

Regulatory Impact Statement: Taxation of the gig and sharing economy: Information reporting and exchange

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	
<p>The policy problem this proposal seeks to address is to improve Inland Revenue’s visibility over income earned through digital platforms in the gig and sharing economy. Having access to timely income information will help drive tax compliance (because Inland Revenue can use this information to ensure that sellers are reporting the income they earn on digital platforms in the gig and sharing economy) and could make it easier for individuals to comply with their tax obligations.</p>	
Executive Summary	
Overview	
<p>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, food delivery, and freelance 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.</p> <p>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.</p> <p>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) deals with information reporting and exchange. Another RIS has been prepared which explores GST options for the gig and sharing economy.</p>	
Information reporting and exchange	
<p>Inland Revenue does not receive regular income information for sharing and gig economy workers (like it does from banks or employers in respect of investment income or salary and wage income for example). This lack of income information creates a tax compliance risk</p>	

and makes it harder for individual taxpayers working in the gig and sharing economy to fulfil their tax obligations. As part of our policy thinking in this space, we are looking to improve Inland Revenue's access to information held by digital platforms in the sharing and gig economy platforms, which receive a great deal of income information about sellers. This will make it easier for individuals to comply with their income tax obligations and support income tax compliance.

The two proposals that were consulted on in the discussion document *The role of digital platforms in the taxation of the gig and sharing economy* which was released in March 2022 are: implementing rules designed by the Organisation for Economic Co-operation and Development (the OECD) that would see the automatic exchange of information between tax authorities of income information from digital platforms in the gig and sharing economy, or designing rules that are bespoke to New Zealand's tax system.

Option 1 – The OECD solution

The OECD developed a set of model reporting rules with digital platforms in the gig and sharing economy which require digital platforms to provide information to tax authorities about sellers who operate on their platforms. This information includes identifying information about the sellers and detail of income earned through the digital platforms. There are two variations of this option. The first requires information to be provided by platforms that facilitate the sale of personal services and rental of immovable property. The second option is an extended version of the model rules which also applies to the sale of goods and vehicle rental.¹ These will be discussed at greater length in the options section of this RIS.

If New Zealand implemented an OECD based solution, this would help improve Inland Revenue's visibility over income earned through digital platforms and could be used in various ways to support tax compliance, such as through prompting sellers to file returns or pre-populating income tax returns (it is noted that pre-population would not be considered until at least year 4 to allow information sharing between jurisdictions time to properly bed in).

The way these rules operate requires jurisdictions who implement the rules to collect certain information about the activities of sellers on digital platforms that are tax resident in their country. Information must be shared by tax authorities that collect information from digital platforms that are tax resident in their jurisdiction with other tax authorities of other jurisdictions to the extent that the information relates to tax residents in their jurisdiction, and where that jurisdiction has also implemented the OECD's rules.

Advantages of the OECD solution

One clear advantage of this OECD led solution is that it promotes a standardised schema with significant buy in and consultation having been undertaken with the digital platforms themselves. This standardised schema reduces compliance costs for platforms. If jurisdictions designed their own rules, the variations between jurisdictions would result in increased compliance costs for digital platforms that had to design their information systems to satisfy the requirements of multiple bespoke rules. This solution leverages existing technological frameworks that have been implemented by tax authorities worldwide for the automatic exchange of information of financial account information.

¹ Ridesharing falls under 'personal services'. Vehicle rental refers to when the seller themselves provides a vehicle for rent through a platform.

Not only does an OECD led solution reduce compliance costs for platforms, but it is also sustainable for the long term as its received widespread buy-in from platforms and provides good quality information to jurisdictions.

Disadvantages of the OECD solution

The OECD model rules follow a prescribed schema that provides information exchange on a calendar year basis. This means that if the information were to be later used for pre-population of income tax returns an alteration would need to be made to account for our tax year (which is 1 April to 31 March), such as by deeming the income earned on a calendar year to have been earned for a tax year or only pre-populating 9 months of income information.

The success of the information flows from model rules is also dependent on other countries signing up for improved information flows. This is because information will only be shared among tax authorities whose countries have implemented the rules (that is, if New Zealand implemented the rules, Inland Revenue would only receive information from other tax authorities that were also subject to the rules).

Option 2 – Bespoke rules

The second option considered is for the Government to design and implement its own rules for information collection and reporting in New Zealand as opposed to implementing the OECD schema.

