

The Evolution of the Collaborative/Shared Economy on Demand and its Impact on Fiscal Systems

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Abstract

The rapid technological progress that characterizes the digital economy has led to the emergence of many trends leading to potential developments. The digital economy has changed the distribution of global value chains in which multinational enterprises integrate their international activities, and it is necessary to monitor possible developments to assess their impact on tax systems.

Thus, the on-demand collaborative/sharing economy has experienced significant growth and global coverage in recent years.

The large number of new economic actors that can submit to the VAT regime can generate very high revenues as a result of the growth of the collaborative/sharing economy on demand and can determine considerable risks at an aggregate level, generating new administrative challenges.

The objective of this article is to present the possible evolutions of the collaborative/sharing economy on demand, to assess their impact on tax systems, with digital platforms being at the forefront of its development and expansion.

Key words: collaborative/shared economy on demand (CE/SD), digital platforms, VAT

J.E.L. classification: O3, M10, M41

1. Introduction

The key role played by digital platforms in the collaborative/sharing economy on demand, hereinafter referred to as CE/SD, is recognized by the report published by the OECD in 2019 on the role of digital platforms in the collection of VAT on online sales. This report provides practical advice to tax authorities on the design and implementation of various solutions for the efficient collection of VAT on online sales made through digital platforms. However, it points out that within the platform economy, CE/SD has specific characteristics that require further evaluation and analysis.

The spectacular growth of CE/SD, facilitated by digital platforms, is revolutionizing the commercial reality in a number of sectors, especially those of transportation (with the emergence of ride-hailing services) and accommodation (especially short-term vacation rentals). This new reality, where many new economic actors conduct their business in ways that may escape traditional tax rules and administrative practices, may have consequences for VAT design, administration and revenue, as well as competition.

The potentially significant impact on VAT revenue, tax administration and the competitive position of traditional businesses should be central considerations.

It is now recognized that CE/SD poses a number of economic, social, fiscal, legal and regulatory issues that go beyond the design of VAT policy. Although the possible impact of these different dimensions on VAT policy and administration and vice versa is analysed, where relevant it focuses only on VAT-related aspects.

Also, the main objective is to improve the tax authorities' understanding of CE/SD from an economic and commercial point of view, to identify and analyze the opportunities it opens up and the difficulties it raises in terms of VAT, policy and administration of GST (Goods and Services Tax) and suggest possible approaches and actions that the tax authorities could consider in this regard.

The underlying assumption is that tax authorities may wish to analyze and study the impact of CE/SD on VAT in the light of their particular circumstances and objectives. However, it is quite possible that the main objective of the government is not to subject all CE/SD transactions to VAT rules.

International consistency will help facilitate compliance, reduce compliance costs and administrative burden, and improve the efficiency of VAT regimes, especially as various CE/SD actors, especially digital platforms, will be subject to different obligations in multiple jurisdictions.

2. Literature review

The expression "collaborative/shared economy on demand" (CE/SD) is a concept likely to evolve over time. Several different terms are used in the research literature as well as by jurisdictions that have taken steps to address VAT implications in this area or are considering doing so. The CE/SD economy comes with unprecedented challenges, particularly for civil servants trying to assess its size and impact and craft appropriate responses. Activities in the CE/SD economy generally involve the temporary use of resources (assets or labor), without involving a transfer of ownership of the assets. These are activities that may cover the rental, exchange and sharing of assets, either free of charge or against compensation for the cost of the activity, proportionate to the use of the asset (costs of sharing arrangements). These activities can also be carried out non-monetarily (compensation in kind).

The generic term CE/SD designates the scope of the platform economy that has a number of specific characteristics considered relevant from a VAT perspective. Given these specific characteristics and based on existing definitions, a broad, working definition to qualify CE/SD is: "A socio-economic model that emphasizes viability, usually enabled or facilitated by developed information technologies, solutions and ways of substantiating trust, in which people or materials and/or assets are used for temporary use, with the objective of obtaining financial and non-financial advantages".

In general, the activities related to the sharing economy involve the temporary transfer of the use of underutilized assets or resources, as opposed to the transfer of ownership, in situations such as: short-term (e.g. vacation) rental of an apartment, sharing of a tool or equipment for manual work. In principle, on-demand activities aim to enable a workforce, high or low-skilled, to offer their labor and/or professional services in a market characterized by the prevalence of short-term and often atypical contracts, or self-employment, as opposed to permanent jobs and traditional employment contracts (see the OECD report *Fiscal Challenges Raised by the Digitization of the Economy – Interim Report 2018* (OECD, 2018)).

