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THE GIG ECONOMY: CHALLENGES FOR TAX SYSTEM

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Abstract

Tax system in this modern day is inherently complex and dynamic in nature coupled with the fact that it is being influenced by a variety of factor. The main objective of this study is to evaluate tax compliance in the gig economy: the need for transparency and accountability. Using the Saunders' Research Onion layers, the study employed the use of quantitative data and qualitative data. Structured questionnaire and interview were used as data instrument. Data collated were coded and then subjected to analysis. The result of the findings shows that 66.6 % of the respondents strongly agreed to tax compliance. The findings of the study also shows that 33.3% strongly agreed, agreed, disagreed and strongly disagreed that tax system does not take gig economy into consideration while designing it. The result also shows that challenges being faced by gig workers in reluctance to tax payment include poor communication from tax authority, platform not doing enough and social norms. Conclusively, tax systems did not put gig economy into consideration when been designed.

Keywords: Gig economy, Gig worker, Tax system

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Introduction

Tax system in this modern day is inherently complex and dynamic in nature coupled with the fact that it is being influenced by a variety of factors (Tran-Nam, 2016). Operations and processes within tax system, society and its attitudes and interactions with tax authorities, cross border transactions, technological developments and international economic integration been presented as challenges to tax system to operate efficiently and effectively (Tran-nam, 2016).

Abraham et al. (2018) posited that the term gig has its origin from the music industry where it was known that independent musicians would record one or two songs and then perform these songs with no expectation of future work. The term "gig economy" which later came up again was then referred to as work doled out in bites and pieces and obtained through an online platform. Riggs et al. (2019) opined that the word gig has been misused to mean variety of terms, such as informal, precarious, non-traditional, or contingent work coupled with varying shades of meaning. What is economy (20216) defined gig economy as free market system characterized by temporary positions, organizations contract and independent workers for a short-term engagements. In Ireland and the UK, the term "gig" economy is defined as an app-based services done on demand and on location (Euofound, 2018). While countries such as

Italy, Finland and Austria, defined “gig economy” in relation with the definition given by Abraham et al. (2018) (Eurofound 2018).

Gigworkers are identified to be among the unincorporated self-employed who are not paid a wage or salary, do not have an implicit or explicit contract for continuing the work relationship, and do not have a predictable work schedule or earnings (Abraham et al., 2018). According to Puseep (2019), as a gig worker, an individual tends to be flexible with an adjustable work life. The objective of being a gig worker is to have the ability to have control over time and have a high degree of independence. Sinicki (2019) highlighted four key features that define a gig worker and they are, high degree of autonomy, short-term relationships to customers, payment by task or service and being connected and employed through a digital platform.

Gigeconomy has many advantages for many companies based on the fact that most of these companies are tapping into gig workers as a part of their workforce. In addition, it also increases their flexibility especially for IT and Business firm, reduced labor costs and a potential revenue increase (Hill, 2016; Deloitte Insights, 2016). Poon, (2018); Storey et al. (2018); Taylor and Joshi (2018) also highlighted lower cost, labor at demand as benefits employers can expect to gain from using gig workers

In contrast to the involved benefits, one might argue that the growth of the gig economy could be harmful to many industries, as they lose employees to the gig economy and in turn lose competencies as well as face increased competition. Furthermore, not having accurate measures of the gig economy will make it difficult to actually monitor changes or determine its effects or impacts on the economy. In addition to this, the unique nature of gig work has posed new challenges for tax system. Current laws and regulations, designed for traditional form of employments are not always well-equipped to handle how gig economy works or functions. Thus, creating challenges in terms of tax classification where incomes are not reported leading to tax revenue reduction.

There are information on gig economy, however, looking at gig economy from the perspective of the challenges for tax system are relatively few. Even though some studies has attempted to evaluate challenges in gig economy but most of these papers neglected the challenges associated with it in the tax system as most of these papers are more interested in the actual level of gig work. Thus, the need for this study to look in to Gig Economy: Challenges for Tax System.

Methodology

Research Philosophy

This research employed Interpretivism approach based on the fact that the study is focused on the idea and different perspectives of respondents.

Research approach

This research study employed Exploratory research which involves researching a wide range of topic to understand the scope of the work and also made use of and interviews in order to explore multiple areas of the study.

Quantitative data

This information was collected through questionnaire.

Qualitative data

For this data extraction, semi structured interviews was used. This was done through the conduction of structured interviews to know their perspectives and experiences with tax systems.

Data collection instruments

Structured questionnaire and interview schedule was used in the primary data generation exercise. Secondary data from textbooks, journals, books, newspaper article and reliable internet sources were also collected and properly cited.

Online survey

Survey methods was used in the collection of quantitative data. This form of data extraction known produce a piece of inherently statistical information. This form of survey is valuable for studying issues such as public opinions.

Online Interviews

A semi-structured interview guide was developed. The developed interview protocol consist of an introductory section, questions of investigations, and an open-ended questions based on the literature about the topic.

