

Taxation of service platforms: Challenges, options and international experience

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Introduction

- Due to the large tourism sector in Georgia, service platforms such as AirBnB, Booking.com, Yandex or Bolt are in widespread use
- However, taxation of the services provided through these platforms is reported to be very incomplete

Objective of this Policy Briefing

- Clarify the different tax challenges provided through service platforms such as AirBnB and their place in the digital economy
- Outline different options for improving taxation of the services provided through these platforms
- Provide international experience on these issues

Structure

1. Tax challenges of new digital business models
2. What are service platforms?
3. Service platforms: Relationship of actors and applicable taxes
4. Taxing providers
 - Challenges
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 - International experience
 - Lessons
5. Taxing platforms
 - Challenges
 - Options, international experience, lessons
6. Importance of taxing service providers and platforms
 - Example: AirBnB
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1. Tax challenges of new digital business models

Digital economy and taxation

- The digital economy has given rise to new, internet-based business models
- Some differences to the “analogue economy”
 - Importance of intangible assets
 - Importance of data and user participation
 - Location independence: offer services without physical presence
- New business models raise challenges for tax design and enforcement
- Challenges depend on the specific business models

Our focus

- “Service platforms” (e.g. AirBnB, Uber, Yandex)
- Digital platforms matching customers with providers of services (AirBnB: accommodation services, Uber/Yandex: transport)

2. What are service platforms?

Typology of digital platforms

**Service
platforms**

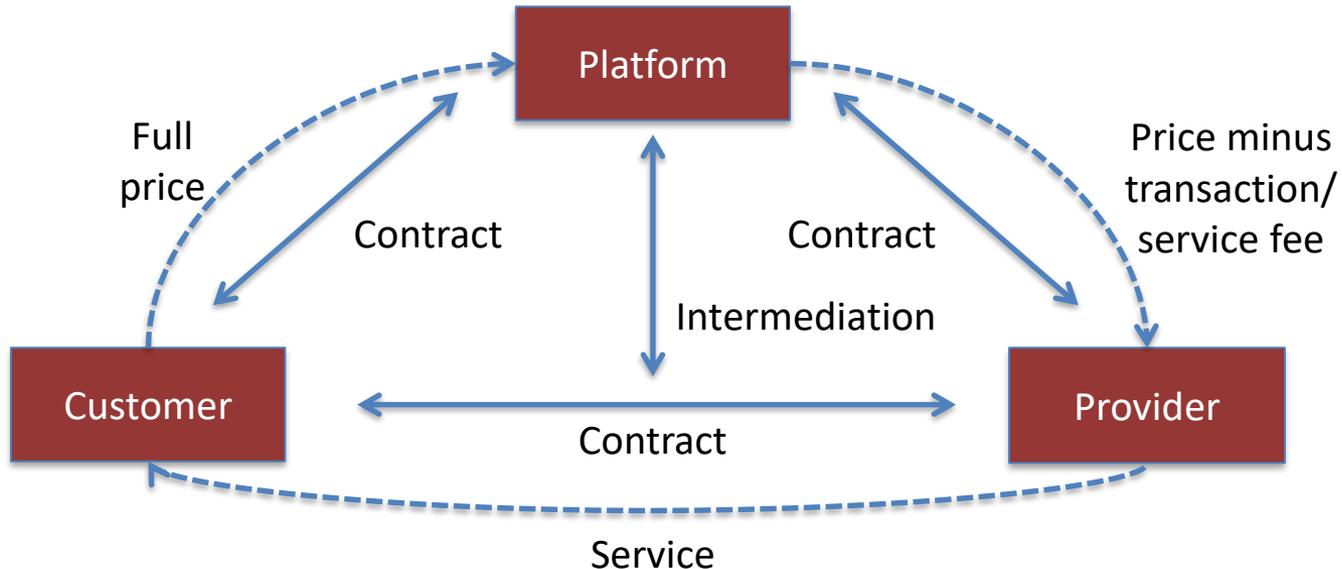
TYPE OF PLATFORM	MAIN BUSINESS MODEL	EXAMPLE
Online marketplaces	Transaction fees	Amazon, eBay, Allegro, Booking.com
Collaborative or 'sharing' economy platforms	Transaction fees	Uber, Airbnb, Taskrabbit, Bla-bla car
Communication platforms	Advertisement, subscription	Skype, WhatsApp
Social networks	Advertisement, subscription	Facebook, LinkedIn, Twitter
Search engines and specialised search tools	Advertisement	Google search, TripAdvisor, Twenga, Yelp, Skyscanner
News aggregators	Advertisement	Google news
Music/ Video sharing platforms	Subscription, advertisement	Deezer, Spotify YouTube, Dailymotion, Netflix, Canal Play, Apple TV
App stores	Transaction fees	Google Play, Apple app store
Payment systems	Transaction fees	PayPal, Apple Pay

