

Taxation Models and Improvement Proposals for Personal Income Tax in the Sharing Economy

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Abstract: As an innovative economic model, the sharing economy has seen rapid growth globally in recent years. It has not only brought a profound impact on traditional economies but also injected new vitality and momentum into the sustainable development of the social economy. However, for the sharing economy, the process of collecting personal income tax is facing several issues, such as the ambiguity of tax policies regarding personal income, challenges in identifying taxpayers, and difficulties in defining income. To achieve the fairness and efficiency of personal income tax collection in the sharing economy, this study proposes optimized regulatory mechanisms and conducts in-depth discussions on the adjustment of personal income tax policies, innovation in tax management technology, and improvement in the quality of personal income tax services.

Keywords: Sharing economy; Personal income tax; Taxation models

Online publication: July 10, 2024

1. Introduction

With the rapid advancement of Internet technology, the sharing economy, an innovative economic model, has emerged globally and expanded quickly. In China's sharing economy sector, significant achievements have been made, with the incubation of outstanding sharing economy enterprises such as Didi Chuxing, Meituan Homestay, and Mobike. Additionally, the market transaction scale is continuing to grow ^[1]. According to the "2023 China Sharing Economy Development Report," China's sharing economy market transaction volume in 2022 was estimated at 3.832 trillion yuan, representing an increase of approximately 3.9% compared to the same period in 2021 ^[2]. People's Forum Online reports that the current total number of people employed in the sharing economy is estimated at around 80 million to 100 million. However, while the sharing economy boosts employment, the collection process of personal income tax faces several challenges, such as ambiguity in tax policies regarding personal income, difficulties in identifying taxpayers, and challenges in defining income boundaries. These issues not only led to significant losses in personal income tax revenue but also brought the principle of tax fairness, resulting in an imbalance in tax burdens between traditional and sharing economy businesses. Therefore, the study focusing on the personal income tax issues in the sharing economy is important

for increasing national fiscal revenue, achieving fairness in citizens' taxation, and ensuring fair competition and healthy development among businesses across different industries.

This study analyzes relevant concepts relating to the sharing economy and personal income tax collection, discusses the current status and challenges of personal income tax collection in China's sharing economy sector, and finally proposes an optimized strategy for the collection of personal income tax in the sharing economy sector. The aim is to ensure fairness and efficiency in the collection of personal income tax in the sharing economy, thereby promoting the stable growth of the sharing economy.

2. Analysis of related concepts of personal income tax collection in the sharing economy

2.1. Definition and characteristics of the sharing economy

According to China's National Information Center, the sharing economy is a new business model that leverages Internet platforms to optimize the allocation of distributed resources. It promotes innovations in asset ownership, organizational forms, employment patterns, and consumption methods to enhance asset utilization efficiency and improve people's lives ^[3].

The sharing economy exhibits the following notable characteristics:

- (1) Network platforms: The operation of the sharing economy relies on advanced internet technology, particularly mobile network technology, enabling real-time and efficient information exchange between supply and demand parties.
- (2) Underutilized resources: The essence of the sharing economy is to discover and utilize underutilized resources in society to enhance resource utilization efficiency. These resources span a wide range of elements, such as goods, spaces, skills, and time.
- (3) Heterogeneous demand: Collaborative consumption models effectively cater to users' dispersed needs in specific times and spaces. Consumers can freely choose services based on their specific needs, fulfilling their unique consumption requirements.
- (4) Reputation system: Sharing economy platforms have established comprehensive reputation systems that encompass various aspects such as real identity verification, credit evaluation, and risk assurance.

These strategies effectively reduce potential losses for both parties in a transaction and contribute to the smooth progression of the transaction process.

2.2. Principles of personal income tax collection

The principles of personal income tax collection serve as the core elements of the tax system and play a key role in ensuring fairness, reasonableness, and efficient collection of personal income tax. The principles of personal income tax collection can be summarized as follows:

- (1) Taxpayer identification: It includes Chinese individuals and non-resident individuals, who have no domicile and have resided in China for less than 183 days in a tax year.
- (2) Calculation methods: For different income sources, there are two methods of classified and consolidated taxation. The former includes wages and salaries, individual industrial and commercial business operations, and the contracting and leasing of enterprises and institutions. The latter mainly covers income from royalties, property leasing, and others.
- (3) Tax rate principle: It mainly includes progressive and constant tax rates. It belongs to the progressive tax rate for labor compensation income, individual business income, and contracting or leasing income from enterprises and institutions. The constant tax rate is for royalties, property leasing, and other sources.

- (4) Tax base principle: It includes wages and salaries, individual business income, income from contracting and leasing, royalties, income from intellectual property usage, and income from property leasing, among other categories.
- (5) Tax deductions: When calculating taxable personal income, necessary expenses may be deducted ^[4], such as basic pension insurance and medical insurance, unemployment insurance, housing rent, etc.

