Participants in the Sharing Economy Lack Adequate Guidance From the IRS

June 20, 2018

In my most recent Annual Report to Congress, I included the IRS’s efforts to reach out to participants in the sharing economy (also known as the “gig economy”) as a Most Serious Problem. Proponents of the sharing economy believe it promotes marketplace efficiency by enabling individuals to generate revenue from assets while the assets are not being used personally. For example, a vacation home owner may rent out her home while she is not using it.

First, let me set forth some working definitions for terms that are often used while describing sharing economy transactions. Typically, there are three parties involved in a sharing economy transaction – service providers (the freelancers who provide the goods or services), service recipients (the consumers of such good or services), and service coordinators (the third-party platforms that facilitate the transactions).

According to a Pew Research Center survey, nearly a quarter of the U.S. population earned money from the sharing economy. Revenue from the sharing economy is projected to increase from $15 billion internationally in 2013 to $335 billion by 2025.

Although the sharing economy may be growing at a healthy rate, I want to make clear that not all service providers in the sharing economy are finding it to be a very lucrative endeavor. On the contrary, data show that the vast majority of service providers – 85 percent – earn less than $500 per month from their gigs. When taxpayers take on multiple gigs to help make ends meet, and receive information reporting from multiple service coordinators, it makes tax compliance even more difficult.

Understandably, some new service providers may not fully comprehend their tax filing obligations. These new entrants to the sharing economy will need to spend significant time learning about their tax compliance obligations and devote many hours to recordkeeping. For example, the IRS estimates that it takes taxpayers nearly 40 hours to learn about depreciation methods, keep records, and report the depreciation to the IRS. Yet, according to a recent survey conducted by NASE, 69 percent of entrepreneurs who participate in the sharing economy received absolutely no tax guidance from the service coordinators.

The NASE survey results underscore the importance of educating sharing economy participants about certain basic tax obligations (i.e., making required quarterly estimated payments throughout the year to avoid penalties). There is an opportunity to create a culture of tax
compliance among participants in the sharing economy from the outset. Establishing the tax compliance norms for this emerging industry in its infancy will assist the IRS as this segment of taxpayers grows.

This leads us to the question, “What exactly can the IRS do to help sharing economy participants comply with their tax obligations?” If we operate under the premise that most taxpayers want to comply with the law, the IRS needs to expand its presence within the sharing economy to enable that compliance. In my 2017 Annual Report to Congress, I described several ways the IRS can provide improved taxpayer service to this growing sector.

One easy way is for the IRS to repackage existing content and tailor it for participants in a sharing economy. For example, the IRS currently releases Publication 527, Residential Rental Property, and Publication 463, Travel, Entertainment, Gift, and Car Expenses, each year. While these publications contain helpful information, an Airbnb host would have to sift through the 24-page Publication 527, and an Uber driver would have to navigate through the 50-page Publication 463, and they still might not understand how these rules apply to themselves as service providers in a sharing economy. The new publication for sharing economy participants need not be long and all-encompassing, but it should cross reference other IRS publications that provide more detail on these and a few other issues that are relevant to service providers in a sharing economy.

In addition, the IRS should consider developing a one-page brochure or flyer that touches on some very basic points relevant to service providers in a shared economy. This brochure could contain a link to the new publication on the sharing economy. In its responses to similar recommendations I made in the 2017 Annual Report to Congress, the IRS declined to develop a one-page brochure, noting that “the Sharing Economy Tax Center contains a wealth of information, including links to available resources for those participating in the sharing economy industry.”1 Because we believe this is a good idea, TAS will develop a one-page Consumer Tax Tips on the Gig Economy and continue to advocate for a dedicated publication.

Because the IRS has not issued industry-specific guidance outlining the common tax issues faced by participants of the sharing economy, many service providers have turned to the internet to ask tax-related questions. For example, an Uber driver may engage in an online forum where he can share information about or solicit advice on a wide range of topics.

There are certain advantages that these online forums enjoy over traditional sources of tax content. Online discussion forums can provide a real-time picture of the tax and related issues that concern sharing economy service providers, and elicit responses from other forum

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1 The IRS responses to the 2017 Most Serious Problem Recommendations will be published in Volume 2 of the National Taxpayer Advocate’s Fiscal Year 2019 Objectives Report to Congress.
members who may have had similar experiences. The anonymous nature of these forums may cause forum participants to be more candid and forthright than they might be in face-to-face discussions.

However, there are some major risks for service providers in the sharing economy in relaying on information or advice obtained from online forums. The information or advice may be incorrect, yet accepted by the group as correct. This can easily occur when the facts of one taxpayer’s circumstances differ in a slight, but significant, way from the situation discussed in an online forum. Furthermore, anti-government/anti-IRS sentiment may skew the forum discussion, to the point where high-risk tax-avoidance techniques may be accepted as norms.

Rather than ignore the existence of these online forums and the benefits they provide, the IRS may want to take an active role in such discussions. Certainly, the IRS could not provide specific tax advice through online forums and discussion groups, but it could answer general questions, link to the IRS website for relevant information, and provide the phone number for IRS assistors when appropriate. If the IRS wanted to be even more helpful, it could designate liaisons to monitor online forums to identify emerging issues. A benefit of these exchanges is that the IRS will learn about specific challenges and issues facing this segment of the economy and thereby do a better job of tailoring its guidance for both taxpayers and IRS employees.

It is clear there is a segment of the sharing economy that seeks guidance on how to comply with their tax obligations. By proactively engaging in the discussion, the IRS can positively shape the norm for participants in the sharing economy.

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