

GROWTH THROUGH SHARING ECONOMY WHILE AUDITING ACCORDING TO CURRENT LEGISLATION

Peter Hill Hansen

Malte Thomsen

Danish Tax Administration

2017 December



IOTA

Intra-European Organisation
of Tax Administrations

GROWTH THROUGH SHARING ECONOMY WHILE AUDITING
ACCORDING TO CURRENT LEGISLATION

By Peter Hill Hansen and Malte Thomsen



Peter Hill Hansen
Head of Section
Compliance Department
The Danish Tax Administration (SKAT)
+4572371588
Peter.Hill.Hansen@skat.dk



Malte Thomsen
Head of Section
Compliance Department
The Danish Tax Administration (SKAT)
+4572373711
Malte.Thomsen@skat.dk

Introduction

In recent years, an increasing number of Danish citizens have engaged in sharing economy through the means of digital platforms. The electronic platforms make sharing, interacting and participating in sharing economy instant, easy and widely accessible.

The sharing economy comes in many sizes and shapes and can range from sharing surplus food to finding the appropriate candidate for a minor task. In spite of the vast array of different online platforms and the line of business in which they deal, there is a consensus that sharing economy is beneficial and will have a positive effect on GDP.

On one hand, the new features offered by the technology give opportunities to the consumer. For example, the opportunities offered by the new accessible network on online platforms give the user of the platform much more freedom when for example browsing for available short-term rentals. While on the other hand, this new technology can challenge existing tax legislation, which in some cases was adapted before sharing economy achieved the popularity seen in recent years.

Sharing economy in Denmark

The European Commission estimates that the total consumption on sharing economy platforms in 2015 across the EU was 28 billion euro. In the case of Denmark, 19 % of the population is active in the sharing economy today. In 2016, the most popular forms of sharing economy were renting out property, freight and taxi-like services and ridesharing. The most active Danes in the sharing economy live near or in the larger cities. 37 % of the Danes participating in the sharing economy expect to increase their usage of sharing economy the coming year.

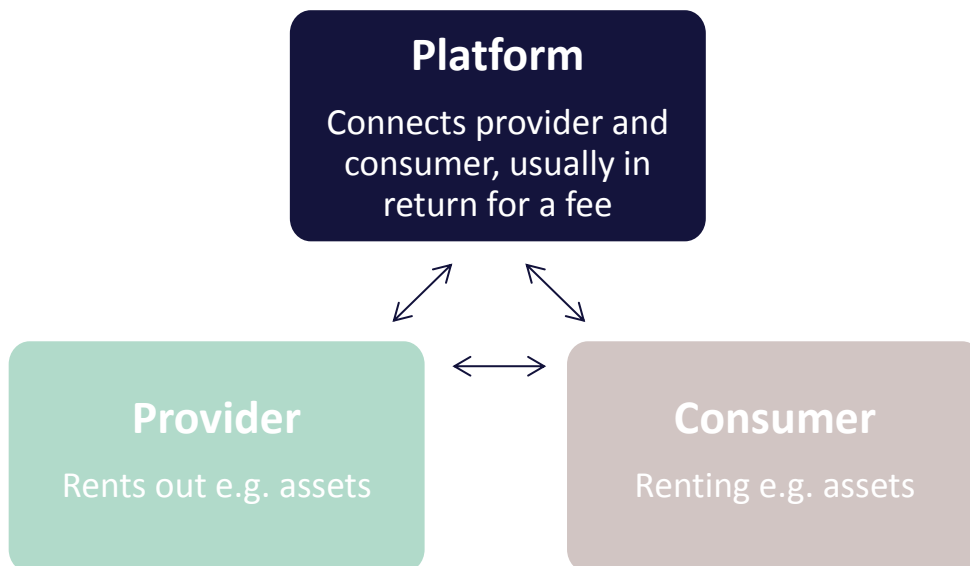
On October 9th 2017, the Danish government presented their strategy to promote sharing economy in Denmark. It is the opinion of the government that sharing economy is part of an international trend on digitisation and internationalisation.

The strategy emphasizes the growth potential in sharing economy and the beneficial effects on environment, private economy and the national economy. Among the many different aspects and forms of shared economy, the main focal points of the strategy are short-term renting out private property, ridesharing and car rental.

Strategy for growth through sharing economy

Three different ministries introduced the strategy on growth through sharing economy: The Ministry of Industry, Business and Financial Affairs, the Ministry of Transport, Building and Housing and the Ministry of Taxation.

The illustration below shows how the Danish government perceives the concept of platform-based peer-to-peer sharing economy. An example is a private individual sharing an excess capacity – for example car, house or time – with another private individual through a digital platform. By sharing, the individual gives others access to the individual’s assets in return for a payment – in the form of monetary payment or other benefit.



It is important for the Danish government to secure the correct payment of taxes. The strategy proposes to increase the basic allowance on the condition that the taxpayer registers with a platform that electronically reports data to the Danish Tax Administration. In this way, the government wants to influence users of sharing economy platforms to use platforms that make it possible to report data automatically to the Tax Administration. This choice was made due to the fact that some of the most popular platforms do not have physical or legal entities with permanent establishment in Denmark. Therefore, placing platforms under an obligation to report data to the Tax Administration would only apply to platforms established in Denmark.

In continuation hereof, the strategy contains an initiative of an electronic solution through which platforms can report data on incomes to the Danish Tax Administration. It will be a prerequisite to report the data to the Danish Tax Administration in order to obtain a higher basic allowance of income from for example short-term renting out private property, car rental and boat rental.

The same day as the strategy was presented, the Danish government launched a [portal](#), which sharing economy businesses can use to access authorities.

Taxation of income from sharing economy in Denmark

The previously mentioned strategy is currently subject to political negotiations. If the initiatives in the strategy are agreed upon, they are due to take effect within a shorter period. Income relating to previous income years is processed according to current legislation.

The Danish Tax Administration has an [online guidance](#) on how income from sharing economy is taxed. Income from sharing economy is taxed within the existing legislation as income from renting out property, ridesharing and private car rental, selling and exchanging goods and services or crowdfunding.

From renting out owned property, there is currently a basic allowance of DKK 24,000 (€3,225) or 1.33% of value of the property per year. From renting out rented property, the allowance is 2/3 of the yearly rent. The online guidance mentioned has a calculator, which helps taxpayers with their income tax return.

Income from ridesharing is only taxable if it is a surplus income from expenses, which are not shared equally. Income from freight and taxi services is taxable, but expenses related to the service are deductible.

Private individuals with income from activities subject to VAT of more than DKK 50,000 (€ 6,725) over a period of twelve months are obliged to register as an independent business with the Danish Business Authority.

The challenges from the point of view of a tax administration in dealing with this form of economy range among many different aspects from the risk of tax avoidance, tax regulation arbitrage to enforcing and sanctioning violations of tax avoidance. On this note, the Danish Tax Administration received data from an EU multilateral control (MLC). From the raw data, 1,793 individuals were identified. As of September 30th 2017, changes were made in VAT and taxes in 99% of the cases.

Furthermore, the Danish Tax Administration uses publicly available data from sharing economy platforms to audit income from sharing economy. A combination of different tools is used to extract these data.

At the same time, the Danish Tax Administration monitors the development of sharing economy and participates actively in a wide range of international forums, which deals with different aspects of the mentioned risks and possibilities that the sharing economy brings to light.