Research Technique Validity and Reliability

The validity of the structured questionnaire/interview schedule was examined by experts. Based on the examination of the questionnaire alongside with the objectives. The new modifications of the research instrument was then grounded on the comments of the experts before being used for data collection.

Ethical considerations

Matter of privacy was considered for this study by allowing anonymity of the participants and also gave them the option to be able to withdraw any information they do not wish to disclose. The participants were also aware of what to expect and prepare for regarding what information they wanted to disclose during the interview. Information used in this research paper was also approved by the participants.

Results

Table 1: Demographic Characteristics of Gig workers

Variables		Frequency (N=15)	Percentage (%)
Gender	Male	8	53.5
	Female	7	46.6
Age	20-24	1	6.6
	25-29	2	13.3
	30-34	7	46.6
	35-39	2	13.3
	> 39	3	20.0
	Total	15	100
	Education level	High school	0
	Diploma	1	6.6
	B.S/B.A	7	46.6
	M.S/M.A	7	46.6
	PhD	3	20.0
	Total	15	100
Gig works	Online marketing	7	46.6
	Affiliate marketing	3	20.0
	Writer	1	6.6
	Delivery	2	13.3
	Uber	1	6.6
	Others	1	6.6
	Total	15	100
Years of Experience as gig worker	1-3	3	20.0
	4-6	4	26.6
	6-8	6	40.0
	>8	2	13.3
	Total	15	100

(Source: Field Data, 2022)

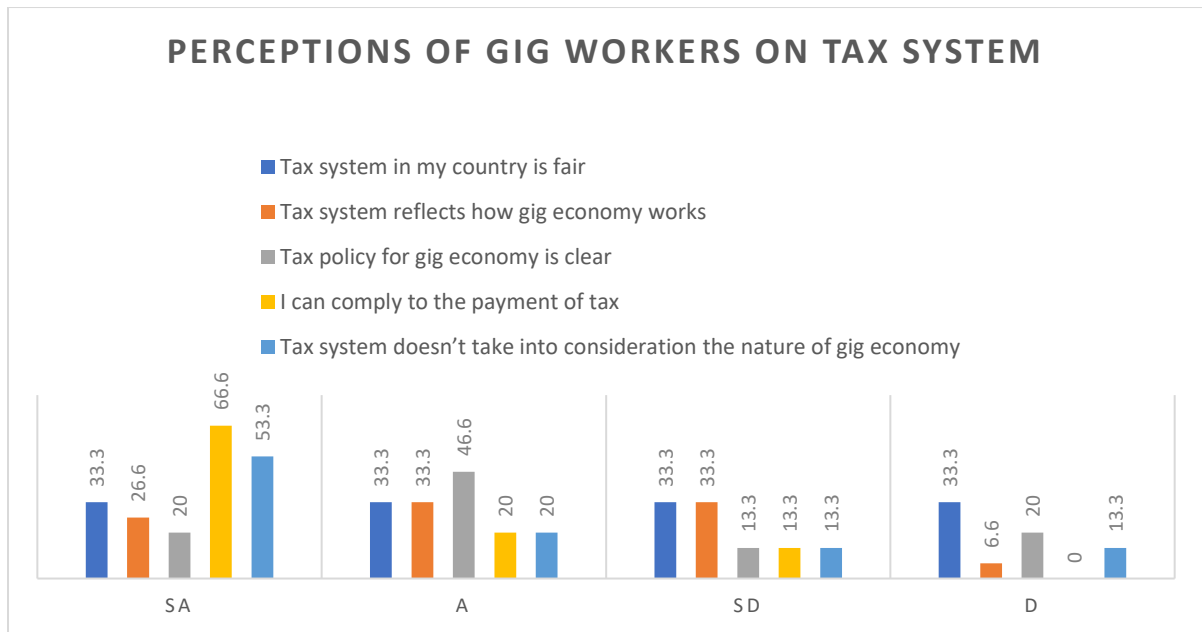


Figure 1: Perceptions of Gig workers on tax system (Source: Field Data, 2022)

