

Taxing System for Digital Platform Workers

(디지털 플랫폼 종사자에 대한 합리적인 과세체계 구축방안 연구)

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National Tax Service

Seok Woo Kim

(국세청 김석우)

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국외훈련 개요

1. 훈련국 : 미국
2. 훈련기관명 : University of California, Irvine -
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기관소개(학위)

명 칭	“University of California, Irvine - School of Law”, - Graduate Tax Program
소 재 지	401 E. Peltason Drive, Suite 1000, Irvine, CA
홈페이지	https://www.law.uci.edu/
설립목적	1960년대에 California Master Plan for Higher Education에 따라 증가하는 UC 시스템의 학생들을 수용하기 위해 새로운 캘리포니아 대학교 캠퍼스 중 하나로 설립 · “The University of California, Irvine School of Law”는 2009년 8월에 40여 년 만에 캘리포니아에 신설된 최초의 공립 로스쿨로 개교
조 직	(단과대학) 법과대학, 사회과학대학, 공과대학, 정보컴퓨터대학, 생물과학대학, 물리과학대학, 인문대학, 의과대학, 경영대학, 예술대학, 교육대학, 약학대학 등
훈련기관 특성	UCI Law Graduate Tax Program은 학생들에게 미국 또는 해외에서 최고 수준의 세법 실무에 필요한 이론적 깊이와 실무 기술을 갖추 수 있도록 법학석사(LL.M.) 커리큘럼을 제공하고 세법과 관련된 커리어를 쌓고자 하는 대학 졸업생들 뿐만 아니라 이미 조세업무에 종사하는 사람들의 조세 전문성 향상을 목표로 함 * U.S. News 선정 Top Public Schools 8위(2022-2023) * U.S. News 선정 2023 Best Law Schools 37위 * U.S. News 선정 2023 Best Tax Law Programs 9위 (US NEWS 웹페이지 참조)

기관소개(직무훈련)

명 칭	Vasquez & Company LLP
훈련기관 성격	민간기업(회계법인)
소 재 지	7545 Irvine Center Dr., Suite 200, Irvine, CA 92618
홈페이지	http://www.vasquezcpa.com
설립목적	<ul style="list-style-type: none"> ○ 1969년 설립된 회계, 감사, 세무 등 Full-Service 제공 회계법인 - 미국 내 400여개의 CPA회사들 중 상위 1%에 등록(AICPA, 2017)
조 직	<ul style="list-style-type: none"> ○ Los Angeles, San Diego, Sacramento, Fresno, Irvine, Phoenix, Las Vegas, Manila 등 8개의 office에 250명 이상의 회계 전문 인력이 근무하고 있음
주요 특징	<ul style="list-style-type: none"> ○ (Tax and Accounting Services) 비영리단체, 민간기업, 개인사업자 대상으로 생산성을 극대화하는 회계, 세무 업무 제공 ○ (Audits) Financial, Compliance, and Performance audits 등을 전문적 기준에 맞추어 재무적 성과의 포괄적 반영을 보장 ○ (Consulting) 고객 맞춤형 세무전략, 리스크 관리, 사업성과 관리, 조직 개편 지원을 위해 최적 정보 제공

I . Introduction

The platform economy has emerged as a transformative force in the modern labor market, reshaping the way individuals engage in work and earn income. Characterized by short-term, flexible jobs often facilitated through digital platforms, the platform economy offers unprecedented autonomy and flexibility to workers. This shift from traditional employment models to platform work has been accelerated by advancements in technology, particularly the rise of mobile applications and online marketplaces that connect service providers with consumers. As a result, millions of individuals across the globe are now participating in various platform activities, ranging from ride-sharing and food delivery to freelance graphic design and virtual assistance.

The appeal of gig work stems from its flexibility, enabling individuals to decide place, time, and amount of they work. This autonomy helps them balance personal responsibilities while exploring various income opportunities. This flexibility is particularly appealing to those who may face barriers in traditional employment, such as caregivers, students, or individuals with disabilities. However, while the platform

economy presents opportunities for increased income and work-life balance, it also introduces a host of challenges, particularly in the realm of taxation and regulatory compliance.

A major challenge for gig workers is navigating the complexities of income reporting and managing tax responsibilities. Unlike traditional employees, who typically have taxes withheld from their paychecks, platform workers are often classified as independent contractors or self-employed individuals. This classification places the onus of tax compliance squarely on the shoulders of the workers themselves, who must navigate a complicated landscape of tax regulations that vary by jurisdiction. In the United States, for example, platform workers are required to report their income and pay self-employment taxes, which can be daunting for those who may not have formal training in tax matters.

Moreover, the irregular and often unpredictable nature of platform work complicates income reporting. Many platform workers earn income from multiple sources, making it challenging to track earnings accurately. This situation is exacerbated by the fact that some platform workers may

receive cash payments or work through platforms that do not provide comprehensive income reporting. As a result, there is a heightened risk of underreporting income, which can lead to penalties and increased scrutiny from tax authorities.

Tax authorities around the world are grappling with how to effectively capture and tax the income generated by gig workers. Tax authority in the U.S. (“the Internal Revenue Service (IRS)”) has implemented various measures to improve compliance among gig workers, including proposals to lower the reporting threshold for income earned through digital platforms. Currently, platforms are only required to issue tax forms to workers who earn over \$20,000 and have more than 200 transactions. This high threshold can result in significant income going unreported, undermining the integrity of the tax system. By lowering the threshold, the IRS aims to capture a broader range of income information, thereby enhancing compliance and ensuring that gig workers fulfill their tax obligations.