These on-demand activities may include cleaning, gardening or more intellectual services such as website creation, IT services or consulting services. The distinction between the different categories of CE/SD is not always very clear (the example of a driver who has free seats in the car and offers to transport passengers going in the same direction as him for a fee). Participants in the on-demand sharing economy can often combine different activities that involve sharing assets and labor.

The VAT status of CE/SD economic actors (including relevant platforms and suppliers) in a given jurisdiction will generally be determined in accordance with the normal VAT rules of that jurisdiction. The large number of new economic actors that may become subject to VAT regulations as a result of the increase in CE/SD is what raises the main political and administrative challenges. These new players often have limited knowledge of VAT rules and a low ability to comply with them (micro-enterprises, SMEs, for example), even though their activities can generate very high VAT revenues and involve risks of distortion of competition that they are minimal at the individual level, but can become considerable at the aggregate level.

2.1 Key emerging sectors of the CE/SD economy

Given its diversity, the CE/SD economy can encompass a wide range of activities in different sectors of the economy.

Table no. 1 Key emerging sectors of the sharing/on-demand economy

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| <i>The transport sector</i> | The platforms connect drivers, who may be non-professionals in the sense that they sometimes do not have a professional license (taxi license for example), but only a normal driver's license, with passengers, usually individuals, for a more or less long journey. It should be noted that jurisdictions are increasingly resorting to enforcing measures requiring drivers to obtain a professional license in order to offer online ride-hailing services. |
| <i>The accommodation sector</i> | The platforms connect potential clients with the owners, professionals or non-professionals, who offer accommodation services. Increasingly, platforms are adding other services, such as selling airline tickets, car rentals and vacation packages, either on their own behalf or on behalf of other platforms and/or third parties. |
| <i>The on-demand services sector</i> | Platforms allow people to (most often) find more or less qualified service providers ready to provide manual and/or professional services. These services include manual (skilled) work such as cleaning, moving or DIY, which mainly takes the form of physical delivery, and professional services such as website creation, legal or IT consultancy services. |
| <i>Crowdfunding, loans and donations</i> | The platforms connect individuals and companies who want to invest, lend money directly to each other, without the intervention of traditional financial institutions such as banks. These are mainly crowdfunding platforms and loans between individuals (either between consumers or between investors and SMEs and/or in favor of start-ups). |

Source: OECD research based on public sources

Available evidence shows that the accommodation and transport sectors are the top two largest in terms of total transaction value. Combined, they account for approximately 90% of the total CE/SD economy market value globally.

The growth rates of the two sectors (transportation and accommodation) that currently dominate the market are expected to remain high in the coming years and allow them to maintain their position. Business sub-models within the transportation sector, such as ride-hailing (e.g. food and grocery delivery), are also expected to grow rapidly as major ride-hailing platforms continue to expand into these two areas, by leveraging their network, well known to drivers, to provide other services. Professional services and crowdfunding/lending are also sectors with considerable growth potential.

2.2 Understanding CE/SD as part of the platform economy

The rapid growth of the CE/SD economy is a global phenomenon. A number of major CE/SD economy platforms operate in various jurisdictions around the world. As CE/SD continues to evolve and given the complexity and multiplication of platforms and activities involved, there is not yet enough data to reliably determine its size. Collecting statistical data to measure size, growth and activities has shown its limits, but efforts are underway to develop a framework and methodology that can improve the measurement of the CE/SD economy. Despite these challenges, available evidence suggests that the CE/SD economy has experienced strong growth and global reach in recent years and has significant growth potential for the future.

According to a 2019 study covering the world's major markets, the CE/SD business was worth \$204 billion in 2018 and is expected to reach \$455 billion by 2023 as consumers become more receptive to sharing and globalization is accelerating (Mastercard and Kaiser Associates, 2019).

The CE/SD economy is constantly evolving. The COVID-19 pandemic, combined with other regulatory (e.g., labor law developments that may redefine the relationship between platforms and their providers) and technological (the potential use of self-driving cars in the future), could transform the scope of the economy CE/SD nationally and globally. Therefore, it is necessary to constantly monitor developments in this field.

3. Research methodology

In order to create this article, the basic elements that represented a landmark for the study were studied, namely data on the development of technology that facilitates the improvement of the quality of administrative data and how they can be used for the application of VAT, at the same time, how it is done in practices VAT collection and document control, which determine the provision of benefits for taxpayer compliance, as well as to facilitate enforcement. We also studied best practice guides available in the specialized literature.

