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IFS-CIOT debate

@TheIFS

How should platforms and gig economy workers be taxed?



Economic
and Social
Research Council

Platforms and the gig economy

- Not new
- But new technologies mean growing rapidly
- Adding urgency to some old questions

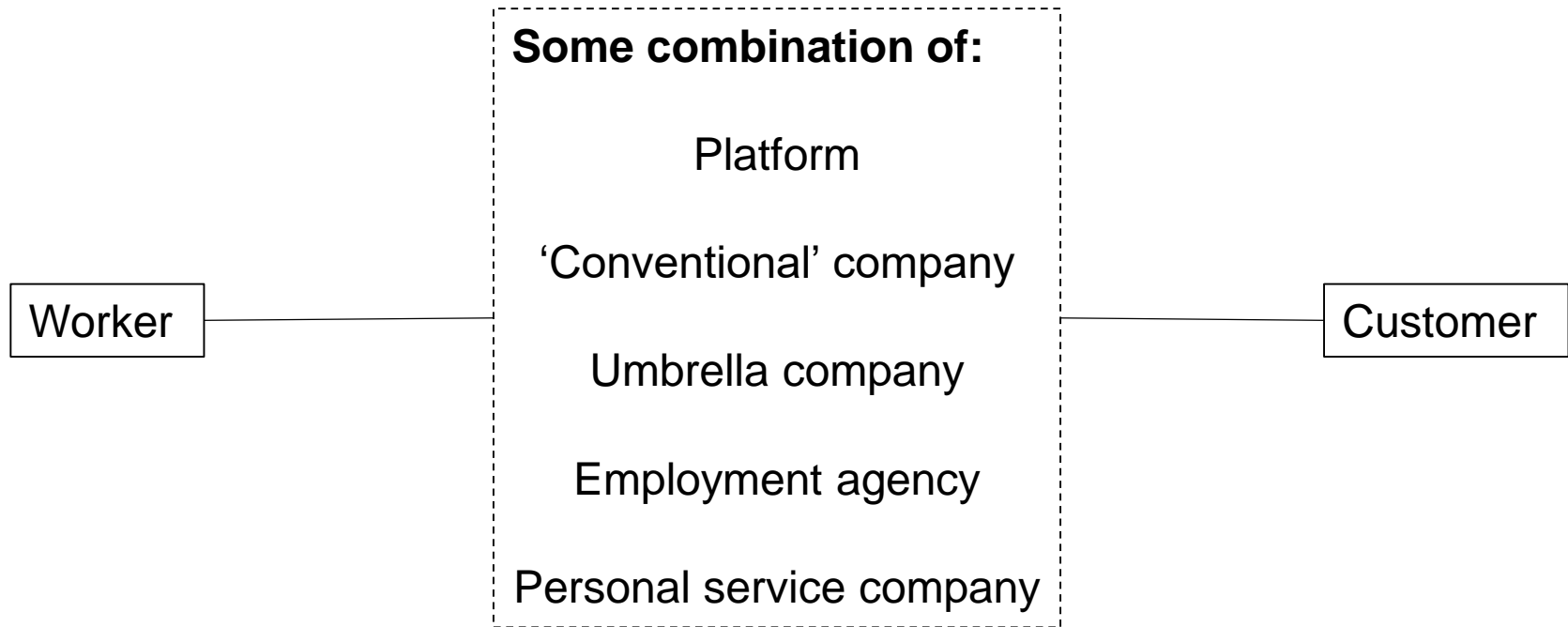
- ‘Is the worker employed or self-employed?’
- ‘Is the platform providing the service to the customer, or merely connecting the customer to the service provider?’

- Aim: avoid having to answer these questions. Shouldn’t matter for tax.