In South Korea, the approach to taxing platform workers differs, with the National Tax Service (NTS) collecting income information on some platform workers through withholding

taxes. However, there is a pressing need to expand the criteria for submitting income information on non-withholding taxpayers. This includes implementing incentive policies to encourage cooperation among platform workers and platform operators in reporting income accurately. The NTS faces the challenge of adapting its tax regulations to the unique characteristics of platform work, ensuring that tax compliance is manageable for workers while maintaining the integrity of the tax system.

The platform economy also raises important questions about tax equity. As platform workers often face different tax obligations and compliance burdens compared to traditional employees, disparities can arise in how individuals contribute to the tax base. This situation can create an uneven playing field, where compliant taxpayers bear a disproportionate burden while others evade taxes through underreporting or noncompliance. Addressing these tax equity issues is crucial for fostering a fair and effective tax system that supports all workers, regardless of their employment status.

In summary, the gig economy marks a notable transformation in the labor market, presenting both advantages and obstacles

for workers and tax authorities. As digital platforms continue to reshape the nature of work, it is imperative that tax systems evolve to meet the unique needs of platform workers. By addressing the challenges of income reporting, tax compliance, and fairness, policymakers can establish a more inclusive and efficient tax framework that accommodates the varied needs of gig workers while maintaining the integrity of the overall tax system. The future of work is evolving, and it is essential that tax systems adapt to meet the challenges and opportunities presented by this dynamic landscape.

II . Tax Issues for platform Workers

A . Backgrounds and Recent trends on the Platform Economy

With the development of digital technologies, new business models based on digital platforms are emerging, giving rise to new forms of labor outside the traditional employment relationship, represented by the gig economy. The term gig economy has been used interchangeably with various concepts such as sharing economy and platform economy, but for the sake of practicality, this article will focus on the definition currently used by tax authorities. The IRS defines the gig economy as follows: “The gig economy—also called sharing economy or access economy—is activity where people earn income providing on-demand work, services or goods. Often, it’s through a digital platform like an app or website.” South Korea's National Tax Service does not use the exact term for the gig economy, but it does provide separate tax return guidance for taxpayers who are gig workers or platform workers. For the purposes of this article, gig workers or platform workers are defined as those who provide services based on their labor directly to consumers through digital platforms, in contrast to traditional workers.

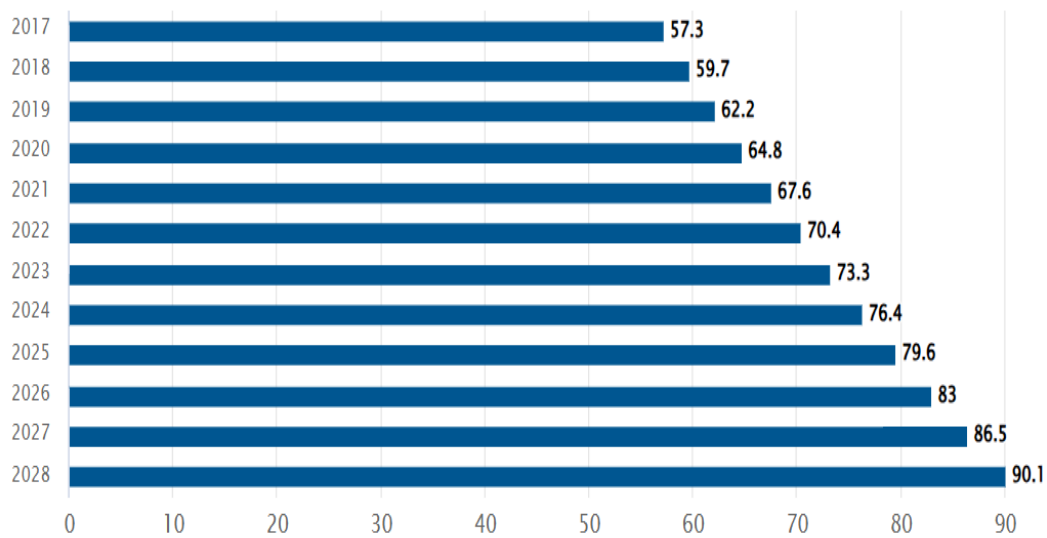
In the traditional supply system, a company enters into a captive labor contract with a worker and then provides the service to the consumer as the supplier, whereas in the gig economy, the platform operator acts as an intermediary between the platform worker and the consumer, and the platform worker provides the service directly to the consumer. Examples include food delivery services like Doordash and UberEats, transportation services like Uber and Lyft, and caregiving services like Care.com. According to the findings from McKinsey's 2022 American Opportunity Survey¹, approximately 36 percent of employed individuals in the United States, which translates to roughly 58 million Americans, now identify themselves as independent workers. This marks a notable increase from the 27 percent reported in 2016, signifying a significant shift in the composition of the American workforce.