In order to determine these aspects, we conducted six focus groups with companies registered for VAT purposes in Romania, between March and July 2022.

The interviews consisted of three sections. Part one focused on the VAT system as a whole, with the aim of capturing participants' general impressions of what is working and what is not. Parts two and three focused specifically on the dysfunctions arising from the important results of the administrative data analysis, which we wanted to investigate in more depth.

These focus groups offered perspectives on how VAT works in practice from the point of view of the taxpayer, which helped us to explain some of the dysfunctionalities.

4. Findings

4.1 Key features of CE/SD for designing and administering VAT policy

As the CE/SD economy continues to rapidly evolve and new business models emerge that tend to converge on existing ones, it is increasingly difficult to draw a line between the CE/SD economy and the rest of the economy's activities. However, CE/SD has specific characteristics that distinguish it from the wider platform economy and as such requires further assessment and analysis in relation to VAT.

Digital platforms are at the forefront of CE/SD development and expansion as they connect providers and users through state-of-the-art technology solutions and tools to build trust, such as online reviews, reputation management tools and other secure online payment systems. For digital platforms participating in CE/SD, these tools are essential because the imperatives of quality assurance, verification, optimizing the use of customer reviews and payment security are keys to success.

CE/SD economy activities are generally not new (transportation services, housing rentals, etc.), but the growth of CE/SD platforms has made possible, through digital technologies, and allowed these activities to reach scale, an unprecedented scope and frequency on a global scale. It sometimes happens that some of these activities are not taxed or are generally considered non-taxable under the VAT regimes in force (the exploitation of an asset by a natural person). The scope of these CE/SD activities is potentially limitless as long as the technology enables interactions between providers and interested customers.

Suppliers in the CE/SD economy are often individuals who sometimes engage in a large number of low-value transactions ("micro-transactions"), particularly in sharing economy sectors such as transportation (VTC (Virtual Trucking Company) services). These individuals may engage in CE/SD activities in addition to their primary source of income, thus their activity may be occasional/infrequent and dispersed across multiple platforms. These providers often use assets that are also partially used for private purposes. These suppliers (individuals) often have little or no knowledge of their VAT obligations and sometimes lack the ability to comply with these obligations

even if they have the knowledge. However, the profiles and statuses of suppliers in the CE/SD economy are diverse and constantly changing. The technology of the platforms allows these providers to easily access a large number of potential "customers" with little or no initial investment.

The CE/SD economy can lead to the transformation of large numbers of individuals operating through a platform into (potentially global) companies that can collectively compete with larger economic operators. Many people who now offer their property for short-term rental through accommodation platforms have become real competitors to the traditional hotel sector. The line between individuals and businesses is becoming increasingly blurred.

CE/SD economy platforms often do not have a physical presence in the jurisdiction where the transactions they facilitate are performed (made, used or consumed), while the providers involved in these activities generally have a presence in the jurisdiction where such activities are carried out. This presence may consist of a physical presence of the supplier (the presence of the driver in the transport services sector, for example) or it may be limited to the presence of assets belonging to the supplier in the jurisdiction having tax jurisdiction (real estate of a certain value located in the jurisdiction having tax jurisdiction, e.g). Some suppliers may decide to settle in a different jurisdiction to temporarily carry out activities in the CE/SD economy cross-border workers or people staying for several months in a jurisdiction to carry out activities in the CE/SD economy, although these situations appear to be quite rare. While users and suppliers participating in the CE/SD economy often each have a physical presence in the jurisdiction where these activities are performed or consumed at the time of their performance or consumption (transportation or short-term rental of services), this is not necessarily always (especially when services can be provided remotely) and users and providers sometimes have their habitual residence or place of business in different jurisdictions.

Certain types of CE/SD economic activities may no longer involve "sharing" of excess capacity, but evolve into a more traditional type of service activity facilitated by a platform. Let's take the example of a driver who rents a car he didn't have before to offer rides, as opposed to a driver who has seats available in his vehicle and intends to make a particular trip, offering free seats to passengers who want to make the same travel. The same applies to underutilized assets in the accommodation sector: it may become less and less easy to determine whether a short-term rental activity relates to temporarily underutilized assets or goods that, for example, were purchased in investment purposes and mainly offered for short term rentals.