Source: Online platforms and how to regulate them, P. J. Dittrich, Bertelsmann Foundation Policy Paper #227, June 2018, Classification based on definitions of the European Commission

- Several types of digital platforms with distinct business models exist
- „Online marketplaces“ and „collaborative/sharing economy platforms“ both match customers with providers of goods or services
- Our focus: „Service platforms“, combining „online marketplaces“ and „sharing platforms“ for services (excluding goods platforms, e.g. Amazon)

3. Service platforms: Triangular relationship of actors

Normal construction of relationships in service platforms



Source: Own illustration, based on Dittrich (2017), Bräutigam et al. (2019)

Note: Alternative payment arrangement (optional for ride-hailing platforms) is cash payment to driver, transfer of service fee from driver/provider to platform

- Contractual relationships are determined by terms and conditions of the respective platform, but this triangular relationship is most typical
- Although contract relations exist between all three actors, the actual service usually is a contract between customer and provider
- Especially payment via platform means that the platform is strongly involved in the service without necessarily being a legal party to it**

Applicable taxes for providers and platforms

Platforms

- (Corporate) Profit Tax (CPT)
- Value-Added Tax (VAT)

Providers

- (Corporate) Profit Tax (CPT)
- OR: Personal Income Tax (CIT)
 - Instead of CPT, if provider is a natural person
- Value-Added Tax (VAT)
 - Formally paid by consumer, but „collected“ by provider

- Two actors and three types of taxes relevant
- Note: in some countries, providers are also required to collect some point-of-sale (POS) taxes from consumers, e.g. tourism taxes
- Different challenges for taxing provider than for taxing platforms
- **We consider challenges for taxing providers and platforms separately**

4. Taxing providers on service platforms: Challenges

- Providers have **clear tax obligations** under normal tax laws
 - Collecting VAT (and POS taxes where applicable) from customers
 - Paying taxes on their income under CPT or PIT
 - Thresholds for SME regimes or exemptions from VAT or CPT/CIT apply
- Problems with **tax enforcement**
 - Many providers do not declare and pay taxes
 - Hard to detect the tax fraud:
 - Many small tax subjects (e.g. AirBnB hosts)
 - Usually no verification data (such as reports from platform)
 - Some cases: cash payments
- **Tax laws cover providers on service platforms, no need for change**
- **Enforcement problem due to difficulty of verifying incomes**

Taxing providers: Options

Focus	Strategy	Reason	Problems
Provider	Monitor incomes on bank accounts (e.g. using AI tools)	<ul style="list-style-type: none"> • Transactions must exist • Platform-provider • Or provider-platform 	<ul style="list-style-type: none"> • Data protection • Large data amounts • Concealment possible
	Require official registration of provider (e.g. AirBnb host)	<ul style="list-style-type: none"> • Focus tax enforcement • Can be checked through „test buyers“ 	<ul style="list-style-type: none"> • Avoidance through using „straw men“, dilute ownership
Platform	Pressure to report payments to providers	<ul style="list-style-type: none"> • Complete list of incomes by recipient would solve the issue 	<ul style="list-style-type: none"> • Legal possibility (intermediary role) • Outside jurisdiction
	Require collection of taxes through platform	<ul style="list-style-type: none"> • Similar to payroll tax • Platform can be declared liable for tax 	<ul style="list-style-type: none"> • Legal possibility (intermediary role) • Outside jurisdiction

