IOTA Papers

REGULATION OF THE SHARING ECONOMY IN NORWAY

NONNA RISNES

DIRECTORATE OF TAXES, NORWAY

2017 December

IOTA
Intra-European Organisation of Tax Administrations

REGULATION OF THE SHARING ECONOMY IN NORWAY

By Nonna Risnes

Nonna Risnes

Senior Advisor

Department of Regional Management

Directorate of Taxes, Norway

+47 945 05 734

nonna.risnes@skatteetaten.no

The combination of rapid development and increasing use of the internet, mobile devices, online platforms and social media make sharing of ideas, services and things easier.

The sharing economy represents a set of new business models that use digital communication services to provide customers with easy access to services from individuals or businesses that are registered in this service.

In this article, it will be discussed how the Norwegian Tax Administration works to increase the compliance for participants in sharing economy by taking some steps in the regulations.

Why the sharing economy is an issue in Norway?

The scope of the sharing economy in Norway is estimated for the year 2015 at approximately 500 million Norwegian kroner, which equals about 0.02% of GDP in the country. However there is a large potential for growth.

Sharing economy was a hot topic in Norwegian media in the winter 2015-2016. Several institutions have started studying the sharing economy and its consequences. The Norwegian Government appointed the Sharing Economy Committee by Royal Decree on 4 March 2016. In its mandate, the Committee was asked to evaluate opportunities and challenges presented by the sharing economy. The committee recommended that a revision of regulations, particularly in the areas of personal transport and accommodation should be undertaken, and emphasized the need for third party reporting from the platforms to the tax authorities. See the link at the end of this article for summary from the Sharing Economy Committee report. The report has been subject to public inquiry and will be followed by legislative proposals.

The Tax Administration completed a study in January 2017 on how to face the challenges from the sharing economy. This study is the basis for this article.

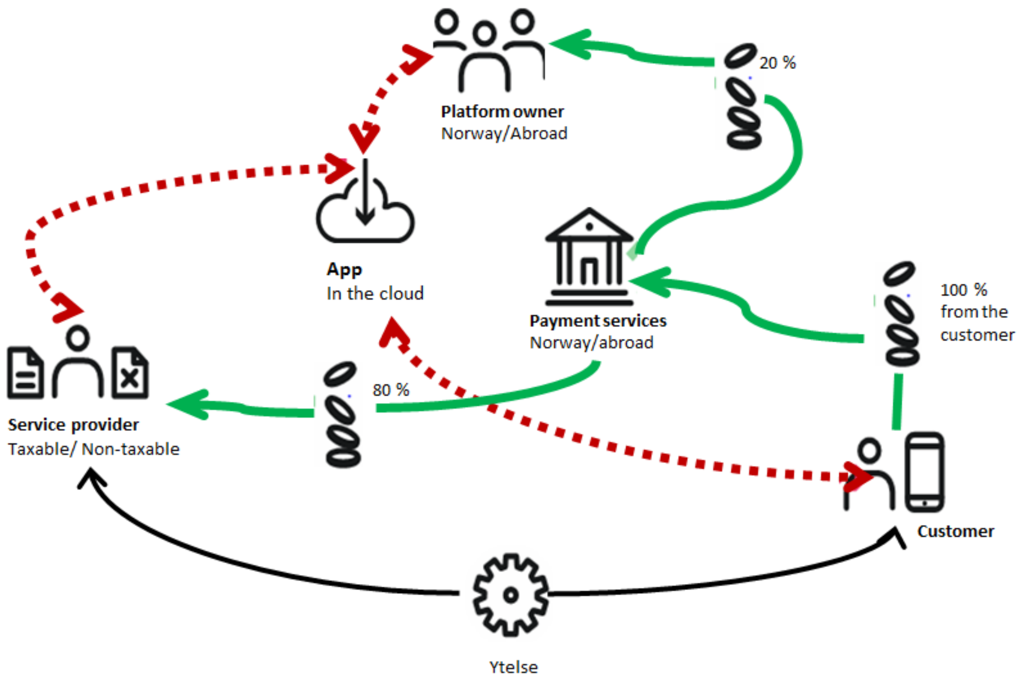
The reports from the Directorate of Taxes, Norway: scope and goals

This report is aimed at how the government can make it easier for sharing economy participants to manage their obligations in this area, while ensuring that they are paying right tax at the right time. The report looks in this regard at how reporting and payment of tax can be made easier and safer for participants in the sharing economy.

