

Challenges for VAT in the platform economy

mBank-CASE Seminar, 9 December 2021

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S E R V I C E S

Agenda

- 1. Background – definition and scope of the platform economy.**
- 2. Size of the ecosystem.**
- 3. Current VAT treatment of the platform economy.**
- 4. Problems and their drivers.**
- 5. Potential solutions and outlook for the future.**
- 6. Summary.**

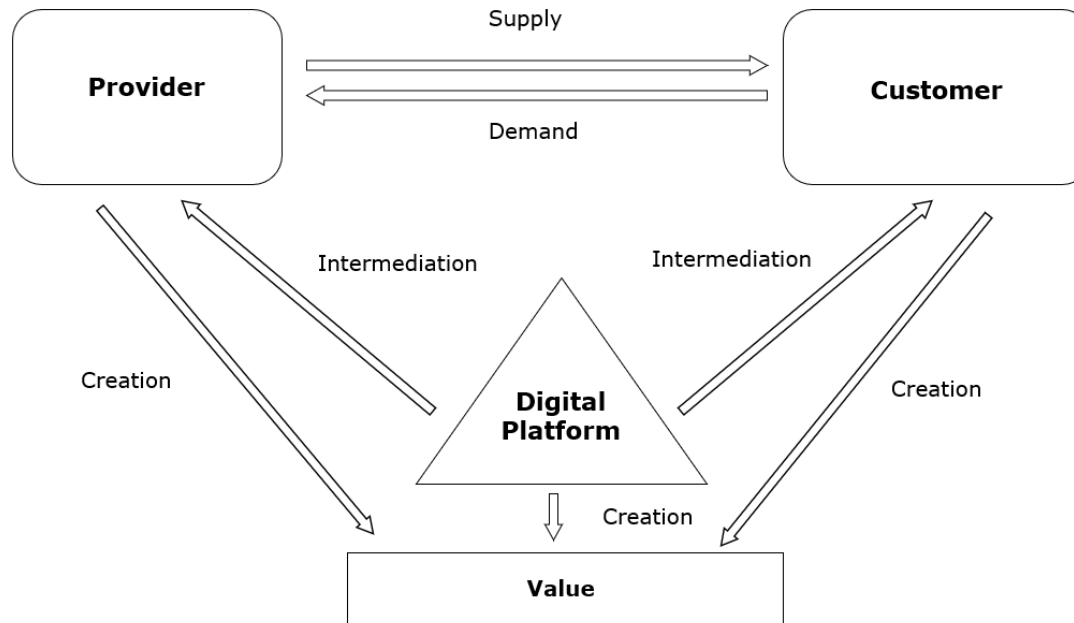
Background

Platform economy:

- *a **multi-sided model** of transactions,*
- *'**online/digital platform**' facilitates the connection between two or more distinct but interdependent sets of users,*
- *the facilitation uses the **Internet technology**,*
- *one of the parties to the platforms offers **access to assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration** or, in certain cases, by barter/non-monetary exchanges,*
- *presence of **network effects**.*

Background

Figure 1. Three-sided platform business model



Source. Author's own elaboration, based on Beretta, G. (2019)

Background

Sector and sub-sectors of the platform economy

Sector	Sub-sector	Type
E-commerce	Marketplace of goods	Goods
Transport services	Ride on demand	Services or temporary access to assets
	Ridesharing	
	Car sharing	
	Delivery services	
	Trip booking	
Accommodation	Residence renting	
	B&B and hotel accommodation	
	Home sharing	
	Home swapping	
Real estate	Rental and sales intermediation	
Finance	Reward-based funding	
	Equity funding	
	Debt funding	
Professional and household services	On-demand household services	
	On-demand professional services	
Advertising	Search engines	
	Social media	