¹ McKinsey Company(2023), "what is the gig economy?" : <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-the-gig-economy>

< Graphics: Increasing Gig Economy, Finances Online(2021)>

Number of Freelancers in the United States from 2017 to 2028

(in millions)



< Tables: General Gig Economy Statistics, Finances
Online(2021)>

- a. Gig economy participation and wages grew by 33% in 2020.
(daVinci Payments, 2021)
- b. In 2020, the total estimated earnings of U.S.-based adult gig
workers reached \$1.6 trillion. (daVinci Payments, 2021)
- c. By 2019, 20% of U.S. freelancers were classified as high earners,

with annual earnings of \$100,000 or more. (Statista Research Department, 2021)

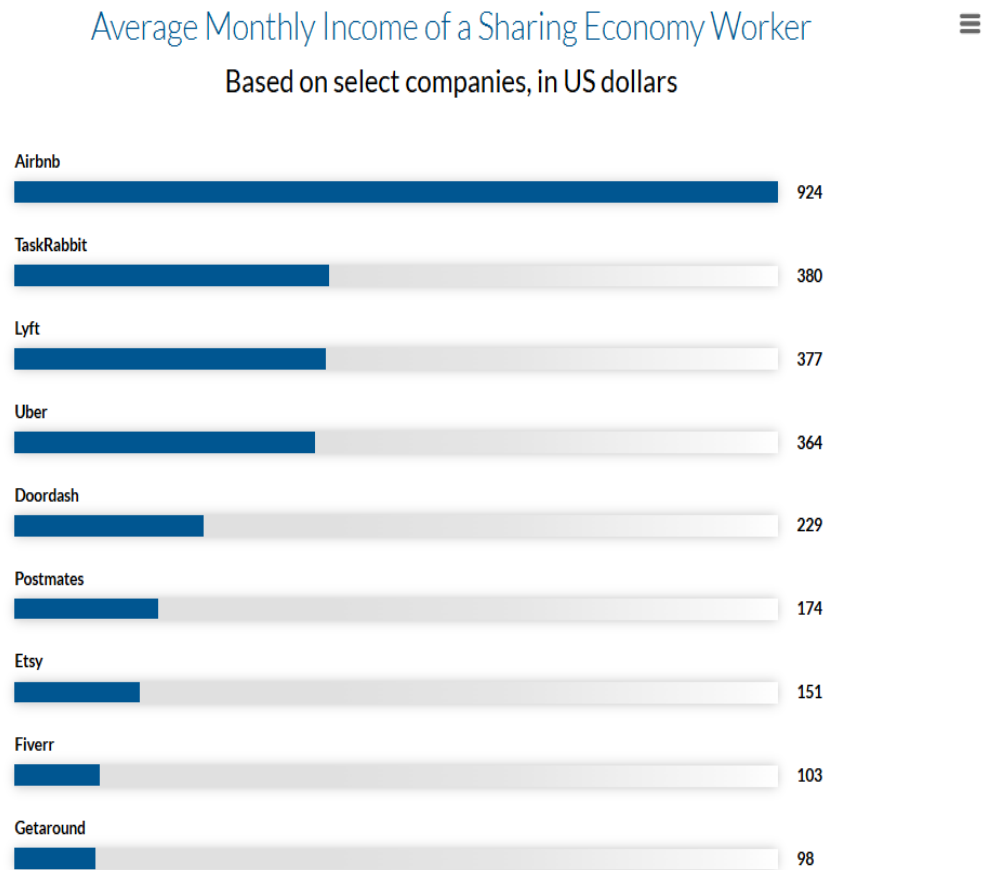
- d. Nearly half (48%) of freelancers prefer a fixed rate, while 29% opt for hourly payment. (Statista Research Department, 2021)
- e. Over 50% of gig workers are Gen Z or millennials with household incomes of \$50,000 or less annually. (Statista Research Department, 2021)
- f. U.S. gig workers' hourly rates range from \$31 to more than \$115. (Sbai, 2021)
- g. A survey revealed that 70% of gig workers would show greater loyalty to platforms offering same-day payments. (daVinci Payments, 2021)
- h. About 72% of gig workers expressed interest in receiving tailored savings offers with their payments. (daVinci Payments, 2021)
- i. Over half of independent workers worldwide use gig work as supplemental income. (daVinci Payments, 2021)
- j. Among part-time gig workers, 17.8% participate in the gig economy to boost their income. (Hayes et al., 2019)

Approximately 61% of gig workers believe scheduling tools are essential for tracking work hours. (daVinci Payments, 2021)

Such digital platform labor can create new jobs, expand labor participation opportunities for the economically inactive population due to low barriers to entry based on flexibility in working hours and workspace, and provide additional income opportunities for existing workers. However, on the other hand, even if platform workers are actually employed by platforms or the nature of their work is not different from activities performed in a typical employment relationship, it is difficult to identify their employment status if they are classified as self-employed, and many of them participate in temporary and part-time jobs and change jobs frequently, which may create precarious workers who are not protected by existing laws or social safety nets. In response to these concerns, the Biden administration in the United States is moving to reclassify gig workers as employees and provide them with the same legal protections as employees (minimum wage, overtime pay, unemployment benefits, etc.)²

² DICCON HYATT(2024), "New Worker Classification Rule Could Disrupt the US Gig Economy" : <https://www.investopedia.com/new-worker-classification-rule-could-disrupt-the-us-gig-economy-8546526>

< Graphics: Sharing Economy and Income Statistics, Finances Online>



In Korea, the government is also expanding legal protections such as worker's compensation and employment insurance for special type workers (those who provide similar services to employees regardless of the form of contract, but are not recognized as employees under the Labor Standards Act).