Payments in the CE/SD economy are generally made through electronic means of payment (credit cards, online banking, bitcoins, etc.), with or without the intervention of platforms (payment processing can be outsourced and entrusted to third parties). The widespread use of electronic means of payment could improve access to data that facilitate the tracking and monitoring of CE/SD economy activities or to relevant data to enable VAT compliance checks in case of sharing economic transactions (including helping platforms to fulfill these obligations on behalf of suppliers involved in the CE/SD economy). Available data suggest that cash payments are still accepted in some sectors or by some operators, particularly in developing economies.

Sectoral typology established according to operational characteristics relevant to VAT

The activities of the CE/SD economy are diverse and constantly evolving. The implications of these activities for VAT policy and administration can be equally diverse and tax administration responses should be tailored to the unique characteristics of these activities.

At the structuring stage of the policy analysis and design process, it may be useful for tax authorities to classify the main operators or sectors of the CE/SD economy according to a number of key characteristics of the mode of operation, which may be relevant for purposes of VAT.

4.2 Overview of opportunities for WATT

The growth of the sharing/on-demand economy can create opportunities to facilitate and strengthen VAT administration and compliance and provide opportunities to expand the VAT base. These opportunities and perspectives are particularly related to the central role played by a relatively small number of CE/SD economy platforms that help facilitate and energize these activities by

leveraging advanced technologies and data analytics. The essential role of data and improved data analysis in the CE/SD economy holds promise in terms of improving the visibility and traceability of economic activity, the formalization of previously informal economic activities, as well as the efficiency of tax collection.

- **Potential positive impact on the VAT tax base**

The CE/SD economy is a way for potentially large numbers of individuals, often unable to afford to invest, to use their labor or assets to generate financial gain. It therefore provides jurisdictions with possibilities for broadening the tax base resulting from an expansion of economic activity that go beyond simply replacing a new type of activity with an old type of activity, to the extent that it opens up new markets and brings new players onto the scene economic.

However, the phenomenon is much more complex and depending on how a jurisdiction's VAT system is designed, the growth of the CE/SD economy can represent both a growth perspective and a threat of base erosion. Although there are concerns especially regarding VAT, it also opens up vast possibilities for formalizing activities that have so far been outside the scope of VAT. Two of the main drivers of the CE/SD economy are the rapid growth of digital connectivity facilitated by mobile devices and the strong growth of secure mobile payment solutions. The CE/SD economy relies heavily on data and technology. As it continues to develop and expand to ever wider areas and segments of economic activity, these key features are likely to open up unprecedented opportunities for the "shrink economy", with increased cash transactions leading to a considerable expansion of the formal sector, especially in developing countries.

- **Opportunities to increase efficiency for both tax administrations and CE/SD providers**

The business models of the CE/SD economy and its platforms are likely to open opportunities for tax administrations to increase administrative and tax collection efficiency. Beyond the opportunities for data collection and improved tax collection efficiency offered by the emergence of platforms, the CE/SD economy is likely to provide tax administrations with the means to improve risk efficiency, strategies based on tax compliance management and audit, including through audits of platform systems than through audits for each individual supplier. CE/SD platforms are already operating in many countries, working closely with tax administrations to exploit emerging opportunities (sharing data/information to help suppliers meet their VAT obligations).

4.3 Difficulties and risks regarding VAT

These difficulties and risks relate in particular to the possible erosion of the VAT base, resulting from a redistribution of economic activity to the detriment of a relatively small number of traditional, long-standing companies that largely comply with their tax obligations, to the benefit of to a large number of relatively small new economic players (including atypical workers) who are less compliant with tax obligations or are not subject to tax because the volume of their activity remains below the VAT exemption threshold.

- **CE/SD increase, potential threat of erosion of the VAT tax base**

Depending on how a jurisdiction's VAT system is designed, increasing CE/SD can represent both an opportunity for growth and a threat to erode the VAT tax base. While VAT is a general consumption tax on most goods and services, many jurisdictions have opted to exempt individuals and micro-enterprises from VAT registration and collection requirements. The exemption threshold differs from country to country and may differ from sector to sector within the same jurisdiction, in particular to minimize the risk of distortion of competition. In these jurisdictions, depending on the type of activity, it is likely that a large number of CE/SD economy suppliers will fall below the exemption threshold and thus be exempt from VAT registration. This can lead to a risk of erosion of the VAT tax base, more or less high depending on the economic structure of the country and the activities in question. In the accommodation sector, for example, the CE/SD economy may lead to a shift in bookings away from traditional hotels in favor of bookings with non-VAT registered suppliers and therefore lead to a decrease in VAT revenue collected by the hotel sector. This trend is increasingly likely to pose serious problems, especially in jurisdictions with an intensive tourism

sector. Similarly, in the transport sector, the CE/SD economy can harm traditional taxis and reduce the VAT revenue collected in this sector, as drivers sometimes find it easier and simpler to switch to CE/SD economy activities, especially when they are less regulated than traditional activities.