Advantages of bespoke rules

One clear advantage of developing bespoke rules is that we could prescribe the data we wanted to collect from platforms along with the frequency and timing of this information, which would allow for easier pre-population of income information.

Disadvantages of bespoke rules

A bespoke solution for NZ would increase compliance costs for digital platforms and could result in reduced appetite for them to operate in New Zealand. It would also take much longer to implement as more extensive consultation would need to be taken with digital platforms (noting under the OECD solution a lot of this has been done).

Another disadvantage of a bespoke solution is that it would be more difficult for New Zealand to collect data from non-resident digital platforms with NZ sellers. This is because our domestic law would have no legal effect, and our information requests would be sitting outside the internationally agreed OECD framework which has received a large degree of buy-in across many jurisdictions. Platforms are less likely to comply with requests that sit outside the standardised OECD schema due to increased compliance costs as previously mentioned.

Option 1 is the preferred option, with officials preferring the extended version of the model rules over the more limited version.

Impact of the preferred option

The driver of the OECD's model rules is to create a standardised information reporting and exchange framework that minimises compliance costs on digital platforms (by ensuring they only need to report information to one tax authority as opposed to several) while improving tax authorities' access to information about income earned by sellers on those digital platforms, which is useful for tax administration purposes.

The information that Inland Revenue would receive from other tax authorities under the OECD's information reporting and exchange framework will reduce sellers' abilities to conceal or under-report income they earn in the gig and sharing economy. This information could be used by Inland Revenue to ensure that those who earn income from the gig and sharing economy are paying the correct amount of tax (Inland Revenue could use this information to support compliance initiatives or, after information flows mature, pre-populate income tax returns).

It is noted that pre-population of income tax returns is undertaken on a gross basis and not a net basis. This means that Inland Revenue would still be reliant on sellers to record deductions for expenses incurred in deriving income. If taxpayers did not record their expenses, they would effectively be overtaxed. Although income tax is ultimately a self-assessment regime irrespective of pre-population, this consideration around sellers' expenses does not apply to the same extent in the employment and investment income context.² All considered, pre-population is still an improvement over the status-quo as it ensures income generated through the gig and sharing economy is captured in sellers tax returns. In some circumstances standard cost deductions are available to support sellers to arrive at their profits in their income tax returns with minimal compliance costs.

In terms of specific impacts, the following parties are affected in the following ways:

- **Digital platforms:** Limited impact on platforms as they have already indicated approval to adopt the standardised OECD schema approach through consultation with OECD. Platforms will need to provide information in respect of sellers on their platforms. This will require platforms to develop the necessary systems, however they will already be doing so anyway as other countries move to adopt the OECD rules.
- **Sellers operating in the gig and sharing economy:** Reduced opportunities to conceal or under-report their income from activities in the gig and sharing economy as income information will be reported by a third party and/or through other tax authorities. At the margins, there may be a decrease in sellers' compliance costs because they may be able to see the information that Inland Revenue holds on income earned through digital platforms (consistent with income earned from investments and employment). Sellers will still need to track their expenses and claim deductions for these to ensure that income tax was only paid on their profits from these activities.
- **Inland Revenue:** Changes will be required to Inland Revenue's START system to ensure that the information received from digital platforms and other tax authorities is aligned with the OECD's schema. There will be additional ongoing administration costs to support the information exchange with other tax authorities (ensuring the data meets appropriate data quality standards). Changing the START system to show the income information received from digital platforms and/or other tax authorities for sellers will also be required in the future, and after several years of the information exchange having run to address any issues around data integrity that may arise.

Consultation

These proposals were included in the discussion document. There were 13 submitters on the discussion document: Airbnb, the Asia Internet Coalition, Baker McKenzie,

² Taxpayers are not able to claim expenses incurred in deriving employment income. Although taxpayers are able to claim expenses incurred in deriving investment income, these are typically less extensive compared to expenses incurred in deriving gig and sharing economy income.

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 understood the need for Inland Revenue to have better access to information about sellers' activities on digital platforms in the gig and sharing economy and all supported implementation of the OECD's model rules to address the current information gap. Submitters had mixed views on how the information should be used in the context of pre-populating sellers' income tax returns. Some noted that it could result in an incomplete representation of sellers' income from all sources overall and could result in confusion for sellers if particular income sources were missing. It was also noted that it would not be possible to pre-populate expenses for sellers.

