contractors rather than employees. I do so by arguing against overly broad arguments related to the prevalence of worker misclassification issues in the collaborative economy.

I surmise as a key proposition that the under-taxation of collaborative economy platform workers should be addressed through frameworks predicated on the naturalization of income tax compliance processes, in a manner that seeks to alleviate the incidence of the factors that impede compliance on a structural level. These propositions strive to contribute to safeguarding equity, effectiveness and efficiency in individual income taxation.

## **2. Target audience**

The arguments and findings developed in this research are especially relevant to domestic policymakers and international governmental organizations (such as the OECD and EU Commission). This research strives to convey that the capability of international governmental organizations to support policies for addressing the income taxation of collaborative economy platform workers would be enhanced if these entities crystalized their role in this wider debate with more clarity.

Furthermore, in existing discussions about the income taxation of collaborative economy platform workers, policymakers at domestic and international level place a marked emphasis on the role that platform operators should play as ‘compliance intermediaries’. This research proposes a candid and levelled approach to the delimitation of the extent to which platform operators may feasibly support the effective taxation of platform workers. Compliance intermediaries

provide an important support structure for effective income taxation. However, a disproportionate emphasis on platform operators as relevant intermediaries involves a reductionist view. The wider digitalization of economies steadily changes the makeup of labor markets. As such, the collaborative economy and the tax challenges posed by workers therein is arguably merely a first manifestation of a broader impending shift. For this reason, it is imperative that policymakers already consider how solutions for addressing the income taxation of platform workers may be scaled in the future, to accommodate new hard to tax groups that are likely to emerge.

Additionally, this research may be especially relevant to tax administrations in states that grapple with the under-taxation of collaborative economy platform workers. As part of this research, I argue that tax administrations do and should play a key role in supporting effective taxation. To this end, I discuss in particular approaches pursuant to which tax administrations could contribute to the development of *Compliance by design* frameworks.

### 3. Innovative character

As part of this research, I discuss income tax compliance in a holistic and robust sense. I seek to ascertain the influence of taxpayers' environment of income-generating activity and of individual conduct on income tax compliance. The innovative character is twofold. Firstly, this research reflects on possible approaches for addressing the income taxation of collaborative economy platform workers by reference to both instrumental and normative considerations. I strive to discuss the instrumental capability of different soft law and blackletter law initiatives to overcome the key determinants of non-compliance at play in the collaborative economy. I combine this instrumental analysis with normative elements, focused on widely recognized principles of tax law. This approach sought to enable propositions that emphasize effective taxation with minimal trade-offs. Secondly, the approach to the discussion of the effective taxation of collaborative economy platform workers developed in this research seeks to emphasize scalable solutions. This research contends that the collaborative economy is likely to merely be an early manifestation of a broader impending shift in individual income-generating activity. With this in mind, the propositions developed in this thesis are flexible, amendable

and capable of accommodating other hard to tax groups which are likely to emerge as a result of the digitalization of economies.

#### **4. Outreach and dissemination of research results**

The income (under-)taxation of collaborative economy platform workers is certain to remain a topic of interest, with profound implications for tax policy and administration. Beyond the dissemination of the present manuscript, I intend to publish this research as a monograph. I endeavor for this research to amount to a meaningful contribution to the ongoing academic and policy debate about fair and effective taxation in the digitalized world economy.

I intend to develop on the findings set out in this research by following emerging developments, in particular through researching measures implemented at domestic level and discussed by international governmental organizations for addressing the income taxation of collaborative economy platform workers and other emerging hard to tax groups. Additionally, I intend to follow and research further the work of the OECD on *Tax Administration 3.0*, with a focus on automation of income tax compliance processes.