An array of intermediaries

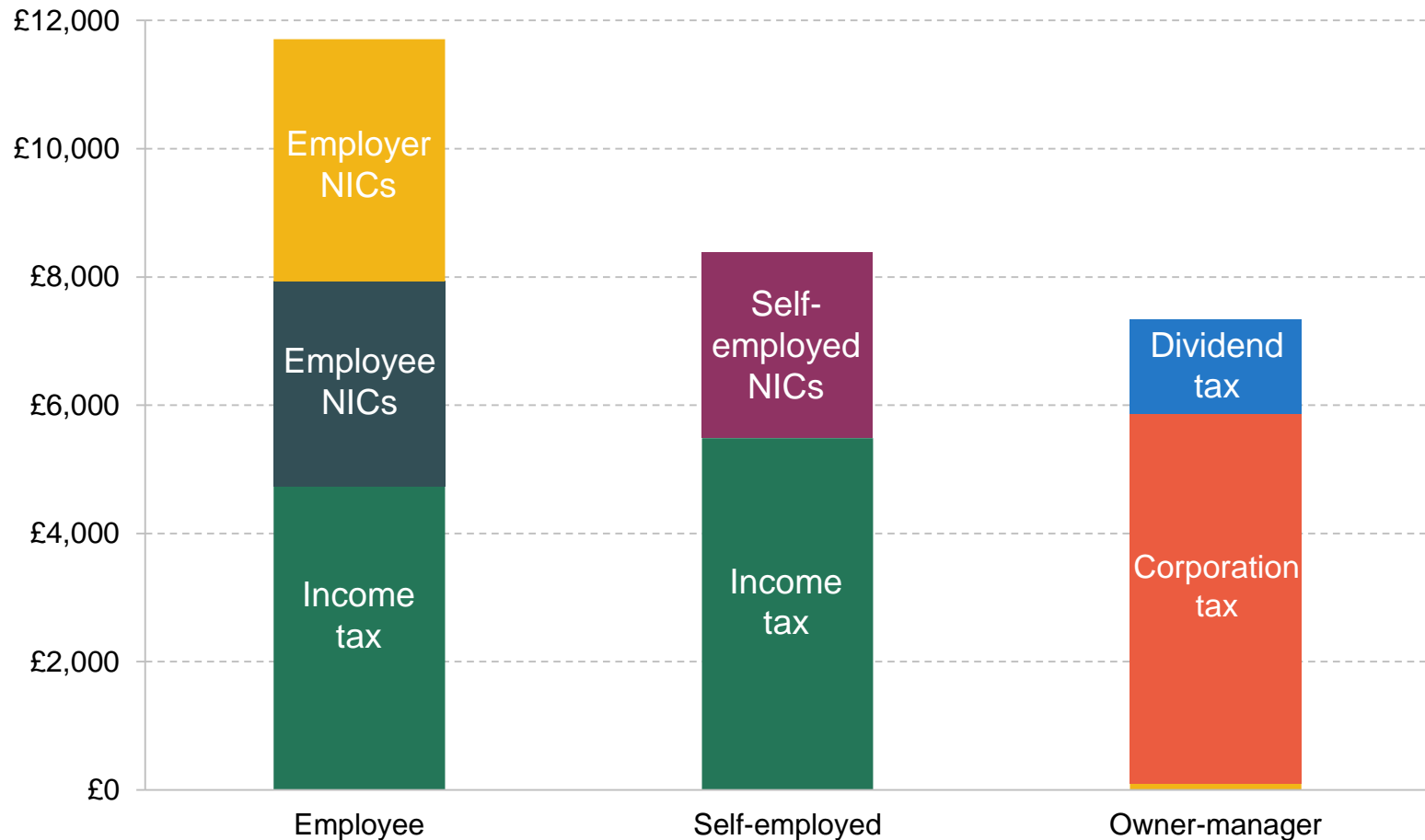


An array of intermediaries



Tax penalty on employment

Tax due on a job generating £40,000, 2021–22



Note: Excludes trading allowance and employment allowance where applicable.

‘Engager NICs’?

- Idea: make those using contractors pay equivalent of employer NICs

- Problematic in practice
 - What is a ‘contractor’ vs another supplier?
 - Require households using contractors to pay it, or only businesses?
 - How allow deduction of contractors’ costs?