As was noted in the discussion document, the mismatch between calendar year reporting under the OECD's rules and the New Zealand tax year, which ends 31 March, would cause further problems. For these reasons, and that the data quality in the first few years of the information exchange is not expected to be of a high enough quality to enable pre-population, officials do not recommend the information is used for pre-population purposes at this stage. After the first few years of the information exchange having been in operation, pre-population can be considered.

Limitations and Constraints on Analysis

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

Responsible Manager

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Quality Assurance

Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance panel at Inland Revenue has reviewed the <i>Taxation of the gig and sharing economy: Information reporting and exchange</i> 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?

Inland Revenue does not regularly or systematically receive information about sellers' income earned through digital platforms in the gig and sharing economy. The Commissioner of Inland Revenue has statutory information gathering powers and could require information be provided on an ad-hoc basis, but this imposes compliance costs on the provider of the information and would lack the regularity necessary to be useful on a yearly basis.

This information would be useful for Inland Revenue to ensure that people in the gig and sharing economy are paying the right amount of tax.

Inland Revenue receives regular employment and investment income information from employers and banks, and this is generally used to pre-populate income tax returns. Taxpayers in these circumstances will typically confirm that the information that is pre-populated in their income tax returns is correct and can make adjustments if necessary. This reduces their compliance costs as they do not need to collate information about their income earned from various sources and can instead rely on information that has already been provided to Inland Revenue.

Digital platforms are like employers, banks, and other third parties that hold information that would be useful for tax administration purposes. This includes information about the income sellers on their platforms earn. This information would be useful for Inland Revenue if it were available on a regular basis: it could be used to ensure that sellers were declaring the income they earn in their income tax returns, and eventually, in the pre-population of sellers' income tax returns in a similar way that employment and investment income information is currently. As previously noted, Inland Revenue would still be reliant on sellers to record deductions for expenses incurred in deriving their income to ensure these sellers are not overtaxed, as pre-population would only prefill gross income amounts.

Given the increasing popularity of the gig and sharing economy it is appropriate that the Government consider whether its current tax settings are appropriate for:

- **Sellers on digital platforms.** This is because they are treated in the same way as self-employed persons who are responsible for tracking their income and expenditure and completing end of year income tax returns.
- **Inland Revenue.** This is because Inland Revenue is responsible for the administration of the tax system, which includes ensuring and promoting taxpayer compliance with tax laws.

Digital platforms are generally sophisticated and have business models which result in them having a significant amount of information that is valuable in a tax administration context. Because digital platforms operate in many different countries it is desirable from their perspective that any requirement to provide tax authorities with information about sellers that use their platform is simple to understand and comply with, and in a low-cost way.

The OECD have undertaken work on developing a set of model rules that jurisdictions can implement. These rules will enable information reporting and exchange in respect of income earned by sellers through digital platforms.

Digital platforms have been involved in this consultation and support the OECD model rules schema and the standardisation it brings. Standardisation is important to digital platforms from a compliance perspective as it means they do not have to devote resources complying with hugely varied domestic rules.

What is the policy problem or opportunity?

The policy problem this proposal seeks to address is to improve visibility over incomes earned through the gig and sharing economy. Having access to timely income information will help drive tax compliance by reducing opportunities for sellers to conceal or under-declare their income and may also make it easier for individuals to comply with their tax obligations (through pre-population of income sources in income tax returns).

The proposals would affect:

- **Foreign and domestic digital platforms:** These platforms would have reporting obligations to tax authorities about sellers' income earned on their platforms. This includes compiling reports with identifying information about sellers and their incomes.
- **Sellers on digital platforms:** Inland Revenue would have improved visibility over sellers' incomes earned on digital platforms. This information could be used by Inland Revenue to support sellers comply with their tax obligations. In the knowledge that Inland Revenue has access to information, this may reduce possibilities for motivated sellers to conceal from Inland Revenue details about the income they earn. Information reported by New Zealand digital platforms to Inland Revenue that related to non-resident sellers' activities could also be shared with that sellers' tax authority (if the OECD rules option were selected).

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.

- **Inland Revenue:** Under both the OECD rules and a bespoke regime, Inland Revenue would receive income information from digital platforms about sellers operating on these platforms that it could use in its tax administration functions.