Size of the platform economy

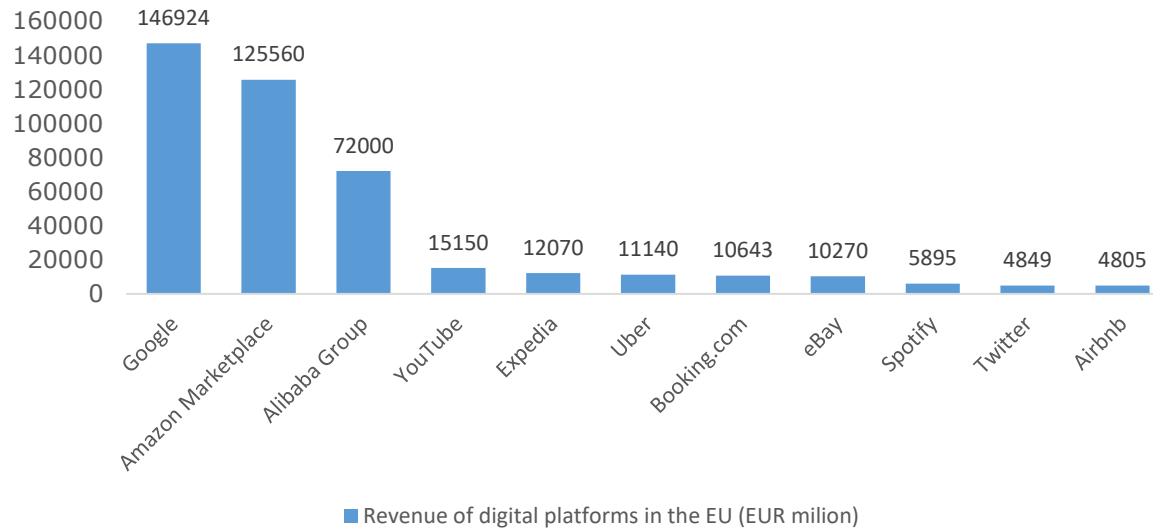
- The revenue of digital platforms and providers is large and increasing (two-digit growth rates a year).
- In the accommodation services sector the platform economy accounts for **the majority of GVA**.
- Rough estimates point to **ca. 2 percent share of the platform economy** in GDP in the EU (2019).

	"Assessing the size and presence of the collaborative economy in Europe", PwC, 2016		"Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States", Technopolis, 2018	
	Revenue of digital platforms in the EU (EUR million)	Ecosystem revenue in the EU (EUR million)	Revenue of digital platforms in the EU (EUR million)	Ecosystem revenue in the EU (EUR million)
Accommodation	1,150	15,100	900	7,300
Finance	250	5,200	1,400	9,600
Household and Professional Services	550	2,700	800	5,600
Transportation	1,650	5,100	600	4,000
TOTAL	3,600	28,100	3,700	26,500

Size of the platform economy

- 11 largest platform in the world, provided services worth **USD 420 billion** in 2019. The share of the EU market was ca. 20 percent.
- Although there are 1000s of platforms operating in the EU, the market is highly concentrated.

Figure 2. Worldwide turnover of the largest digital platforms (2019)