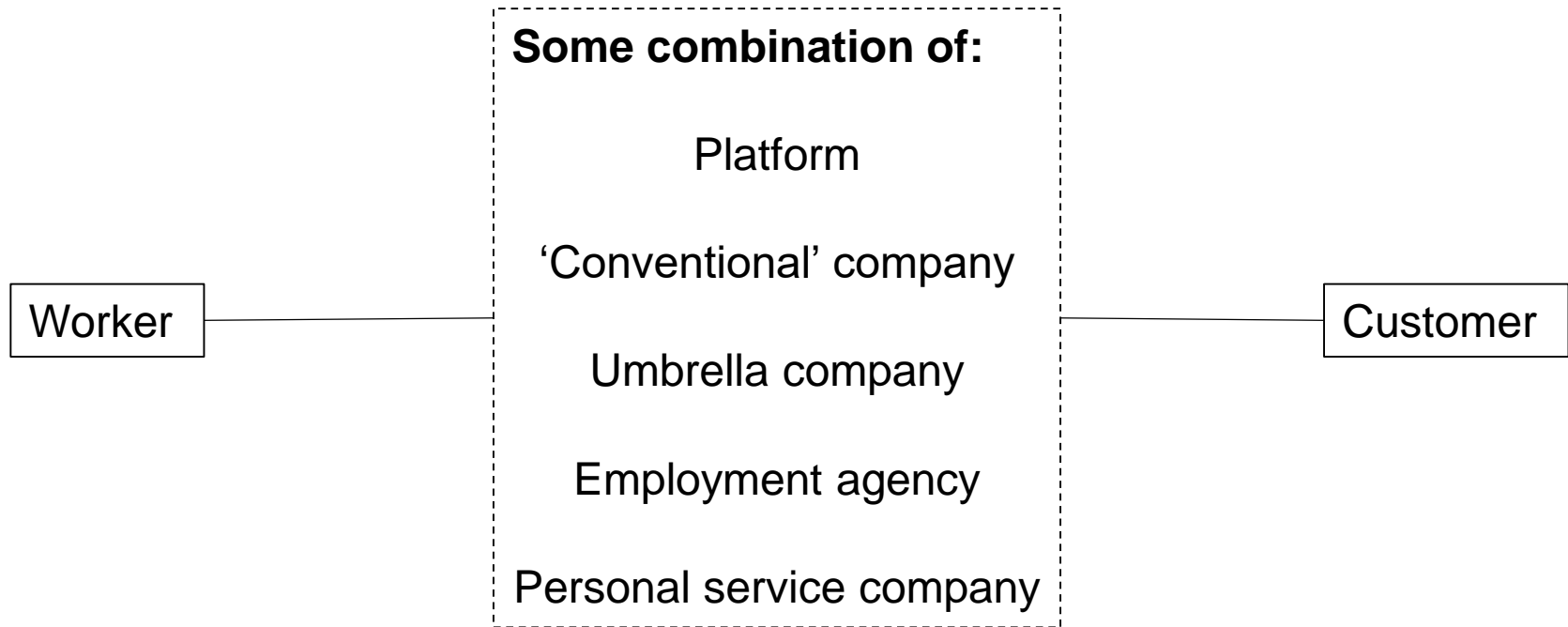
- Levy tax on income from business instead
 - Solves all the problems above
 - Contractors can charge correspondingly more