One reason the lack of visibility that tax authorities have over sellers' incomes in the gig and sharing economy has not been addressed in the past is that it requires information gathering by digital platforms. The rise of the gig and sharing economy in recent years and the proliferation of individuals who have switched to this method of working provided the OECD with the impetus to examine these issues. Historic analysis undertaken by Inland Revenue on self-employed persons suggest that they underestimate their incomes by an average of 20 percent. The work undertaken by the OECD has been significant in analysing the policy problem, potential solutions and receiving buy-in from jurisdictions and large digital platforms for a set of model rules that promote standardisation.

What objectives are sought in relation to the policy problem?

The objective is to improve visibility over incomes earned through the gig and sharing economy. Inland Revenue having access to timely income information will help drive the tax compliance of sellers and may make it easier for individuals to comply with their tax obligations.

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.)

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 option effective at facilitating the payment of the correct amount of tax by taxpayers? This is often described as horizontal equity: the idea that people in the same position should pay the same amount of tax. Tax should not be easier to avoid just because someone works in a different industry or sector.
- **Compliance costs:** Do the preferred options encourage sellers in the gig and sharing economy to comply with their tax obligations with low compliance costs?
- **Administration:** Are the preferred options possible for Inland Revenue to implement and administer without substantial ongoing administration costs?
- **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?
- **Sustainability:** Are the preferred options future-proofed? Will the options be able to apply and extend to future developments in the gig and sharing economy space without the need for further regulatory change?

What are the scope of options?

In order to improve visibility over sellers' incomes in the gig and sharing economy, it follows that Inland Revenue will need access to income information. The only feasible option to improve these information flows is to require digital platforms to provide this income information to Inland Revenue in some way or another. There is scope in terms of the exact categories of information to be collected and the timing and frequency of this information.

The options were consulted on in a public consultation paper which also asked for submissions on any alternative options, but no additional options were identified by submitters.

What options are being considered?

Option One – Status quo

Individuals who earn incomes through the gig and sharing economy are responsible for filing their own tax returns. This means that these individuals are required to accurately account for their income and expenses and, where necessary, are required to navigate more complex areas of tax such as apportionment rules and provisional tax. Although the digital platforms through which these individuals work hold a lot of information about incomes earned through the platform, this information is not regularly provided to Inland Revenue to assist in tax compliance.

Many of those who enter the gig and sharing economy are unsophisticated taxpayers who often have limited or no prior experience in managing their tax obligations (they may have previously been employees, for example, where tax is withheld at source and subject to the PAYE system). This means that their participation in the gig and sharing economy is often the first time more complex tax rules fall on them. As a result, most individuals will need access to

complex software products, accountants, or other tax advisors to assist individuals to manage their tax affairs. This presents these sellers with further compliance costs.

Under the status quo, Inland Revenue will continue to have limited visibility over incomes earned through digital platforms and platform sellers will continue to have high compliance costs associated with complying with their tax obligations.

Option Two – The OECD’s extended model reporting rules

Under the extended model rules, Inland Revenue would receive information about sellers’ incomes earned through digital platforms in respect of four categories. These are:

- personal services
- accommodation rental
- the sale of goods, and
- vehicle rental.

The way in which Inland Revenue would receive income information under the model rules is through an information sharing arrangement with other jurisdictions. Jurisdictions which implement the rules are required to collect certain information about the activities of sellers on digital platforms that are tax resident in their country. This information must then be shared with tax authorities of other countries that have also implemented the rules to the extent that the information relates to persons resident in that jurisdiction. Tax authorities will also receive information from other jurisdictions’ tax authorities where the rules have been implemented. The model rules provide a standardised reporting framework and information exchange.

To comply with the OECD schema and other reporting standards that European countries may adopt (for example, the DAC7 directive in Europe)⁴, Inland Revenue would need to apply the model reporting rules to all four categories of information as set out above. If New Zealand did not adopt the extended model rules, Inland Revenue would not be entitled to receive information from European jurisdictions about New Zealand sellers operating on platforms resident in Europe. For example, even if New Zealand adopted the personal services and accommodation rental modules, it would still not receive information from European based jurisdictions in respect of these two categories if it did not adopt the wider model rules.

The way that the extended model rules would work in the New Zealand context is that NZ resident digital platforms would be required to provide Inland Revenue with income information for New Zealand resident sellers operating on their platforms for personal services and accommodation rental only. NZ platforms would be required to provide Inland Revenue with income information in respect of non-resident sellers operating through their platforms for all four categories of information. This is because sale of goods and vehicle rental information is required in respect of non-resident sellers under DAC7 and will therefore also be required under NZ rules to ensure we have rules of equivalence with Europe.