In summary, the development of digital technologies has led to the emergence of new business models, such as the gig economy. The gig economy is activities where individuals earn income by providing on-demand work, services, or goods, often through digital platforms. Both the IRS in the United States and the National Tax Service in South Korea provide tax reporting guidelines for gig workers, who are classified as those providing services directly to consumers. While the gig economy creates new job opportunities and expands labor participation for economically inactive populations, many gig workers are classified as self-employed, making it difficult to identify their employment status. To address these issues, the Biden administration is moving to reclassify gig workers as employees to provide them with legal protections. Similarly, the South Korean government is expanding legal protections for special types of workers

The ambiguity of platform workers' classification as traditional workers and the temporary and irregular nature of their income-generating activities through platforms raise a number of issues for tax authorities. In the following chapters, we examine the tax issues that may arise in relation to gig workers, including: 1) whether tax authorities can properly

identify the income-generating activities of platform workers;
2) whether their cost structure, which differs from that of
traditional workers and the self-employed, is properly
reflected in the tax law; and 3) whether it is unduly
burdensome for platform workers to accurately report their
income.

B . Tax Treatment of Platform Workers and Related Issues

According to the IRS, gig work is a specific activity you engage in to earn income, often through an app or website (digital platform), such as driving a car for booked rides or deliveries, running errands or completing tasks, providing creative or professional services, or engaging in other temporary, on-demand, or freelance work. The IRS mandates that if a gig worker is deemed an employee, the employer is responsible for withholding taxes from their earnings. Conversely, if the gig worker is considered an independent contractor, they may need to pay estimated taxes periodically and are liable for self-employment tax.³

Then how can we classify a certain gig worker as employee or independent contractor? According to the IRS guideline, an individual is considered an independent contractor if the payer's control is limited to the outcome of the work and not the specific methods or processes used to achieve it. If you operate as an independent contractor, you are essentially self-

³ IRS, "Manage taxes for your gig work", : <https://www.irs.gov/businesses/small-businesses-self-employed/manage-taxes-for-your-gig-work>

employed. Conversely, if your work can be directed or controlled by the payer in terms of both what kind of tasks you are performing and how the tasks are carried out, you are not classified as an independent contractor, even if you have some autonomy in your actions. The crucial aspect is whether the payer has the legal authority to dictate the specifics of how the services are executed. If an employer-employee relationship exists, regardless of its designation, you are not considered an independent contractor, and typically, your earnings aren't subject to self-employment tax. However, as an employee, your earnings may be subject to FICA taxes (including social security and Medicare) and income tax withholding.⁴

What about South Korea? South Korea categorizes income based on an enumeration of income types. Income generated through independent and continuous business activities for profit is considered business income, and income received from providing labor in a non-independent status under a labor contract is considered labor income. Therefore, it is necessary to individually determine whether a platform worker

⁴ IRS, "Independent contractor (self-employed) or employee? : <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>

will generate income through business activities in an independent status or provide labor and generate income in a non-independent status. Those who earn business income are required to file a comprehensive income tax return once a year, similar to an independent contract in the U.S. (Detailed procedures and differences between the two countries will be discussed later in the comparative study section), while those who earn labor income are required to fulfill their tax reporting obligations through a process called year-end settlement after withholding tax is collected by the employer.

While both the U.S. and South Korea provide guidelines based on the possibility that platform workers can be classified as either employees or self-employed, the reality is that most platform workers are classified as self-employed rather than employees. This is because many platform companies do not enter into dependent labor contracts with platform workers, but merely act as an intermediary for platform workers to provide services to consumers at their own discretion, and platform workers provide services through the platform company's intermediary services on an as-needed basis. However, unlike traditional self-employed workers, who are responsible for hiring manpower, equipping physical facilities,

and recruiting consumers through marketing activities, platform workers have a unique characteristic of being similar to workers in that they only perform service activities using their own labor, while being similar to self-employed workers in that they can freely determine their working hours, workplace, and working period. Due to the unique nature of platform workers, there are problems such as (1) capturing income-generating activities of gig workers by tax authorities, (2) discrepancies with the current deduction system due to the unique cost structure, and (3) excessive income and tax reporting burdens.

First, platform workers are not employees in the traditional sense, which makes it difficult for tax authorities to track their income, transactions, etc. In a traditional employer-employee relationship, the employer is generally obligated to withhold taxes on the employee's income, making it relatively easy for tax authorities to track their income, but platform workers are often not employees of digital platforms, making it impossible to track their income through traditional methods. This problem is exacerbated by the fact that some platform workers are not exclusively engaged in commercial activities on a particular platform, but may be active on multiple platforms,

and their activities on platforms may be cross-border. Furthermore, even if a transaction is executed by a digital platform, the platform does not pay the platform worker, and if the consumer pays the platform worker directly, the platform operator may not have access to accurate transaction details or income information. In the end, the issue of personal income tax for platform workers is one of the most central issues, whether the tax authorities have a complete and accurate picture of the income of platform workers who participate in platforms and generate revenue.