- **Potential problems: Legal permissibility (data protection), practicability (how to ensure cooperation of platforms located abroad)**

Taxing providers: International experience

- Some success in **obtaining data from platforms**
 - Denmark concluded bilateral agreement with AirBnB to receive data
 - German tax authority has requested comprehensive information from AirBnB Ireland in 2018 per group query (unclear whether received)
- Mixed success in **requiring registration** of AirBnB apartments
 - Practised e.g. in Hamburg and Berlin, enforcement via AI tools
 - Also for protecting regular rental apartment market
 - Some cooperation: in Hamburg, only registered apartments can be listed on AirBnB, no cooperation in Berlin
- State can institute **tax liability** of platforms
 - Germany: Since 2019, marketplaces *for goods* are fully liable for VAT compliance of sales (maintain records, liability if incomplete)
 - EU from 2021: Marketplaces *for goods* treated as resellers to customers, implying VAT obligation of marketplace
- **Tax collection by platform** was implemented for tourism tax in some cities

Taxing providers: Lessons from international experience

Main approach to enforcement: Through platforms

- Strategies: obtaining data, ensuring cooperation with registration laws, tax liability (goods marketplaces), tax collection by platforms
- Platforms may attempt hiding under intermediary status/ data protection laws of their HQ jurisdictions
- **But: Platforms generally appear to be willing to cooperate with authorities as they too depend on some cooperation with local authorities**

Unused approach (privacy issues): Monitoring accounts

- Legality: although e.g. in Germany tax authorities may request account data, this is difficult in practice (requires specific reason, long process)
- Inefficient unless prior filtering (knowledge of individuals behind AirBnBs, Yandex taxis etc.) and/or AI tools would be applied

Key lessons

- Georgia should attempt to **follow successful examples of ensuring platform cooperation** in enforcing taxes of providers
- If feasible under Georgian law and tax authority IT, **accounts data could be used as well for enforcement**, but requires prior information or AI techniques

5. Taxing platforms: Challenges

Main issue: CPT only in the country where a platform's HQ is located

- „Location independence“: Pre-digital business models required at least some physical (employees, capital) presence in country where services are rendered
 - Internet-based platforms can „do business“ in Georgia without presence
 - No need for local subsidiaries of platforms (that can be taxed)
- Importance of intangible assets: even where local subsidiaries exist, profits are almost entirely shifted out of local country
 - Tax laws have not adjusted to business models: profit of platforms attributed to intellectual property, not alternative concepts (e.g. data, user participation)
- **Current international tax laws inhibit local country share of platforms' CPT**
- **As this is an issue of profit attribution, it is always an international tax issue**

VAT of foreign platform is not very relevant to local country (Georgia)

- Georgian VAT on service fee would be refunded to provider (if VAT payer)
- **VAT collection on revenue of providers (full transaction) is much more relevant**

Taxing platforms: Options, international experience, lessons

- Objective of all efforts: ensuring fair local tax share of platform profits
- Directed at all platforms – not just service platforms but Google, Facebook etc.

Two main avenues of pursuing local profit tax share of platforms

1. Revising international tax rules through OECD BEPS
 - Change profit attribution rules (favouring IP) for new concepts, e.g. significant economic/digital presence, user generated value, marketing intangibles
 - Outcome so far unclear, especially as „home countries“ of platforms such as USA or Ireland have no interest in sharing tax share of profits
 2. Imposing „digital revenues taxes“ locally
 - Intended as short-term fix until profit allocation rules revised
 - An EU initiative failed, but some countries have recently imposed taxes (e.g. France: 3%, Austria: 5%) on digital services revenues of large companies
 - Key problem: Such taxes may be treated as an import duty by home countries of platforms (e.g. USA), risk of WTO-compliant retaliation
- **Georgia should take a cautious approach: monitor BEPS developments, wait to see whether unilateral digital revenue taxes prove successful**