Inland Revenue could seek to use the information about **accommodation rental** and **personal services** in sellers’ income tax returns once the information flows mature over the coming years. The incomes earned through digital platforms in these circumstances would generally be amounts that needed to be declared by sellers themselves for income tax

⁴ DAC7 refers to the Council Directive (EU) 2021/514 adopted by the Council of the European Union on 22 March 2021. It is very similar in form and function to the OECD model rules but does not need to be discussed at length for the purposes of this RIS.

purposes. That is, sellers are required to declare this income in their income tax returns and pay tax on any profits they make for these activities.

As previously noted, one key component of New Zealand's implementation of the extended model rules is that NZ resident platforms would not be required to provide Inland Revenue with income information for NZ resident sellers operating on their platforms for sale of goods or vehicle rental. The **sale of goods** and **vehicle rental** are not traditional gig and sharing economy activity types. For the sale of goods, this is because it does not involve the sharing of assets, skills, or labour. It would also be unclear from a platform perspective whether the sale of goods was part of a business or other income earning activity of the seller or merely the sale of personal items that would not give rise to income for income tax purposes. For vehicle rental, it is the digital platform that is the seller. This would be different if a digital platform offered a service of vehicle rental, with the vehicles themselves being provided by a third-party seller. In this situation, the seller would be sharing an asset, and this would be a reportable activity. It is for these reasons that this proposal only requires NZ-resident platforms to provide sale of goods and vehicle rental information to Inland Revenue in respect of non-resident sellers. Requiring NZ resident platforms to provide this information in respect of NZ resident sellers would levy undue compliance costs on these platforms in light of the more limited usefulness of this information.

One disadvantage of implementing the OECD model rules generally (this applies to both the extended and base model rules) is that the information would be received on a calendar year basis. This means that it would not neatly align with our tax year (1 April to 31 March) for the purposes of pre-filing income tax returns. If Inland Revenue decided to use the information to pre-populate income tax returns, it would have to either deem the income earned to a calendar year to apply in respect of a tax year, or only pre-populate 9 months of income information.

Based on experience with OECD information exchanges in other areas, it is expected that it will take a few years to address data integrity issues with the initial information exchanges. One example of a data integrity issue that may arise is an incorrect or incomplete tax identification number which could make aligning income derived with a specific taxpayer difficult. This may make pre-population of income tax returns as proposed in the discussion document difficult until these issues have been resolved. For this reason, officials' preferred option is that pre-population be phased in over time and initially Inland Revenue would use the information from the exchange to prompt sellers about their return filing obligations.

When compared to the status quo this option presents significant advantages. Adopting the OECD model rules will ensure Inland Revenue receives high quality income information in respect of sellers' activities on digital platforms. This information could be used to support tax compliance and make it easier for sellers to comply with their tax obligations. The OECD model rules are also a sustainable and coherent solution given that they have received international buy in from multiple jurisdictions and digital platforms. The standardised schema of the OECD model rules also lowers compliance costs for platforms for ease of implementation.

Option Three – OECD's base model rules

In contrast to the extended model rules, the base model rules would require digital platforms to provide Inland Revenue with information about sellers' incomes earned through the platforms in respect of two categories. These are personal services and accommodation rental.

This means that digital platforms would not be required to provide information in respect of the sale of goods or vehicle rental.

On the face of it, this seems like an attractive option. Given the previous limitations of vehicle rental and sale of goods income information, one view is that these modules should be left off New Zealand's reporting framework altogether.

The primary reason that officials prefer the extended model rules over base rules is that New Zealand would need to have rules of equivalence with Europe (who are implementing the broad DAC7 directive) to receive information from platforms headquartered in Europe. This means that if New Zealand did not adopt the extended model rules, Inland Revenue would not receive information from European platforms about NZ sellers operating on their platforms (this would apply even in respect of accommodating sharing and personal services).

As the DAC7 directive is mandated in Europe, any New Zealand platforms with European sellers would be required to provide information on the sale of goods and vehicle rental to these jurisdictions directly anyway. By adopting the extended model rules, this ensures that New Zealand platforms will not need to provide information on their European sellers to the relevant European jurisdictions individually but can instead provide the information directly to Inland Revenue. This results in a reduction of compliance costs for NZ resident platforms with European sellers for the sale of goods or vehicle rental.

