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The Global Tax Reporting Framework for Digital Platforms in the Sharing and Gig Economy: Importance for Tax Administrations

Alfredo Collosa (CIAT, IMF) · Friday, April 16th, 2021

Today, there is an exponential increase in new forms of commercialization of goods and the provision of services that make use of digital platforms. This situation is altering the functioning of the transport, delivery and digital services markets, among others.

The rise of the sharing and gig economy, powered by digital platforms, has triggered the entry into market of considerable, and still growing, numbers of new economic actors carrying out activities in new ways and via non-standard forms of employment.

Digital platforms have been one of the world's most significant digital work disruptions in recent years and have the potential to positively impact 540 million individuals worldwide and increase revenue by USD 2.7 trillion by 2025[1].

A recent report from ILO shows that the past decade has seen a fivefold increase in the number of digital labour platforms concentrated in a few countries. The number of online web-based and location-based (taxi and delivery) platforms rose from 142 in 2010 to over 777 in 2020. The number of online web-based platforms tripled over this period, while the number of taxi and delivery platforms grew almost tenfold.

The global distributions of investment in digital labour platforms and platform revenues are geographically uneven. About 96% of the investment in digital labour platforms is concentrated in Asia (USD 56 billion), North America (USD 46 billion) and Europe (USD 12 billion), compared to 4% in Latin America, Africa and the Arab States (USD 4 billion). Platforms providing taxi services have received a much larger share of venture capital funds than delivery or online web-based platforms.

The reality is that a large and growing number of individuals and businesses use digital platforms to sell goods or provide services.

However, income earned through digital platforms is often unreported, and tax is not paid, mainly when digital platforms operate across several countries. This causes countries to lose tax revenue and gives an unfair advantage to traders on digital platforms over traditional businesses.

Thus, this article's objective is to highlight the relevance for the Tax Administrations (TAs) of

having information on the operations carried out through the intervention of digital platforms in the sharing and gig economy.

In this sense, I make a synthesis of the main aspects of an OECD document and DAC 7 from the EU that deals specifically with the subject and then draw some reflections regarding the importance of such information for the TAs.

OECD model rules for digital platforms to report operations

On July 3 2020, the OECD published the document entitled the Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy which was previously approved by the Inclusive Framework of the OECD/G20 on BEPS.

The document's objective is to help taxpayers meet their tax obligations, avoid the proliferation of different and unilateral reporting regimes, and allow the use of novel ICT solutions to create a sustainable environment that supports the growth of the digital economy.

It should be noted that several jurisdictions have already introduced information measures that require platform operators to communicate to the TAs the income received by sellers or service providers. Moreover, other countries plan to introduce similar measures soon.

In this regard, Spain has established the obligation to present an informative statement for real estate rental platforms in which information about the lessors, the operation and the property must be provided. However, recently, a court ruling has put an end to the aforementioned regime, for the moment, without prejudice to which regulatory changes would be made for its reimplantation.

Given this, the OECD document's main objective is to find a multilateral solution to this issue. Namely, this solution should be adopted uniformly in the different countries, benefiting the TAs and taxpayers, all within a broader aspect that continues to seek consensus, such as the taxation of the digital economy and the fiscal transparency of the international tax system.

In general terms, the document focuses on three aspects:

1. transactions to be reported, with particular attention to accommodation, transportation and other personal services;
2. a wide range of platform operators and vendors, to ensure that as many relevant transactions as possible are reported;
3. due diligence and reporting rules that ensure that accurate information is reported without imposing unduly burdensome procedures on platform operators.

Regarding the subjects obliged to report, a broad and generic definition of the term "platform" has been chosen to cover all the software products that users can access and allow sellers to connect with other users to provide the relevant services, including arrangements for collecting the consideration on behalf of sellers.

Platform operators are defined as entities that hire vendors to make all or part of a platform available to said vendors and, in principle, are subject to providing the information when they are residents, incorporated or administered in the jurisdiction that adopts the rules.

Optional exclusions are provided for operators of small-scale platforms, mainly targeting start-ups

and platforms that do not allow sellers to profit from the consideration received or do not have sellers to be informed.

About the operations for which the information must be reported, it is clarified that both the rental of real estate and the provision of personal services, including transportation and delivery services, are included.

Regarding sellers, it covers both entities and individuals, although exclusions are provided for hotel companies, listed entities and government entities.

Elsewhere in the report, the due diligence procedures that platform operators must follow to identify vendors and determine relevant jurisdictions for reporting purposes are specified through the following steps:

- procedures to identify those vendors that are not subject to the collection and verification requirements because they fall within one of the exclusions; and
- information elements that platform operators must collect and verify concerning sellers, including the name, address, TIN (including the jurisdiction of issue), and date of birth of the seller or business registration number.

At another point, the report establishes the rules to determine the link between vendors and jurisdictions for reporting, based on the information elements collected.

Likewise, the information to be reported on the platform, its operators, its vendors, and their transactions as of 31 January of each year is established as well as the reporting format.