Another tax issue with platform workers is that the current deduction system may not reflect the costs they incur in the course of their economic activity, and the various tax benefits available to taxpayers may not be equitable. While platform workers have the autonomy of self-employed individuals, the activities they perform are more like those of employees. However, as mentioned earlier, they are classified as self-employed in many countries, and as we'll see later with the examples of the United States and South Korea, the scope of deductions allowed for self-employed and employees under the tax system can differ. For example, in South Korea, many deductions are only available to those with labor income, such

as deductions for credit card spending and deductions for interest expenses on renting or buying a home. The categorization of platform workers in the tax system can lead to issues of tax equity, where the tax burden is different for different types of work.

Finally, platform workers are subject to a higher level of reporting obligations if they are classified as self-employed. Self-employed workers are required to keep a systematic and complete record of their income and expenses, categorize them according to the tax return form, and report them for tax purposes. On the other hand, tax filing is simpler for employees because their income is withheld, so they don't have to keep track of their income and usually don't have to consider deductions for business expenses. It would be unduly burdensome to require platform workers, who earn mostly short-term, low-level income and are likely to be unclear about the taxability of income derived from their economic activities and how to report their income, to bear the same level of reporting obligations as self-employed individuals who usually seek the assistance of a tax advisor. This excessive filing burden could significantly reduce the tax filing rate of platform workers, which, given the size of the growing gig

economy, could have a significant impact on the shrinking tax base and deteriorating national revenue.

We discussed the complexities and challenges associated with the taxation of gig workers in the context of the gig economy, which has emerged due to advancements in digital technologies. The gig economy is characterized by individuals earning income through on-demand services provided via digital platforms, such as ride-sharing and food delivery services. This new form of labor often falls outside traditional employment relationships, leading to ambiguities in worker classification. Tax authorities face significant challenges in accurately identifying the income-generating activities of gig workers, as their work is often temporary and irregular. The IRS defines gig work as activities performed to earn income through digital platforms, and the classification of gig workers as either employees or independent contractors has substantial implications for tax obligations. Employees have taxes withheld by their employers, while independent contractors are responsible for paying estimated taxes and self-employment taxes. And we should verify the need for a clear understanding of the cost structures associated with gig work, which differ from traditional employment. This point

emphasizes the importance of simplifying the tax reporting process for gig workers, who may struggle with the complexities of income reporting and expense deductions. Here, we can suggest that tax authorities should develop safe harbors and objective tests to clarify worker classification, thereby reducing ambiguity and potential disputes. Furthermore, we can advocate for improved support systems to assist gig workers in fulfilling their tax obligations. This includes educational outreach to raise awareness about tax responsibilities and the establishment of integrated tax guidance systems, similar to the IRS's Gig Economy Center. Such initiatives would require collaboration with digital platform operators to facilitate better communication and support for gig workers in navigating their tax responsibilities. Overall, the paper calls for a comprehensive approach to address the unique tax challenges faced by gig workers in the evolving gig economy.

So in this paper, we review the details of the regulations currently applied to gig workers in the U.S. and South Korea in terms of (1) income capturing for platform workers, (2) deduction system for platform workers, and (3) tax filing burden for gig workers, and suggest policy directions on how

to broadly and accurately capture the income of platform workers, how to operate a deduction system that reflects the economic reality of platform workers while maintaining equity with other forms of income, and how to ease the tax filing burden on platform workers.

III . Comparative study on Taxing Platform Workers: U.S. and Korea

A . Basic Structure of Individual Taxation

U.S. Individuals are required to report their all income from whatever source derived, including various sources such as wages, salaries, interest, dividends, rental income, and capital gains. Certain types of income may be exempt from taxation, such as certain gifts and inheritances (IRC§61(a)). Individuals can reduce their taxable income through deductions such as mortgage interest, charitable contributions, and certain medical expenses. Tax credits directly reduce the amount of tax owed and can include credits for education expenses and childcare expenses. The U.S. tax system is progressive, meaning that tax rates increase as income increases. Taxpayers fall into different tax brackets based on their income level, with higher earners subject to higher tax rates.

In Korea, income derived by individuals is subject to global and schedular taxation. Global income refers to “income subject to global taxation and includes the following: interests, dividends, business income, wages and salaries, pension