The study is limited to taxation of those providing services through the platforms, the "service providers". Taxation of the multi-national platforms is outside the scope of the study. This topic is addressed through international co-operation like OECD's project BEPS.

How does the sharing economy work?

The service provider uses the platform/app as a channel to reach a market to sell services. The customer gets knowledge of the services through the app on his smartphone. Feedback from previous customers is in the app and this creates more confidence in the service offered.



The payment from the customer usually goes to a bank account or other payment services determined by the platform owner. The platform usually charges a percentage (for example 20% as shown in the picture) of the total price for the service, while the rest goes to service providers.

Taxation in Norway: Challenges and possibilities

The taxpayers in Norway are used to a high service level. All persons receive a tax return that is pre-populated with information from third parties like employers, banks and public registers. Most taxpayers accept the pre-populated return without any changes; others will need to add additional income or deductions.

There is no third party reporting from sharing economy platforms today. This means that the service providers will have to manually add the taxable income to their tax returns. Third party information from the platforms will increase compliance and simplify the tax return process for the taxpayers.

Sharing economy is characterized by many participants with small revenue that is distributed among many customers. Small amounts can be substantial revenue eventually. Therefore it is important that such small income also will be reported to the tax office.

Small revenues from sporadic or hobby activities are not considered as a commercial activity in Norway. The activities in this case will be considered as an income for paid work and the customer will become an employer.

To be considered as a commercial activity, the service must have certain duration, a certain extent, be able to provide profits and be operated at the taxpayers' expense and risk. The distinction between employment and commercial activity is often a difficult assessment.

The report from the Directorate of Taxes underlines that it is not possible to clearly distinguish the sharing economy from the rest of the economy, and that the activities of the service providers are activities are covered by the current tax rules.

Co-operation

The Norwegian Tax Administration has had a dialogue with the sharing economy participants, particularly through Abelia, the Norwegian Business Association of knowledge and technology firms. The tax administration has received positive feedback from company representatives in Norway regarding possible arrangements for third party reporting from sharing platforms.

Perspectives and recommendations

The tax rules and the tax administration should make it easy to conduct economic activities and give confidence that taxation is done correctly. For participants in the sharing economy, it means that:

- ✓ Intermediaries should be able to offer standardized services from their service providers, with taxation requirements that are easy for them to practice, including simple reporting.
- ✓ The service providers should experience that it is easier for them to follow the tax rules than not to follow them.
- ✓ The service providers should get early information about what is required from them by the tax authority and should face predictable tax claims.
- ✓ The tax authority should facilitate an easy transition from being a small participant in the sharing economy to become an ordinary commercial business player.

Norwegian tax rules contain a lot of different thresholds for commercial activities and when income becomes taxable. These rules should be harmonized.

The report recommends (1) standardization of the rules in the area and the introduction of template deduction so that small income service providers do not have to take assessment if they have a taxable business with the consequences to keep accounting and report tax.

It is recommended (2) to introduce third-party reporting for platform companies and intermediaries.

Progress in the regulations

The Ministry of Finance, in cooperation with the Directorate of Taxes, has started work on automatic third party reporting obligations for platform companies and intermediaries. The proposal will be sent on consultation by spring 2018.

There is reason to assume that the scale of the sharing economy - and the consequences - could increase significantly over the next few years. The Norwegian Tax Directorate is therefore of the opinion that regulations and schemes relating to the share economy should be reviewed and assessed before the size of the activities becomes significantly greater. Crucial to this is that technological development and digitization provide new opportunities for economic activity, while digitalization also provides good opportunities for better processes for all participants.

Useful links

Official Norwegian Report (NOU) 2017:4 The Sharing Economy (in English)

http://delingsokonomi.dep.no/files/2015/11/NOU_2017-4_chapter_1.pdf