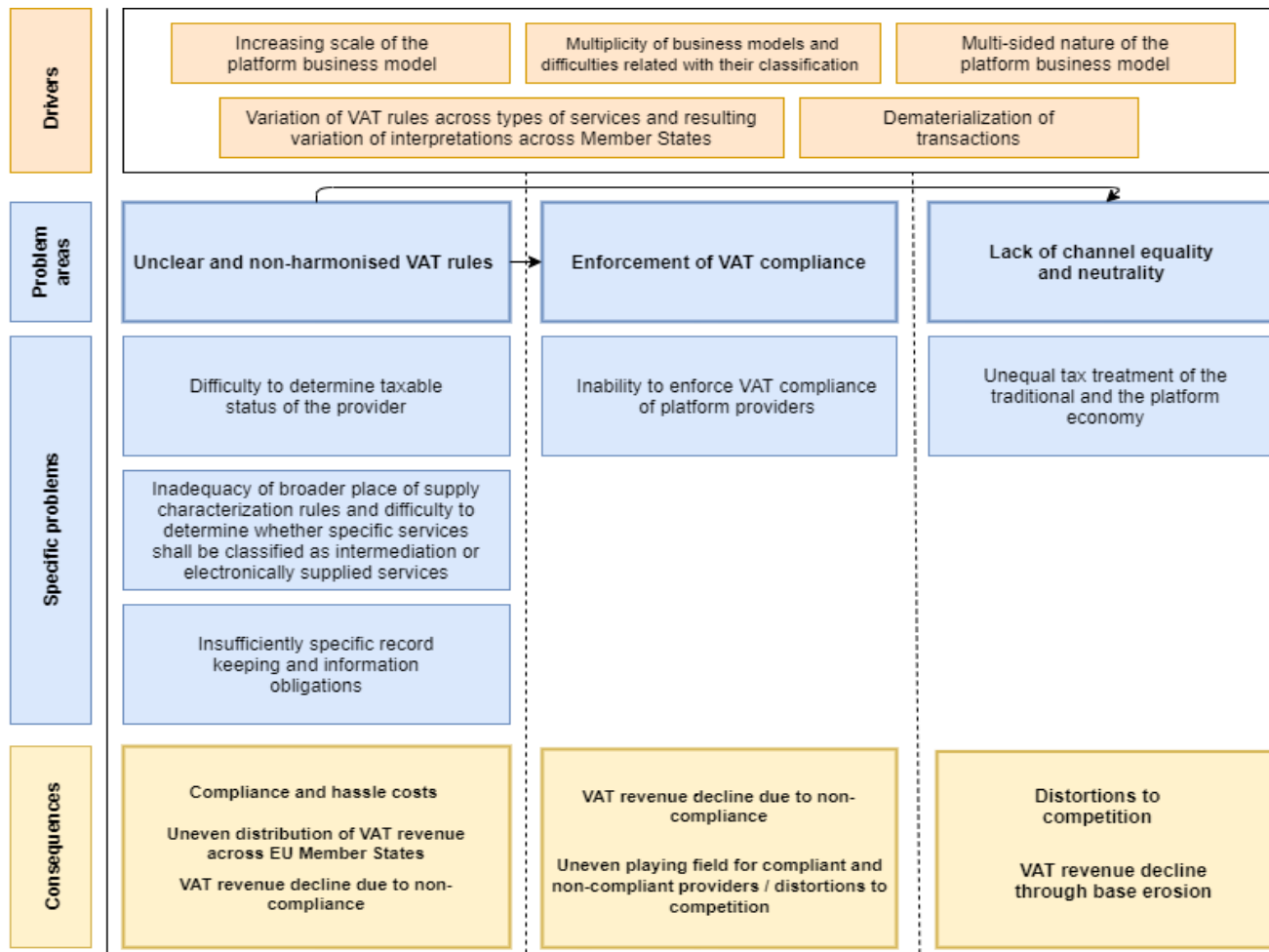
Source. Author's own elaboration, based on Cruchnbase and Dan&Bradstreet

VAT treatment of the platform economy

- The VAT payments depend on the **status** of providers and the **nature of the underlying service**.
- Status of the taxpayer: it is necessary to assess, firstly, whether providers carry out an **economic activity** and, secondly, whether they do it **independently**.
- Whether the service is classified as an economic activity depends on the continuity of the service. Moreover, there are many situations of **non-monetary transactions** and situations, when costs are only reimbursed.
- Nature of the underlying service: the platform's facilitation service could be regarded as either **electronically supplied service**, **intermediation service**, or something else, which is related with the place of supply in cross-border transactions.
- Moreover, providers often fall under the VAT registration threshold (despite using the **economies of scale** of the platforms and **network effects**).