Equalising tax rates

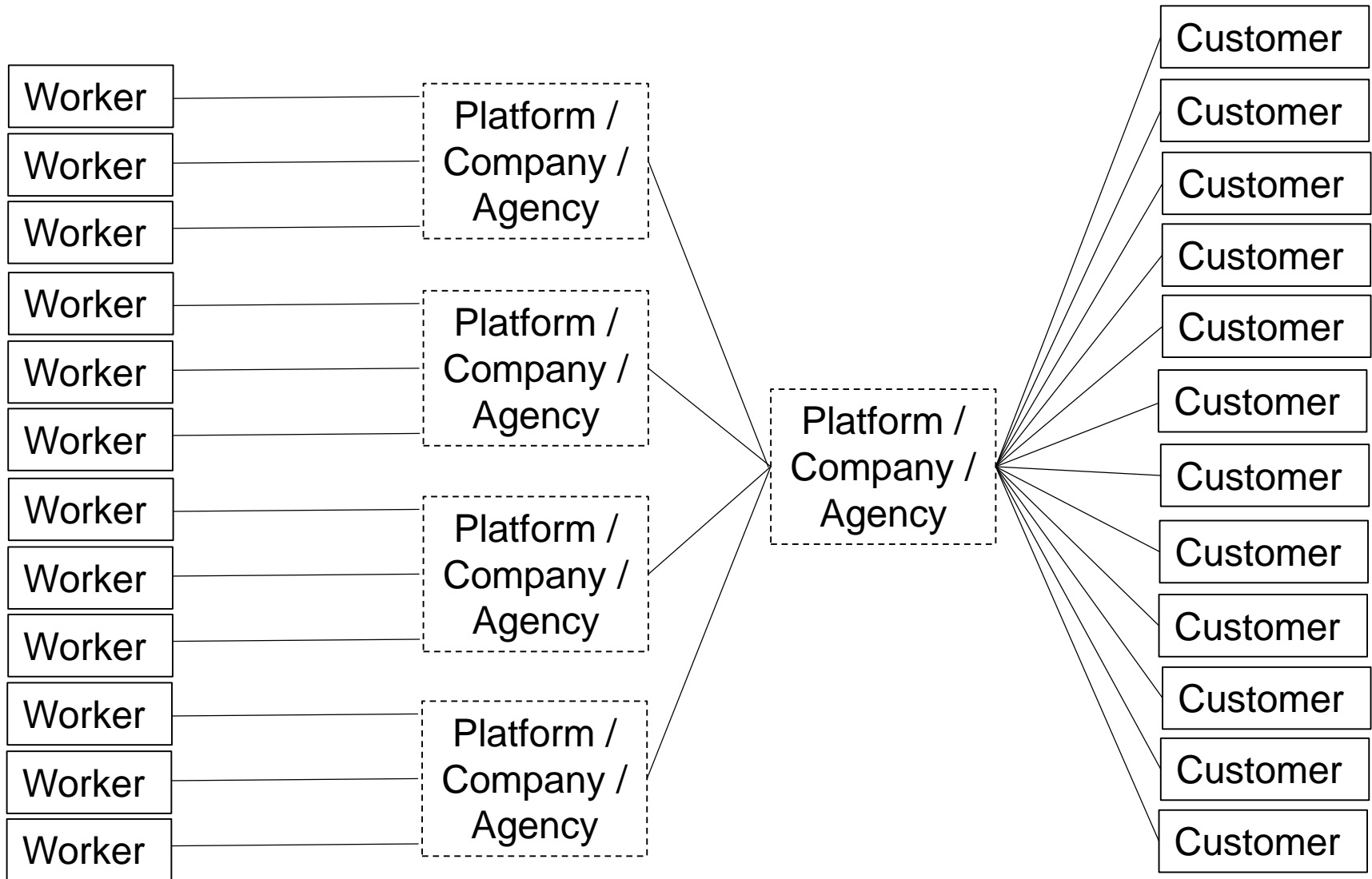
- Increase tax rates on self-employment income, dividends, capital gains
 - And maybe reduce tax rates on employment income

- On its own, this would discourage saving, investment and risk-taking
 - Reform tax treatment of investment, losses, etc. to avoid this
 - Our recent report explains how

