



Lodging Taxation In the Sharing Economy

FTA Technology Workshop

August 2016
Pittsburgh, PA



Agenda



- Problem Statement and Background
- Characteristics of the Sharing Economy
- Responses for State Tax Agencies
- Pennsylvania's Online Home Sharing Tax Compliance Initiative
- Next Steps

The Challenge

The “underground economy” is evolving driven by our connectedness using mobile technology. Now use of personal assets (including homes and cars) competes with traditional businesses for customers.

The Response

Our agency promotes the fairness of the tax system by assuring that “emerging entrepreneurs” are informed of their tax obligations and brought into tax compliance.

Pennsylvania Hotel Occupancy Tax

The hotel occupancy tax, imposed at the same rate as sales tax, applies to room rental charges for periods of less than 30 days by the same person.

Imposed on the “operator.” Intermediaries or brokers are not operators.

Pennsylvania local hotel taxes

Counties impose hotel excise taxes separate and apart from the state hotel tax. However, taxpayers view these taxes together in their planning.

What do all these events have in common?

- July 2013: 150th Anniversary of the Battle of Gettysburg in Gettysburg, PA
- September 2015: Papal visit to Philadelphia, PA
- June 2016: U.S. Open in Oakmont, PA
- July 2016: Democratic National Convention in Philadelphia, PA
- Annual events: National Car Shows in Carlisle, PA

Demand for rooms may exceed room capacity of hotels and motels. Individuals supply more rooms.

Characteristics

- Conventional online communities B2B; moving to individuals C2C or P2P
- Note ebay's place as the first major C2C business
- Online networks and mobile connectivity permit realization of asset or skill value by owners and/or service providers
- Harvard Business Review alters the label to "access" from "sharing" economy, especially when the marketplace involves a intermediary

Types of businesses

- Real property or home sharing
 - Examples – Airbnb, HomeAway, Onefinestay, Flipkey
- Ride sharing
 - Examples – Uber, Lyft, Haxi
- Personal car rental
 - Examples – Turo, Getaround, JustShareit, Zipcar
- Delivery services
 - Example – Myways, UberEATS

Types of businesses

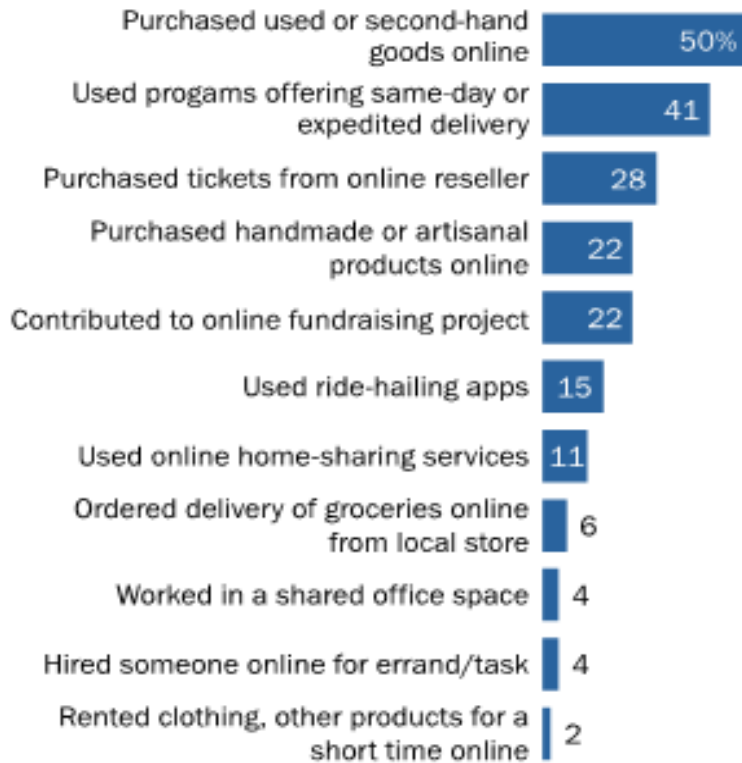
- Chores and handyman services
 - Example – Taskrabbit
- Peer-to-peer lending
 - Examples – Lending Club, Prosper

Sharing Economy



72% of Americans have used some type of shared or on-demand online service

% of adults who have ...