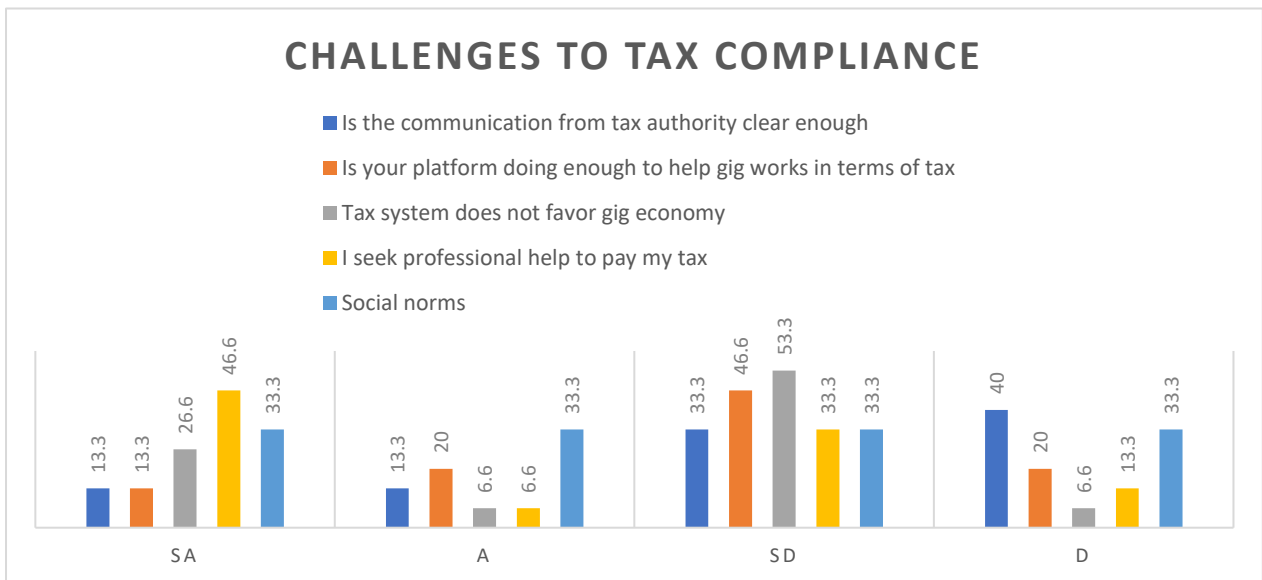


Figure 1: Challenges to tax compliance (Source: Field Data, 2022)

Discussion

In the findings of Thomas (2018), it is posited that workers in the gig economy do not realize that they are operating small businesses, and that this comes with certain compliance responsibilities. Thus, just like every workers, they are meant to pay tax. Also, the gig economy is fast rising and this has also given avenues for people to engage in it for self-employment and with this, most people don't see the need for tax payment. This study seeks to address "The Gig Economy: Challenges for Tax System".

In terms of the challenges involved in tax compliance, the result of this study shows that majority (46.6%) of the gig workers strongly disagreed that their platform is doing enough in

terms of tax payment while 46.6% strongly agreed to seek professional help before paying tax. Thomas (2018) asserts that that platforms generally treat gig workers as independent contractors does not mean they are not required to withhold or pay any taxes to tax authorities with respect to these workers (Thomas, 2018). In the result obtained from this study, it was also revealed that most of the gig workers (53.3%) strongly disagreed that the tax system does not favor the gig economy. Thus, the need for them to even comply in tax payment. Even with this fact, paying of tax is an issue for them.

Seeking professional help can be a major task that most gigworkers may not want to be encounter when complying with taxpayment. Basically, due to formalities and documentation involved. Thus, the need to not bother pay their taxes. Taxpayer has however been identified as a very important subset of a tax system. Beretta (2017) finding stands with this present study where it was reported that tax rules are usually complex to apply and thus, the reason why workers avoid their obligations because of being overwhelmed with the intricacies of the compliance burden such as formalities of registering and engaging with tax authorities as well as perceived complexities of calculating their taxable income.

Result obtained in Rind (2018) findings revealed that most gig workers often have no tax knowledge, which makes it so challenging for them to comply with tax requirements. Thus, the need for not paying tax. This present study however does not put ignorance of gig workers in gig economy into consideration while analyzing the challenges involved. OECD, (2019) however established that the lack of tax knowledge shouldn't be an excuse when it comes to the gig economy. OECD (2019) posited that tax payment is a serious obstacle and challenge that gig workers face and thus, the complexities involved in filing for a tax return is a serious hurdle that many tax payers or gig workers are not ready to face. Thus, many gig workers refusal to submit tax is not due to ignorance but due to the complexities involved. This reason justifies why this study does not put in to place ignorance as a challenge for gig workers for tax payment.

In this study, the result also shows that social norms to some extent is a major factor that hinders most gig workers to pay their taxes. World Bank (2015) defined social work as informal rules that govern behavior, and how people act and think often depend on how other people around them behaves (World Bank, 2015). The findings of Wenzel (2005) shows that perceptions of social norms has effect on taxpaying behavior. In the gig economy, certain individuals also argue that because so many other participants in the gig economy are under reporting income realize from gig economy and other works, they don't see any reason why they should not engaged in this also. i.e., it is acceptable for them do act in a similar fashion.

Conclusion

The result obtained from this study shows that gigs economy has effect has some certain challenges in terms of remitting tax. Poor tax authority communication, platform not providing information or help on tax payment, social norms, etc. has been identified as the major challenges in the gigs economy affecting the tax system. Conclusively, tax systems did not put gig economy into consideration when been designed.

Recommendation

- Further research is needed to examine gig economy making use I wider participants.
- Further research should be done to evaluate the challenges and possible solution in gigs economy in relation to tax compliance.

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