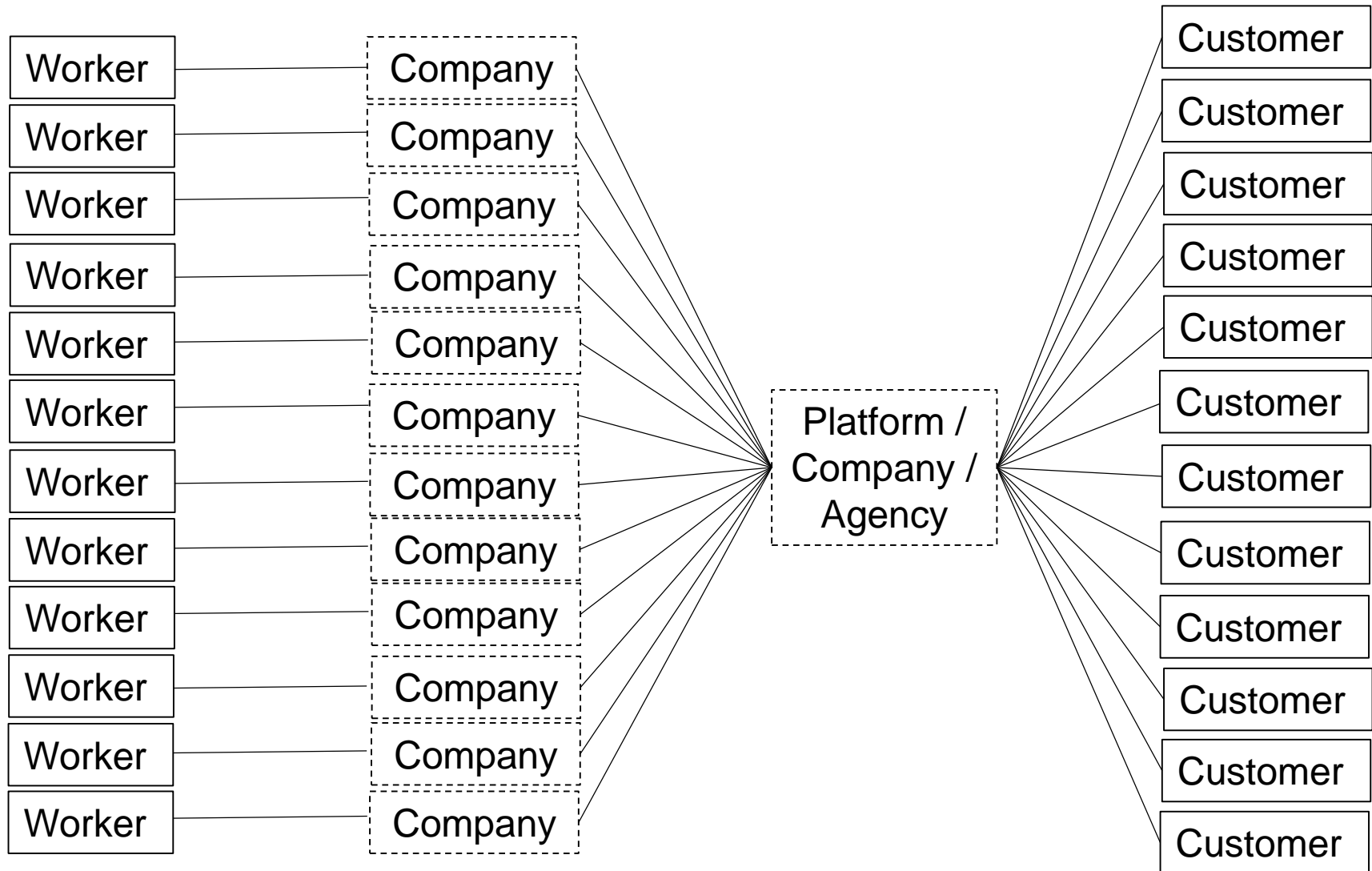
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Incentives for fragmentation

- Separate VAT threshold per trader
- Separate NICs employment allowance per employer
- Separate NICs threshold per job
- From 2023, separate corp. tax small profits threshold per company

- There are already some provisions to counter tax avoidance
 - e.g. ‘artificial separation’ and ‘connected company’ rules
 - Tax evasion is a concern too
- But current rules still allow considerable fragmentation
- Growth of platforms and gig working makes it more important to get policy right

Summary

- Tax should aim to be neutral across different legal and commercial arrangements
 - No reason to favour some structures over others
 - Attempts to draw lines between them lead to distortions, unfairness and complexity
- Align overall tax rates between employment income and business income
 - Alongside reforming tax base to minimise distortions to investment
- Minimise incentives to fragment into mini-businesses
 - Some (relatively) easy wins available here
 - VAT threshold is a harder challenge