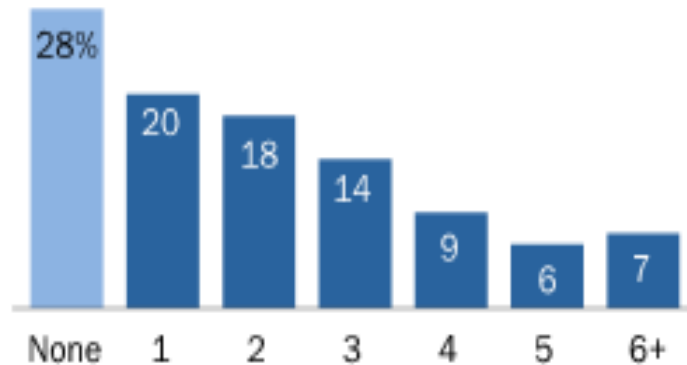
Shared, Collaborative and On Demand: The New Digital Economy

Aaron Smith
May 19, 2016

Pew Research Center

But exposure to these services varies widely

% of adults who have used ... of these services



Source: Survey conducted Nov. 24-Dec. 21, 2015.
"Shared, Collaborative and On Demand: The New Digital Economy"

PEW RESEARCH CENTER

Shared, Collaborative
and On Demand: The
New Digital Economy

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Sharing Economy

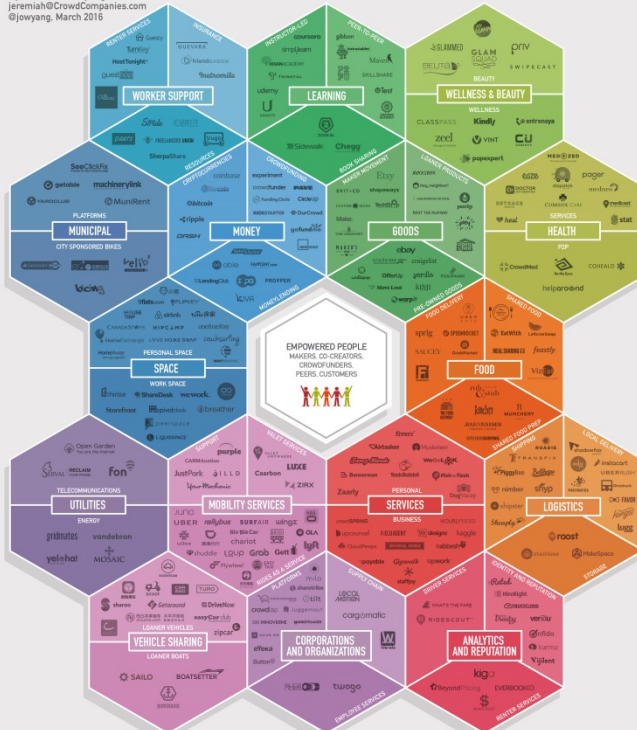
Collaborative Economy Honeycomb Version 3.0

The Collaborative Economy enables people to get what they need from each other. Similarly, in nature, honeycombs are resilient structures that enable access, sharing, and growth of resources among a common group.

In the original Honeycomb 1.0, six distinct categories of startups were represented by the inner track of hexes. After a short period of time, Honeycomb 2.0 expanded to include six additional categories, placed on the outer perimeter.

In the new Honeycomb 3.0, four hexes are added on the corners of the graphic for a total of sixteen: Beauty, Analytics & Reputation, Worker Support, and the large Transportation hex is split into two distinct hexes.