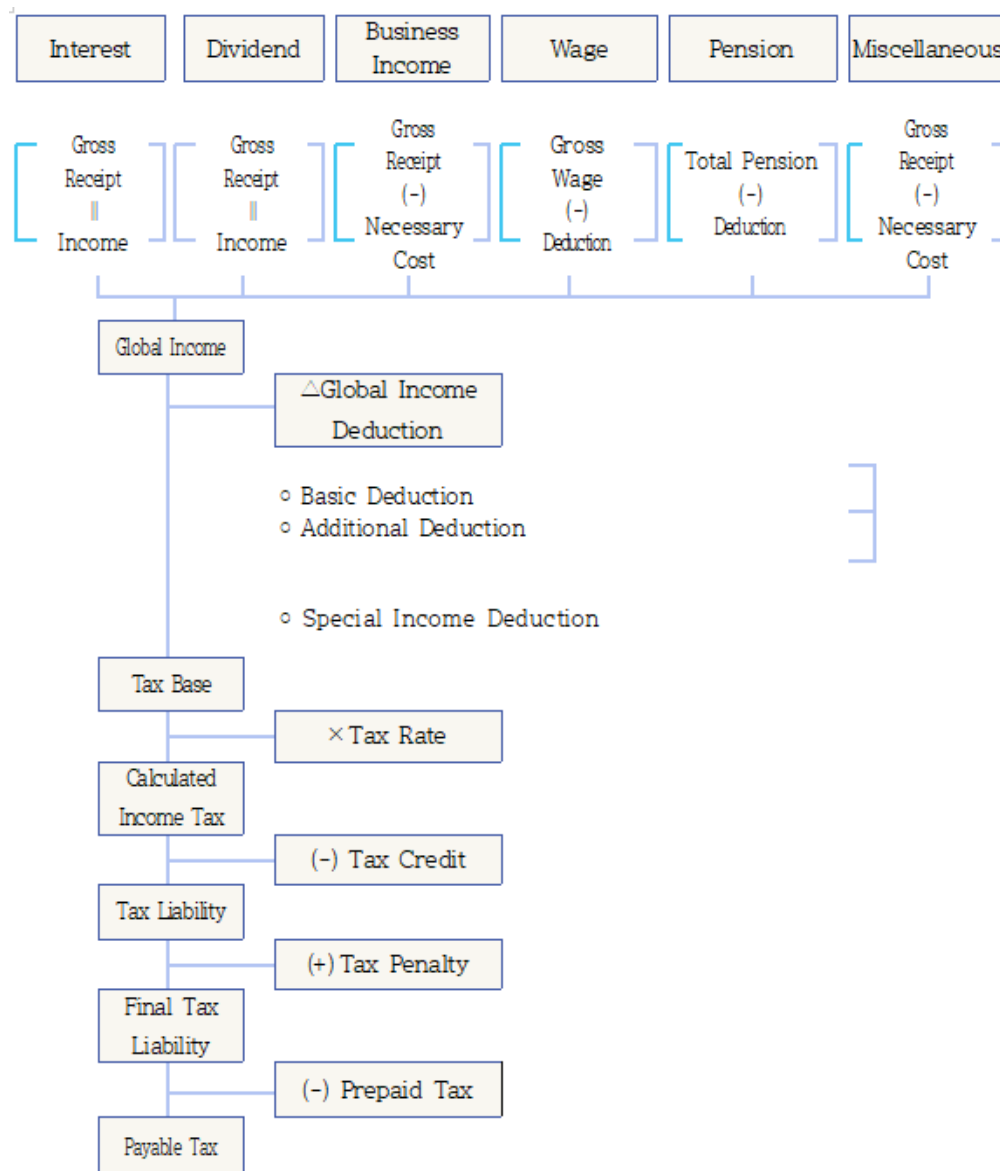
income, and other income.” “Under global taxation, business income, wages and salaries, pension income, and "other income" are aggregated and taxed progressively.” And “under schedular taxation, capital gains and retirement income are taxed separately at varying tax rates” like in the U.S. And the functions of deductions and credits are also similar.⁵

In the case of platform worker, as mentioned earlier, platform workers freely provide services to consumers within the scope of their abilities under the intermediation of a platform company, so in the U.S. they are classified as self-employed rather than employees, and in Korea, the income generated through platform work is classified as business income rather than wages and salaries. The basic approach to platform workers in the U.S. and South Korea is similar in that both countries view the income that gig(=platform) workers generate from gig work as business income, rather than wages and salaries, which is what employees earn. However, as you'll see in the following sections, there are some significant differences in how platform workers report their income and be withheld taxes on their income, how they apply various

⁵ Ministry of Economy and Finance, “Korean Taxation”, 2022.

deductions, and how they file their tax returns.

<Graphic: Individual Income Tax System in Korea⁶>



⁶ Ministry of Economy and Finance, "Korean Taxation", 2022.

<Individual Income Tax Rate in Korea (National Tax Service, 2023)>

Tax Base	Tax Rate
“~14 million won”	“6%”
“14 million won ~ 50 million won”	“840,000 won+ (15% over 14 million won)”
“50 million won ~ 88 million won”	“6.24 million won+(24% over 50 million won)”
“88 million won ~ 150 million won”	“15.36 million won +(35% over 88 million won)”
“150 million won ~ 300 million won”	“37.06 million won +(38% over 150 million)”
“300 million won ~ 500 million won”	“94.06 million won +(40% over 300 million won)”
“500 million won ~ 1 billion won”	“174.06 million won +(42% over 500 million won)”
“1 billion won ~ ”	“384.06 million won +(45% over 1 billion won)”

<Individual Income Tax Rate in the U.S. (IRS, 2023)>

Tax Rate(%)	“For Single Filling(\$)”	“For Join Filling” (Married,\$)	“For Households Heads(\$)”
10	“0 ~ 11,000”	“0 ~ 2,000”	“0 ~ 15,700”
12	“11,000 ~ 44,725”	“22,000 ~ 89,450”	“15,700 ~ 59,850”
22	“44,725 ~ 95,375”	“89,450 ~ 190,750”	“59,850 ~ 95,350”
24	“95,375 ~ 182,100”	“190,750 ~ 364,200”	“95,350 ~ 182,100”
32	“182,100 ~ 231,250”	“364,200 ~ 462,500”	“182,100 ~ 231,250”
35	“231,250 ~ 578,125”	“462,500 ~ 693,750”	“231,250 ~ 578,100”
37	“578,125 ~ ”	“693,750 ~ ”	“578,100 ~ ”

B . Income reporting and withholding tax

In the U.S., for individuals who are employees, their income is primarily reported to the IRS by their employers. Each year, employers issue Form W-2 to their employees, which details the wages, salary, and other compensation paid to the employee during the tax year. This form also includes information on taxes withheld, such as “Federal Income tax, Social Security tax, and Medicare tax”. Employers are required to submit copies of these forms to both the IRS and the employee. And employers collect income tax from employees' paychecks throughout the year. When an employee starts a new job, they are required to fill out Form W-4, Employee's Withholding Certificate. This form provides information to the employer about the employee's filing status, dependents, and any additional withholding allowances they wish to claim. Employers use the information provided on Form W-4, along with the employee's wages and the IRS's withholding tables, to determine how much federal income tax should be withheld when they receive wage. The amount withheld is based on the employee's taxable wages, filing status, and the number of withholding allowances claimed. If the gig worker were classified as an employee, these income reporting and

withholding taxes would apply.