3. Current situation and issues of personal income tax collection in the sharing economy in China

3.1. Unclear taxpayer identification leading to inefficient personal income tax administration

The efficiency of personal income tax management is significantly affected by the ambiguity in taxpayer identification. This uncertainty arises not only from the complex legal relationships between platform companies and participants but also from the diversity of income distribution and the geographical span of services ^[5]. The following examples illustrate this topic in detail. For instance, the rapid growth of online education in recent years has seen many teachers joining various educational platforms to provide online teaching support. However, some teachers may only offer part-time or temporary services and may not reach the income threshold for taxation; meanwhile, others may earn a consistent income through these platforms and should bear the corresponding tax responsibilities. Given the unclear legal status between the educational platforms and the teachers, tax authorities face significant challenges in determining which teachers should be considered as personal income taxpayers. As many industries and business models shift from the traditional “company-employee” structure to the “platform-individual” structure, tax authorities find it challenging to define the taxpayers, resulting in a significant decrease in personal income tax revenue and an increase in tax administration challenges.

3.2. Difficulties in determining the nature of platform seller income lead to unfair tax burden between new and traditional industries

The income of sharing economy service workers (referring to those who are not employees of the platform and have not signed labor contracts with the platform company) lacks clarity due to the varying nature of their economic activities. It is challenging to categorize their income as either labor service income or business income ^[6]. For example, in the case of ridesharing services, the income includes not only labor service but also car rental for personal use. The current laws do not clearly specify whether this income should be classified as labor remuneration or business income. Similarly, the sharing accommodation platforms attract consumers by integrating accommodation, cleaning services, dining, and transportation services. These diversified services may involve different tax rates. In the absence of appropriate guidelines, determining the nature of rental income becomes a complex issue.

3.3. Cross-regional transactions lead to regional personal income tax shifting and tax evasion

Under the collaborative consumption model, the movement of various resources across regional boundaries has become increasingly frequent and large-scale. Given the current lack of full transparency and information sharing in tax systems across different regions in China, tax authorities face difficulties in conducting real-time accounting and auditing. For instance, Didi Chuxing’s headquarters is located in Beijing, the capital of China, yet its business covers numerous cities across the whole country. Under the current regulations regarding permanent establishments, this situation may lead to the concentration of more funds in the Beijing region, further exacerbating the imbalance in the distribution of personal income tax across regions. In certain

multinational companies, due to differences in regional tax principles, there may be agreements to allocate artificial costs as a means of avoiding personal income tax collection and management.

4. Challenges of personal income tax collection in China's sharing economy

4.1. Difficulty in obtaining taxpayer information

In the sharing platform sector, the number of individual practitioners is growing exponentially. According to People's Tribune, it is estimated that the number of people working in the sharing economy is between 80 million and 100 million. Despite the large scale of practitioners in the platform economy, very few pay personal income taxes, and tax compliance is extremely low ^[7]. This is primarily because most practitioners have not completed tax registration and can easily conduct business activities by simply registering their real identity information on the relevant platforms. Tax authorities have difficulty obtaining major tax-related information on practitioners. According to the current "Tax Collection and Administration Law," only a general framework for sharing third-party tax-related information is provided without specific implementation mechanisms ^[8]. Consequently, platform companies do not proactively submit relevant tax information to tax authorities to attract sellers, and from the taxpayers' perspective, they are unlikely to voluntarily report their income if the tax authorities do not know how much income the taxpayers have earned from different sources. Therefore, tax authorities face a series of challenges in obtaining taxpayer information.

4.2. Difficulties in determining tax categories

In the process of identifying value-added tax categories, the blurring of industry boundaries caused by the sharing economy makes it difficult for taxpayers to apply the appropriate tax categories accurately ^[9]. For instance, in the "Mama's Cuisine" sharing platform operating model, consumers use a mobile APP to find local moms and their prepared dishes, placing orders as desired. The platform then transmits the relevant order information to the suppliers. The fees paid by consumers cover the costs of the platform's information service, ingredient purchases, labor output, and product delivery, among other costs. The tax-related issues surrounding these payments involve defining the taxpayer, allocating the tax base, applying tax rates (including collection rates), and calculating taxable amounts. These challenges are difficult for both the tax collection and management sides to handle. In the process of categorizing personal income tax, the diversity of the relationships between sharing platforms and resource providers increases the complexity of tax category determination ^[10].

4.3. Difficulty in dividing tax jurisdiction

In the sharing economy's new business model, the nationwide coverage of a platform service breaks the traditional geographic constraints, resulting in transaction activities spread across various regions and taxable income concentrated in the region where the platform is located. This leads to a disconnection between tax and tax source ^[11].