6. Importance of taxing service providers and platforms

Service platforms operating with Georgia:

▪ Tourism marketplaces

- Examples:  
- Tourism sector highly important to Georgia

▪ Ride-hailing

- Examples:  
- Ride-hailing projected to grow further in future

▪ Freelancer/task platforms (likely – fully location independent)

- Examples:   
- Internet-based services independent of provider/customer location

➤ **Especially tourism and ride-hailing platforms clearly relevant for Georgia**

The example of AirBnB in the accommodation market

AirBnB in Tbilisi

- Revenues of USD 23 m in 2018 (source: G&T)
- 11% share of total accommodation market in Tbilisi
- Tbilisi makes up ca. 25% of tourists bed of Georgia (source: GNTA)

Guesstimate of total AirBnB market in Georgia 2018

- Upper bound: USD 75 m
- Assumptions:
 - Same 11% market share in rest of Georgia
 - Lower average prices than in Tbilisi
- Still limited total revenue
- But: AirBnB revenues doubled annually in Georgia 2016-2018!
- **Complaints from hotel industry: Most airbnb providers don't pay taxes**
- **How much potential for tax revenue from AirBnB alone?**

Tax revenue potential from AirBnB: Providers

- Usually 25% of revenues go to the platform, 75% to provider

Tax revenue potential from providers in 2018

- USD 56 m total revenues
- CIT (assuming all providers are natural person): 5% rate for rent income
 - CIT revenues max USD 2.8 m, even if no cost deductions
- VAT: 18%
 - Revenue potential of up to USD 10.1 m
 - However, providers with revenues below GEL 100,000 are VAT exempt
 - Threshold may seriously constrain VAT revenues
- 2018 total revenue potential: max. USD 12.9 m (0.3% of tax revenues)
- Actual revenues likely significantly lower due to deductions and VAT exemptions
- **Revenue potential from AirBnB providers alone in 2018 was limited, but:**
 - **Fast market growth, revenues from other service platforms**
 - **VAT exemptions or reduced CIT rate for rent should perhaps be reconsidered to maintain level playing field in tourism industry**

Tax revenue potential from AirBnB: Platform

- Under present tax rules all likely taxed for VAT/CPT in USA
- Total profits were relatively low (2017 annual report):
 - Global turnover of USD 2.6 bn
 - Before tax profit of USD 93 m (3% margin only)

Tax revenue potential from AirBnB platform

- Revenue of ca. USD 19 m
 - CPT potential:
 - Taxable profit of USD 19 m * 3% = USD 57 thsd.
 - Negligible potential for CPT
 - VAT potential
 - USD 3.4 m max
 - Only relevant in practice if VAT collected from providers...
 - Total tax revenue potential in 2018 of USD 3.5 m, 0.1 % of total tax revenues
- **Focus on tax enforcement from providers in short run appears sensible**
- **However, taxing platforms would imply taxing a wide range of platforms!**

7. Policy recommendations

- As the situation regarding the taxation of profits / VAT of platforms is unclear internationally, **Georgia should focus on enforcing tax obligations of service providers** such as AirBnB hosts
- This affects VAT and CPT/PIT and hence is probably the bigger part of lost tax revenues (but thresholds/SME rules may limit potential tax revenues)
- **Different strategies should be explored and investigated**
 - Agreements with platforms to transmit tax-relevant data on providers
 - Instituting tax-liability or tax collection requirements for platforms
 - Registration requirements for service providers
 - If possible with regard to data protection laws, AI-based monitoring of accounts of providers
- **Cooperation with platforms is possible and should be attempted**
- **Small-business rules** (e.g. VAT thresholds) **may have to be revised** to ensure adequate tax receipts from the „sharing economy“ and a level playing field with regular companies

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