The main objective is to be complemented by an international legal framework to support the annual automatic exchange of information by the jurisdiction of residence of the platform operator with the jurisdictions of residence of the sellers and, with respect to transactions involving the rental of real property, the jurisdictions in which such real property is located, as determined based on due diligence procedures.

The OECD will continue to develop a standardized ICT format for information exchanges and possible ICT solutions to support identity verification of vendors by platform operators.

Also, the market's evolution will be followed closely to evaluate the need to incorporate other types of services, such as the rental of mobile assets and loans between individuals.

Moreover, several jurisdictions are interested in further developing reporting regimes to include also sales of goods.

European Union DAC 7

On 22 March 2021, the Council of the European Union (the Council) adopted new rules revising the Directive on administrative cooperation in the field of taxation (Council Directive 2011/16/EU or DAC) to extend the European Union (EU) tax transparency rules reporting by digital platforms on their sellers (DAC7).

The revised text of DAC7, as adopted by the Council, still follows the objectives of the Commission's original of 15 July, that is:

- introducing reporting requirements for online platforms and a related Exchange of Information (EoI) framework; and
- expanding current administrative assistance rules, including the introduction of automatic EoI on royalties and facilitation of joint audits.

The new rules introduce a reporting obligation for digital platforms located both inside and outside the EU and automatic exchange of information between Member States' TAs on revenues generated by sellers on these platforms as of 1 January 2023.

Besides introducing this new reporting obligation for digital platforms, many generic changes to the DAC not limited to digital platforms were also introduced, including a legal framework for the conduct of joint audits between two or more Member States as of 1 January 2024.

In brief, DAC7 obliges digital EU and non-EU platform operators that facilitate the provision of relevant domestic and cross-border activities to collect and share data on the sellers which they offer their facilitation services.

This data includes, among others, the sellers' name, registered office address, tax identification number, VAT number (where available), date of birth (where required), each Member State of residence of the seller, the sales price and the amount(s) retained by the platform.

The relevant activities in scope include the letting of immovable property, personal services (e.g., babysitting), sales of goods and renting out any mode of transport.

Following the formal adoption of DAC7 by the Council, Member States will have until 31 January 2022 to transpose the amendments into national law. The new provisions will apply as of 1 January 2023, and the first reporting of data will be required by 31 January 2024.

The revised DAC states that although not identical, the OECD Model Rules are expected to provide for the reporting of equivalent information concerning relevant activities in the scope of both DAC7 and the Model Rules, which may be expanded further to cover additional relevant activities.

DAC7 is much broader in terms of scope and businesses affected than the OECD Model rules published in July 2020. One of the main differences in terms of scope is the inclusion of the sale of goods in DAC7, which is currently not in range of the OECD Model Rules.

Importance for TAs

I think that the OECD Model Rules and EU DAC7 document are fundamental, given digital business models through platforms will continue to grow exponentially and new digital models and contracts will also emerge.

The introduction of both sets of rules is particularly welcome at a time when more and more sales are made online, and the COVID-19 pandemic is putting pressure on public finances.

I understand that digital platforms' prominent role within the supply chain places them in an ideal position to become recipients of new tax obligations against underreporting of income by users.

One of the crucial elements for such a new reporting system to succeed is obtaining the right and

correct information. Instead of implementing additional tools to have the national TAs seek and collect that data, this task is now, in fact, outsourced to digital platform operators.

On the side of the TAs, I am convinced that they will need to intensify international cooperation to more efficiently manage the taxpayers that carry out operations through these new business models.

On the side of the taxpayers who own digital platforms, the main advantage will be the simplification and standardization of information regimes, compared to the multiple regimes that many countries have already established.

I believe that it is essential for the TAs to have information on operations carried out through digital platforms, for the following reasons:

- many of the activities carried out through platforms are not always communicated to the TAs, either by third parties or by the taxpayers themselves;
- to enable TAs to identify all the intervening actors and thus determine the taxable events taxed and subject them to taxation in each of the countries involved;
- to expand the tax bases by capturing taxable matter and/or taxpayers who remain hidden in these kinds of operations;
- to ensure equity and equality with those activities that commercialize or provide services through traditional modalities, that is, to level the playing field;
- to ensure workers have social protection, also considering that today social protection systems are at the crossroads of how they should pay these new contracts, which can also lead to a greater lack of financing in our pension systems;
- the information exchanged can also help detect and combat other non-tax crimes such as drug trafficking and money laundering;
- TAs may consider adapting their compliance strategies to reflect that an increasing number of taxpayers obtain taxable income through such platforms;
- the information can also be used to understand these new businesses by the TAs better and thus be able to implement adequate control plans for the sectors involved;
- TAs can implement new cooperative or collaborative compliance approaches with the holders of digital platforms.

Ultimately, I understand that, due to the relevance of the issue, a multilateral consensus with a global tax reporting framework for digital platforms is critical to accelerating the application of these information regimes, which could be achieved as part of the topics currently under discussion related to taxation of the digital economy.

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[1] Manyika, Lund, Robinson, Valentino y Dobbs (2015). A labor market that works: connecting talent with opportunity in the digital age. McKinsey Global Institute

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