Problems and their drivers

Problem tree

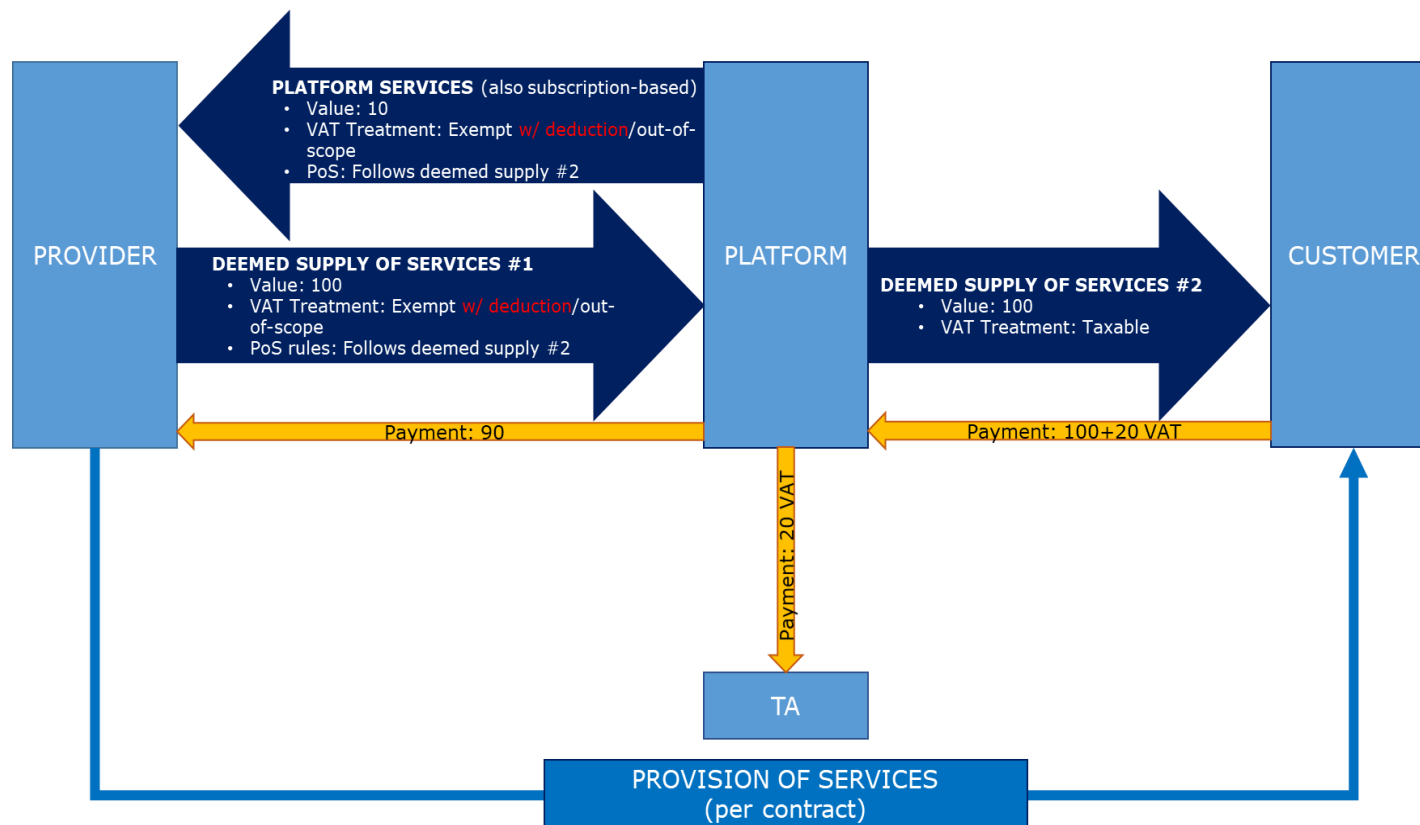


Potential solutions

- **Clarification of VAT rules** regarding:
 - Nature of supplies
 - Presumption of the status of providers
 - Information obligations
- **Extension of information obligations (both automatic exchange and on request).**
- **A simplified VAT scheme** (e.g. flat rate with a fixed deduction).
- **Joint and several VAT liability.**
- **Deemed supplier regime:**
 - Narrow - for specific sectors
 - Broad - for all sectors

Deemed supplier regime

Functioning of the deemed supplier (payment intermediated by the platform)



Summary

- The growth of the platform economy created problems resulting from a **different character of the business model and underlying transactions.**
 - The platform economy brings a **lot of small taxpayers to the VAT system**
 - While doing so the platform economy and its growth could also **erode tax base and decrease VAT revenue**
 - Potential solutions could create new problems as there are many **borderline cases** due to variation of business models
- Both current treatment and potential policy changes raise concerns **of VAT equality and neutrality.**
- **Platform economy will continue** to grow in the future amplifying the problems related to the VAT treatment of these transactions.

Thank you for your attention