Option Four – Bespoke reporting regime

An alternative solution would be to implement bespoke information reporting requirements in New Zealand's domestic legislation. Under this option, Inland Revenue would receive information about sellers' incomes earned through digital platforms. The difference between this option and the OECD model rules is that Inland Revenue could prescribe what categories of information, along with timing and frequency of information that it receives from digital platforms.

Just like Option 2 and 3, this option would provide Inland Revenue with income information to support tax compliance and make it easier for sellers to comply with their tax obligations. As Inland Revenue could prescribe the frequency and timing of information, this would allow for easier pre-population to our 1 April – 31 March tax year. There is a risk that this option would not be sustainable long term and there is a risk that digital platforms may choose not to operate in NZ if the requirements placed on them were too onerous. A bespoke regime would not be in line with internationally agreed standards developed by the OECD and by DAC7. A lot of digital platforms are based in Europe and to ensure exchange of information with these platforms NZ would need to implement rules of equivalence with Europe.

The other problem with this approach is that it increases compliance costs for digital platforms which would need to implement bespoke system changes to comply with New Zealand's domestic legislation. This could increase the likelihood of non-compliance, and could result in Inland Revenue not receiving any income information. There are also potential practical issues that could arise in attempts to enforce New Zealand laws on foreign digital platforms.

How do the options compare to the status quo?

	Option 1: Status Quo	Option 2: Extended OECD model rules	Option 3: Base OECD model rules	Option 4: Bespoke Regime
Fairness	0	++	++	++
Compliance costs	0	+	+	+
Administration costs	0	-	-	-
Efficiency	0	+	+	+
Coherence	0	++	+	-
Sustainability	0	++	+	-
Overall assessment	0	++	+	+

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

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

The option that is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits is implementing the OECD's extended model rules (Option 2). This option will achieve the policy objective of ensuring Inland Revenue has visibility over sellers' incomes in the gig and sharing economy. Access to this information will help drive tax compliance and could also make it easier for individuals to comply with their tax obligations (moderate reduction in compliance costs through pre-population of income profiles, though its noted sellers will still need to manually include their deductions).

This option has clear benefits over Option 4 (bespoke rules). Firstly, by adopting a standardised OECD schema this reduces compliance costs for digital platforms. The OECD model rules are also a more sustainable solution given they have buy-in from many multinational digital platforms and jurisdictions. Although a bespoke regime would save on administration costs for Inland Revenue by being better tailored to the NZ tax year, these administrative savings would be offset by the fact that a bespoke regime would need to be implemented by NZ from scratch – and would not be piggybacking off the schema developed and agreed at the OECD.

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 (<i>sellers in the gig and sharing economy, particularly sellers on personal services and accommodation digital platforms</i>)	As Inland Revenue will receive more information about sellers' activities through digital platforms, it will be harder for motivated sellers to avoid paying tax.	n/a	Medium
Regulators (Inland Revenue)	Will be required to utilise income information received on platform sellers for compliance purposes.	There is an up-front system build cost of \$13.7 million. There are also ongoing administration costs for Inland Revenue. ⁵	High
Others (digital platforms)	New Zealand digital platforms would need to provide Inland Revenue with information about sellers on their platforms, with that information then being shared with other tax authorities. Foreign digital platforms in jurisdictions that had also implemented the OECD's rules would then share information with Inland Revenue, saving them from	Low to Medium (Digital platforms would face lower compliance costs if information provided through the standardised OECD schema. Complying with a bespoke regime will have greater costs for platforms.	High

⁵ The estimated costs are up to \$19.3 million over the forecast period (excluding depreciation and capital charge) which includes \$13.7 million for the capital system building and \$5.6 million for administration costs.

	having multiple reporting obligations.		
Total monetised costs	<i>n/a</i>	\$16.5m	High
Non-monetised costs		<i>Low</i>	<i>Medium</i>
Additional benefits of the preferred option compared to taking no action			
Sellers on digital platforms that are reporting income information	There will be minor/marginal benefits in the event income information received from digital platforms (and other tax authorities) will be pre-filled in sellers' income tax returns.	Low	High
Regulators	Improved information about sellers' income earned on digital platforms where those digital platforms are reporting that information to a tax authority that is exchanging information.	\$11 million per annum	Medium
Others (eg, wider govt, consumers, etc.)	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Total monetised benefits	<i>n/a</i>	\$27.5 million over the forecast period	Medium
Non-monetised benefits		Low	Medium

The total monetised benefits of \$11 million per annum are based on the information received under the model rules being used by Inland Revenue for general compliance initiatives, such as to prompt individuals to file their income tax returns.

