

The tax compliance decision of the individual in business in the sharing economy

Maira Boman and Julie Wassels

Digital innovation is creating completely new ways to do business, unleashing a new generation of micro-entrepreneurs who are progressively engaging with the sharing economy. One of the most pressing challenges tax authorities face is the tax compliance of these individuals that are new to busi +

As these individuals are responsible for filing their own tax returns, these taxpayers have no opportunity to 'design' their tax returns by exploiting the opportunities to avoid taxes (Kirdler, 2007).

In order to illustrate that perceived opportunity is applicable to the sharing economy, we will further elaborate and expand on this factor as part of our suggested framework of tax compliance factors of individuals in business in the sharing economy. The five proposed scenarios of perceived opportunity where individuals in business in the sharing economy can possibly evade taxes are (i) operating below the radar; (ii) lack of intermediary regulation; (iii) cash based transactions; (iv) claiming of non-deductible expenses; and (v) the legality of certain transactions in the home sharing industry.

The first factor to consider as a perceived opportunity to avoid taxes in the sharing economy is the ability of these entrepreneurs to operate below the radar. Findings from the literature set out below provide evidence that many hosts in the home sharing economy exploit several opportunities where they can operate below the radar:

As Airbnb booking currently occurs largely in the informal sector; guests and hosts can avoid paying the taxes that are typically charged in the traditional accommodation sector

'illegally', and (iv) a large number of home sharing entrepreneurs that create a great burden on tax administration authorities

One of the largest areas of opportunity for individuals in the sharing economy to avoid compliance is as a result of the sharing economy platforms not enforcing regulations or withholding levies, taxes or charges. The home sharing industry is constantly challenged by lawmakers for not adhering to the strict regulations that are imposed on hotels and other formal accommodation offerings (Katz, 2015; Leaphat, 2016). Evidence from the literature that confirms the lack of enforcement of regulations by the respective platforms is detailed below.

even aware that taxes should be paid for some activities (especially home sharing'.
Thorne and Quinn (2017, p 8) conclude that owners in the sharing economy are like

When people think, they generally do not draw on concepts that they have invented themselves. Instead, they use concepts, categories, identities, prototypes, stereotypes, causal narratives, and worldviews drawn from their communities. These are all examples of mental models.. [- Mem 141r

a new approach to 'decision making' was proposed which encompasses a wider understanding of factors to consider in the decision making process, and

'pari' as a factor was brought into the framework (as opposed to being a peripheral factor in the original framework).

We further propose that our framework can be used as a conceptual tool to form a profile

- Kahneman, D 2003 'Maps of bounded rationality: Psychology for behavioral economics', *Journal of Economic Literature*, vol. 41, no. 3, pp. 1401-1415. doi:10.1215/00141801-2003-002
- Kanleitner, B, Kourilka, C & Kirdler, E 2012 'Tax compliance of small business owners: A review', *Journal of Tax Research*, vol. 18, no. 3, pp. 330-351.
- Katz, V 2015 'Regulating the sharing economy', *Journal of Tax Research*, vol. 30, annual review 2015, pp. 1067-1126.
- Kessler, A 2014 'Brian Chesky: The "sharing economy" and its enemies', *Forbes*, 17 January, available at <https://www.foxbusiness.com/articles/brian-chesky-the-sharing-economy-and-its-enemies-139008086> (accessed 12 February 2018).
- Khadem, N 2014 'ATO cracking down on cash economy', *Business News Australia*, 25 August, available at <http://www.businessnews.com.au/news/2014/08/25/ato-cracking-down-on-cash-economy-20140825-10829.html> (accessed 15 August 2018).
- Kirdler, E 2012 *Principles of Taxation*, 6th ed. (Cambridge University Press, New York) pp. 101-102.
- Leahy, D 2015 'The sharing economy: A new model of business', *Journal of Tax Research*, vol. 30, annual review 2015, pp. 1067-1126.

See T2014 'Shaing and caing', , 21 January, <https://www.jacbmag.com/2014/01/shaing-and-caing/> (accessed 12 February 2018).

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/38891/bis_14_1227_unlocking_the_sharing_economy_an_independent_review.pdf (accessed 19 November 2017).

Zale, K 2016 'When everything is small: The regulatory challenge of scale in the sharing economy', *Journal of Tax Research*, vol. 53, no 4 pp 99-106