What if a gig worker is classified as self-employed, as is often the case? In this case, platform companies that engage gig workers as independent contractors are required to issue year-end information statements, often in the form of Form 1099, to the workers with whom they have transacted. These information statements detail the gross receipts earned by the gig workers during the tax year. In addition to providing gig workers with information statements, platform companies are also required to transmit this income information to the IRS. This allows the IRS to track the income earned by gig workers and ensure tax compliance. However, in the current system, platform companies in the gig economy are typically not obligated to withhold income taxes or contribute to employment taxes on behalf of gig workers who are classified as independent contractors. This means that there is no withholding tax for gig workers in the traditional sense, as is the case for employees where taxes are typically withheld from their paychecks. There are reporting thresholds that determine when platform companies must issue Form 1099 to gig workers. For 2023 and prior years. Platform companies are obliged to provide Forms 1099-K only to taxpayers with over

\$20,000 in payments and more than 200 transactions.⁷

This income reporting requirement and lack of withholding tax raises several issues.⁸ First, there may be uncertainties or inconsistencies in the reporting requirements for platform companies regarding the income earned by gig workers. The rapid advancement of technology and the proliferation of digital platforms in the gig economy can outpace regulatory frameworks and reporting standards and new forms of gig work and payment methods may not align seamlessly with existing reporting requirements, leading to uncertainties in compliance. In terms of the absence of withholding tax, gig workers may experience cash flow challenges due to the lack of regular tax withholding from their earnings. Gig workers may underestimate their tax liabilities or fail to set aside sufficient funds for taxes throughout the year and this can result in underpayment of taxes, potential penalties, and interest charges, impacting the financial stability of gig workers and creating additional compliance issues.

⁷ IRS Gig Economy Tax Center: <https://www.irs.gov/businesses/gig-economy-tax-center>

⁸ KATHLEEN DELANEY THOMAS, TAXING THE GIG ECONOMY, University of Pennsylvania, Law Review, 2018, p 1437.

In Korea, similar to the United States, when an employer pays earned income, it is required to withhold income tax according to the Simplified Tax Schedule for Earned Income and pay the withheld income tax “by the 10th day of the month following the date of collection”, and submit a withholding status report. Earned income withholding receipts must be issued to the recipient of earned income “by the end of February of the year following the tax period”, and earned income payment slips must be submitted to the head of the tax department in charge of withholding by March 10 of the following year. In contrast to the U.S., South Korea classifies most platform workers who provide services based on their own labor as human service providers and imposes withholding tax obligations (tax rate of 3.3%) on platform providers who pay income to platform workers.

There are three main ways for the Korean tax authority to identify the income of gig workers.⁹ The first way is being through the reporting of business income information of the labor service provider by the platform operator who complies

⁹ 김빛마로 외 1인, 디지털 플랫폼 경제의 조세쟁점과 과세방안 연구, 한국조세재정연구원, 2019, p.65

with the withholding obligation. For each payment of business income, the payer is required to submit a payment statement (Articles 144, 164 of the Income Tax Act and Article 42 of the Value Added Tax Act) “by the 10th of the month following the month in which the collection date falls”, and in the case of year-end settlement of business income, the payer is required to detail the personal information of the earner and the annual income. In other words, the total number of workers and the total amount of payments are reported monthly, and the personal information statement of the worker is reported at the end of the year. The next way is for the provider of the workplace where the platform worker conducted commercial activities to collect the platform worker's tax information and utilize it to voluntarily report to the National Tax Service. According to Article 173 of the Income Tax Act, if someone provides a workplace related to a person who provides services, they are required to submit tax data on the service provider in good faith, including the personal information of the specialty worker, the service period, and the service price. However, since this is a cooperation requirement rather than a mandatory requirement, a concern arises from the lack of assurance that the information will be provided or that the appropriate type of information will be supplied. Finally,

platform workers can voluntarily register as a business and report their income directly. However, it is unlikely that there is much incentive for platform workers to voluntarily report their income. This is because if a platform worker registers as a business, he or she will incur additional tax burdens such as income tax and VAT, as well as social insurance premiums such as national pension and health insurance premiums.