This monetised benefit has been forecasted for using a macro approach that estimates the total size of the gig and sharing economy in New Zealand (removing the facilitation fee component charged by platforms) and then layers that with assumptions. These assumptions include estimating how much income is underreported on average by platform sellers based on existing data regarding self-employed income, and how much of an uplift in compliance would be achieved through Inland Revenue utilising the income information received from platforms (for example by prompting individuals to file), while also accounting for expenses claimed.

As this RIS has already noted, pre-population of income tax returns would not be attempted until at least year 4 to give information flows time to bed in. As such, the monetised costs outlined in the table above do not include any costs to modify Inland Revenue's existing pre-population functionality in START to apply to gig and sharing economy income. This would

come at an additional cost. The current monetised costs forecasts are based on building START functionality to enable the exchange of information and general administrative funding to ensure that the information is effectively used to support tax compliance. Likewise, the table above also does not account for the uplift in revenue gain expected by pre-populating tax returns.

In terms of the non-monetised costs and benefits, these have been determined through public consultation, discussions with tax advisors who represent some of the affected groups, and work undertaken by the OECD.

Section 3: Delivering an option

How will the new arrangements be implemented?

Inland Revenue will be responsible for the implementation and ongoing administration of the new rules. Inland Revenue will provide information to increase awareness regarding the new rules. This will include producing a relevant Tax Information Bulletin item and updating guidance on Inland Revenue's website along with relevant press releases to advise platform sellers of changes (particularly in respect of tranche 2 of these proposals on GST).

Implementing these proposals would require legislative change. If the OECD's extended model rules were chosen as the preferred option, then legislative change would be simpler. Similar to how FATCA/CRS was adopted, a legislative change could be made to state that the OECD model rules schema and user guide had force in NZ's domestic legislation. Greater legislative change would be required for a bespoke regime.

From an Inland Revenue systems perspective, there would be a sizeable upfront cost to build functionality within START (Inland Revenue's computer system) to enable for the sharing and receiving of income information with other jurisdictions. As previously mentioned, further changes would also need to be made to ensure Inland Revenue could best utilise the information (for example, to pre-populate income tax returns) which would come at an additional cost to be sought at a later date. If the OECD rules were implemented, this could require greater change if income information received on a calendar year basis was deemed to apply to the NZ tax year.

The preferred option is that the OECD's extended model rules are implemented with the 2024 calendar year being the first year that information is required to be collected by digital platforms in New Zealand affected by the rules. This means that:

- New Zealand digital platforms that enable the rental of short-stay accommodation, and personal services for NZ resident sellers would need to collect information during the 2024 calendar year and report that to Inland Revenue in 2025.
- New Zealand digital platforms that enable the rental of short-stay accommodation, personal services, the sale of goods and the rental of transportation for non-resident sellers would need to collect information during the 2024 calendar year and report that to Inland Revenue in 2025.
- Inland Revenue would need to exchange the information with other countries, to the extent that the information held related to foreign tax residents in jurisdictions that had also implemented the OECD's extended model rules.
- Inland Revenue would use the information it received to support New Zealand sellers comply with their tax obligations. Pre-population of income tax returns will not be implemented until there is confidence in the quality of data received in the information exchange will facilitate this.

The first year of operation for digital platforms in Europe of the DAC7 directive is 2023. If New Zealand implements the OECD's extended model rules for 2024 Inland Revenue would not receive information from European tax authorities about New Zealand sellers on European digital platforms for that calendar year. This is the cost of implementing the OECD's extended model rules for the 2024 calendar year; but implementing the rules in the 2023 calendar year will require retrospective legislation and would (when compared with a 2024 implementation timeline) reduce the time available for New Zealand digital platforms to develop their systems to become compliant with the changes.

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

If the OECD rules were implemented, it is noted that the OECD will be able to allocate resources to making any changes to the model reporting rules where necessary. Any changes to the OECD schema and rules can then be reflected into domestic legislation in NZ. Given the likely widespread buy-in from jurisdictions, this ensures a more enduring and sustainable policy reform.

Inland Revenue would also allocate resource to compliance initiatives to ensure that the information received was effectively utilised to support sellers in the gig and sharing economy to pay the correct amount of tax.

Inland Revenue regularly reviews tax settings on an ongoing basis and provides advice and updates to the Government accordingly. Policy officials 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.