Disputes over tax jurisdiction among the taxpayer's place of residence, the location of the taxable activities, and the tax authority at the platform's location have gradually evolved into phenomena such as competition for tax resources and tax management vacuums. In the context of local governments seeking to maintain a solid local fiscal foundation, various strategies may be implemented, such as offering tax refund policies to guide tax sources to settle locally or requiring online platform companies to establish branch offices locally before conducting business and ensuring the taxes generated by these branches stay local. These practices disrupt the orderly conduct of economic trade and lead to the disordered distribution of tax sources across regions.

5. Improvement suggestions for personal income tax collection in the sharing economy

Given the rapid rise of the sharing economy, China's traditional personal income tax collection and management methods face significant challenges. To ensure proper regulation and promote the integration of emerging and traditional economies, relevant suggestions are shown in the following subsections.

5.1. Confirming the legal status of sharing economy business models

To promote industry prosperity, the primary task is for government departments to clarify the legal status of the sharing economy, providing robust legal and policy support for the field. For example, in 2017, China's National Development and Reform Commission and seven other ministries issued the "Guiding Opinions on Promoting the Healthy Development of Sharing Economy," which already affirmed the legality of the sharing economy as a new economic form. In the ride-hailing and bike-sharing sectors, the Chinese government has formulated corresponding industry norms and regulatory measures that clarify the responsibilities and qualification standards of operational entities and practitioners ^[12].

Ultimately, government departments should incentivize sharing economy companies to comply with laws and regulations while allowing them to enjoy corresponding personal income tax exemptions. By clarifying the legal status of the sharing economy, establishing industry norms and regulatory measures, and improving the social security system for practitioners, the government can encourage individuals to voluntarily pay taxes and companies to operate in compliance, ultimately promoting the healthy development of the sharing economy.

5.2. Improving the information management mechanism for sharing economy personal income tax governance

For personal income tax management in the sharing economy sector, relevant departments need to optimize and deepen the tax-related information management system to ensure the efficiency and cost-effectiveness of tax governance. Given the networked, virtual, and paperless nature of sharing economy transactions, all parties involved naturally rely on information to operate effectively ^[13].

For platform companies that specialize in matching, reselling, or providing third-party integrated services, tax authorities can leverage these platforms' governance capabilities and resource advantages. By selecting a few large and regulated platform companies as pilot units for personal income tax withholding or collection based on their business type and corporate credibility, or through regulatory provisions that require platform companies to provide tax-related information on platform sellers to tax authorities, tax authorities can effectively collect taxes from practitioners.

5.3. Building a unified social credit platform to advance personal income tax governance

In China, it is a viable approach to building a comprehensive social credit system to modernize personal income tax management. Personal income tax credit in the sharing economy is related to the overall social credit system, representing a subset within the whole country. The Chinese government needs to integrate personal income tax credit in the sharing economy into a unified social credit management system. Given the "intermediary virtualization" characteristics of the sharing economy, there should be more focus on the social credit foundation for personal income tax governance. In recent years, China has been gradually constructing integrated social credit management systems in areas such as transportation and financial services ^[14]. However, this is not sufficient. China needs to continue efforts to eliminate "barriers" in computer systems and data information among government departments, internal and external institutions, and individuals. Through government guidance, promoting collaboration between institutions and individuals to build a unified and shared social credit platform can regulate personal income tax payment credit behavior among market participants at a broader and higher level.

5.4. Establishing a personal income tax collection and management system adapted to the sharing economy

Given the characteristics of the sharing economy, tax authorities need to build a personal income tax collection and management system tailored to this new business model, focusing on the following tasks: First, promptly supplement and refine the personal income tax system. This can include categorizing current tax collection methods, and addressing issues such as tax type mixing and difficulties in tax item identification^[15]. Additionally, promote the use of information technology in personal income tax management by developing, designing, and formulating software and standards specifically tailored to the sharing economy sector to provide technical support. Furthermore, address personal income tax management issues from the perspective of the financial flow system. This can involve implementing dynamic monitoring by the tax bureau's sharing economy audit department to prevent tax evasion and combat tax avoidance.

6. Conclusion

This study presents the current state of personal income tax collection in the sharing economy sector and proposes optimization strategies to promote the stable development of the sharing economy. The research found that the sharing economy affects traditional tax collection methods, with issues such as unclear taxpayer identities, uncertain tax rates, and tax transfers across regions due to imperfect tax systems hindering its development. To address these problems, the study recommends establishing the legitimacy of sharing economy business models, optimizing information management, building an integrated social credit platform, and creating a personal income tax management system suitable for the characteristics of the sharing economy. These measures aim to optimize tax policies, promote the mutual growth of the sharing economy and tax management, and meet the tax collection needs of future expansion in the sharing economy.

Disclosure statement

The author declares no conflict of interest.

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