- **It is not always easy to determine the VAT status and role of suppliers in CE/SD**

Determining the VAT status of suppliers and users is important to define not only the possible obligations to comply with in terms of VAT, but also the associated rights that can be used by economic actors, in particular the rights of deduction and recovery of VAT

From the available data it appears that many suppliers involved in the CE/SD economy are probably unknown to the VAT tax departments and are unaware of their related obligations or at least unaware of the simplification measures they could benefit from in order to be able to comply more easily. The risk analysis performed on the basis of data provided by the CE/SD economy platforms confirmed the existence of these risks in certain jurisdictions.

The importance of determining the VAT status of the basic suppliers in the case of CE/SD economy platforms is also related to the fact that this status can have an influence on their VAT obligations, especially in terms of treatment, in terms of VAT , taxes and fees (especially in the context of transnational activities), as well as reporting obligations (invoicing, etc.).

If, for example, the transaction between the platform and the underlying sharing economy/on-demand provider is considered a business-to-business (B2B) transaction, many jurisdictions require the collection of VAT on commissions and fees charged by the platform to the provider through a mechanism of reverse charge, when the platform is not located in the jurisdiction that has tax jurisdiction.

If the transaction qualifies as a business-to-consumer (B2C) transaction, the platform may be required to register for VAT in the tax jurisdiction (via a seller registration system).

To overcome this difficulty, some platforms have created a web page that allows users to communicate information about their tax status. However, platforms often face difficulties when it comes to verifying suppliers' VAT registration data, especially in the absence of a reliable real-time verification mechanism for this information managed by tax authorities.

The fact that suppliers carry out several CE/SD economy activities in parallel through several platforms, or that one agent (local booking agency, for example) operates on one platform on behalf of several people without the information about these suppliers also poses problems special.

5. Conclusions

As the digital economy becomes more and more assimilated into the economy itself, it would be difficult, if not impossible, to distinguish it from the rest of the economy from a tax perspective. Attempting to isolate it to make it a separate sector would inevitably necessitate the arbitrary distinction between what is digital and what is not. This makes it easier to identify and address the challenges posed by the digital economy and the concerns it raises in terms of base erosion and profit shifting by looking at the structures already adopted by multinational enterprises as well as new business models.

The digital economy is constantly changing and it is necessary to monitor possible future developments to assess their impact on tax systems.

The rapid technological progress that characterizes the digital economy has led to the emergence of several trends, and this carries potential developments. While this rapidity makes it difficult to predict future developments with any degree of reliability, they should be watched closely as they are likely to present new challenges to policy makers in the near future.

The digital economy has also accelerated and changed the distribution of global value chains in which multinational enterprises integrate their international activities. Previously, it was common for a multinational company to set up a subsidiary in each country in which it was established to manage the group's activities in that country. This structure resulted from a number of constraints, including slow communications, foreign exchange rules, customs duties or relatively high transportation costs, which made integrated global supply chains difficult to operate.

Several factors, such as advances in ICT, the reduction of many currency and customs barriers, and the transition to digital products and a service-based economy, have combined to reduce the barriers to integration, thereby allowing multinational business groups to operate much more like global companies. Because of this integration, it has become easier for companies to adopt global business models where functions are centralized regionally or globally. Even small and medium-sized enterprises are now able to assert themselves as "micro-multinationals" with operations and staff in several countries and on different continents. ICT has played a key role in this underlying trend, further exacerbated by the fact that many of the big digital companies are young and designed from the start to operate in an integrated way on a global scale. The ability to centralize the remote infrastructure of a marketplace and conduct substantial business of selling goods and services in that remote marketplace, and the increasing ability to conduct substantial business with minimal staffing, also open up opportunities for base erosion and profit shifting by fragmenting physical activities to avoid taxation.

Certain fundamental characteristics of the digital economy increase the risks of base erosion and profit shifting in terms of indirect taxation, especially for companies carrying out activities that are not subject to value added tax.

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