By Jeremiah Owyang
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©jowyang, March 2016



With input from:
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 CROWD
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www.crowdcompanies.com

The sharing economy is an extremely complex set of economic and social connections

Collaborative Economy Honeycomb 3.0 (handout available)

By Jeremiah Owyang
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March 2016

Challenges and Evolving Change

- Assuring the marketplace
- Regulatory requirements
- Insurance
- Identity verification/validation for participants
- Future impacts of technology and automation (example – ride sharing)
 - Autonomous cars – are drivers part of this ride sharing's future by 2020?
 - For that matter, what does taxi service look like in 2020?

Short-term – the “leaders” are NOT upstarts

- Gauge impacts for state and local taxes. In PA, both state and counties impose hotel taxes.
- Intermediaries/Brokers – initial conversations
- Outreach and education
 - Working with the traditional industry to assure a level playing field for state taxes
 - Address lack of knowledge
 - Alert individuals to their expanded obligations including transaction and income taxes
- Register and collect from the new individual taxpayers, the “emerging entrepreneurs”

Long-term

- Voluntarily register intermediaries / brokers to collect / remit state taxes to minimize non-compliance by individual business partners
- Propose legislation to expand or shift the incidence of taxation and / or collection requirement to include intermediaries or brokers
- Assure appropriate information reporting (1099)
- Research and planning for voluntary compliance programs with other sharing economy sectors.

Online Home Sharing Compliance Initiative

- Research
- Compliance notices / billings
- Registration of on-going businesses
- Enforcement for non-respondents
- Continuing outreach and education

Online Home Sharing Compliance Initiative

- Research
 - Identify intermediaries / brokers
 - Identify individual businesses / entrepreneurs
 - Listings online
 - Receipt of information returns
 - Determine the business activity dollar value of each individual
 - Review tax compliance for PA Hotel Occupancy Tax ("HOT") and income tax

Online Home Sharing Compliance Initiative

- Compliance notices / billings
 - Fold this activity into PA Revenue's standard tax discovery program
 - Initial information notice to confirm business activity
 - Offer taxpayers to come into voluntary compliance by paying prior delinquent HOT and register to collect future taxes
 - Penalty abatement is a "carrot" to encourage compliance
 - Billing sent for payment of delinquent tax and interest

Online Home Sharing Compliance Initiative

- Registration of on-going businesses
 - “Operators” must register to collect Hotel Occupancy Tax according to PA law
 - Intermediaries are not “operators”
 - In lieu of broker/intermediary voluntary collection, individual operators must register, collect and remit PA HOT
 - If operators list only with intermediaries who are voluntarily register for and collect and remit HOT, the operators may avoid any direct obligation.

Online Home Sharing Compliance Initiative

- Enforcement for non-respondents
 - Assessments based on actual home sharing activity and value
 - For HOT
 - For PA personal income tax
 - Both resident and non-residents included
- Standard due process – 90 days to appeal
- Delinquent collection workflow including telephone contact, liens, levy and private collection agency referral

Program Performance

- 2,550 voluntary compliance notices
- 796 bills for \$1.27 million
- 564 payments for \$786 thousand

Airbnb is collecting for its hosts/partners in Pennsylvania effective July 1, 2016.

- Online Home Sharing Program rather than project
 - Establish annual research/billing cycle
 - Broaden outreach and at-source collection
- Research continues for other Sharing Economy programs
 - Car rentals, parking, package delivery, even chores or handyman services
 - Policy considerations – when does a hobby or personal interest become a business?
 - Legislation – adjust tax applicability while considering ease of compliance

Questions for consideration/discussion

- Shared economy workers are referred to as “side-giggers.” They do not always self-identify as “business-owners.”
 - Who in this group owes state and local taxes?
 - How do state and local tax administrators work to build tax compliance among this group?
 - For income tax including quarterly and annual payments and return filing?
 - For transaction taxes including sales, use and hotel taxes?

Questions for consideration/discussion

- Labeling the business sector we are calling the “Sharing Economy”
 - US Dept. of Commerce suggested a change to the label for the companies at the fulcrum – “Digital Matching Firms.”
 - The Sharing Economy is also known as the “Disruptive Economy”
- We need to identify and explore all the new business sectors involved and the role they play in the Sharing Economy (e.g., Breeze sells cars to ride sharing drivers)

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