The first and second options have in common that they require a role for the digital platform, while the second and third options are essentially voluntary tax compliance. For now, it is assumed that most income reporting will rely on the first option, i.e., where the digital platform company recognizes itself as a business subject to withholding obligations and has fulfilled those obligations. However, the role of digital platforms and their actual relationship with platform workers can vary widely by business model, and the lack of clear guidance from tax authorities on whether digital platforms are subject to withholding obligations can be confusing for platform operators. This incomplete understanding of the income of digital platform workers can increase incentives to evade taxes by failing to file tax returns, underreporting income, or accepting cash payments, which

can undermine tax equity with faithful taxpayers and create unfair competition. These tax equity issues can also distort individuals' occupational status decisions.¹⁰

To summarize, in South Korea, similar to the United States, employers are mandated to withhold income tax from earned income according to a Simplified Tax Schedule. Unlike the U.S., South Korea categorizes most platform workers as human service providers, imposing a withholding tax of 3.3% on payments made to them. The Korean tax authority has three primary methods for identifying the income of gig workers. The first method involves platform operators reporting business income information, which includes submitting payment statements by the 10th of the month after payment and detailing personal information during year-end settlements. The second method requires workplaces where platform workers operate to collect and report tax information voluntarily to the National Tax Service. However, this cooperation is not mandatory, raising concerns about the reliability and completeness of the information provided. The third method allows platform workers to voluntarily register as

¹⁰ 김빛마로 외 1인, 디지털 플랫폼 경제의 조세쟁점과 과세방안 연구, 한국조세재정연구원, 2019, p.68

businesses and report their income directly, though this option may deter them due to the additional tax burdens and social insurance premiums they would incur. Both the first and second methods depend on the digital platform's involvement, while the second and third methods rely on voluntary compliance. Currently, it is assumed that most income reporting will occur through the first method, where digital platforms fulfill their withholding obligations. However, the varying business models of digital platforms and the lack of clear guidance from tax authorities regarding their withholding responsibilities can create confusion. This uncertainty may lead to tax evasion, underreporting of income, or acceptance of cash payments, undermining tax equity and creating unfair competition among taxpayers. Such issues can also influence individuals' decisions regarding their occupational status.

C . Expense deduction

1) Expense Deduction in U.S Individual Taxation.

By IRS, to deduct business expenses, the following general rules apply (IRS Publication 535) .

- **Ordinary and Necessary:** “A business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in industry, while a necessary expense is helpful and appropriate for taxpayer’s trade or business. It does not have to be indispensable to qualify as necessary.”
- **Personal vs. Business Expenses:** “Generally, personal, living, or family expenses are not deductible. However, if an expense is used partly for business and partly for personal purposes, taxpayer can deduct the business portion. For example, if someone uses a loan for both business (70%) and personal (30%) purposes, he can deduct 70% of the interest as a business expense.”
- **Documentation:** “It is important to keep accurate records

and documentation of all business expenses to substantiate deductions in case of an audit.”

- **Timing of Deductions:** “Even if an expense is ordinary and necessary, a taxpayer may not be allowed to deduct it in the year you paid or incurred it. Some expenses may need to be capitalized or amortized over time.”
- **Exclusions:** “Certain expenses, such as those used to figure the cost of goods sold, capital expenses, and personal expenses, are not deductible as business expenses.”

(1) Expense Deduction for Employees’ pay

The different types of payments are made to employees, including wages, salaries, bonuses, and commissions, all of which are generally deductible in the year they are paid or incurred. Compensation must be reasonable in amount and directly related to the services provided by the employee to qualify for a deduction. The treatment of fringe benefits, which are additional perks provided to employees beyond their regular pay. These benefits can include health insurance,

retirement plan contributions, and other non-cash benefits, many of which are deductible by the employer.

However, certain fringe benefits may have specific tax implications for both the employer and the employee, and it is important to understand these rules to ensure compliance. The treatment of vacation pay is also considered an employee benefit. Businesses can only deduct vacation pay in the tax year when the employee actually receives it, regardless of the accounting method used. The tax implications of severance pay and other forms of compensation that may arise when an employee leaves the company. So, it is crucial to understand the importance of maintaining proper records and ensuring that all payments are reasonable and directly related to the services rendered. Understanding these rules is vital for businesses to accurately report their expenses and maximize their tax deductions related to employee pay.

(2) Expense Deduction for Rent

It is about the deductibility of rent expenses incurred by businesses for the use of property. Rent paid for business property is generally fully deductible as a business expense in

the year it is paid or incurred, which applies to various types of rental agreements, including both short-term and long-term leases. If a portion of a home is used exclusively for business purposes, the rent or mortgage interest may be partially deductible under the home office deduction rules, based on the percentage of the home used for business.

When businesses make improvements to rented property, those costs may need to be capitalized rather than deducted in full, and improvements must be depreciated over time according to applicable depreciation rules. Costs incurred for leasehold improvements, which are enhancements made to rented property, are generally capitalized and depreciated “over the life of the lease or the useful life of the improvements, whichever is shorter”. It is essential for businesses to maintain accurate records of rent payments and related expenses to substantiate their deductions, including lease agreements, payment receipts, and any correspondence related to the rental arrangement.

However, rent paid for personal use or for property not used in the business is not deductible, and businesses must ensure that the rented property is used exclusively for business

purposes to qualify for the deduction. Understanding these rules is crucial for accurate tax reporting and maximizing tax benefits related to rent expenses.

(3) Expense Deductions for Interests, Taxes and Insurance

Interest paid on business loans is generally deductible as a business expense in the year it is paid or incurred. The types of interest that can be deducted include interest on loans used to purchase business assets, finance inventory, or cover operating expenses. However, interest on personal loans or loans not directly related to business activities is not deductible. Additionally, the limitations on interest deductions apply, particularly for certain types of businesses, such as corporations, and the implications of the interest expense limitation rules under the Tax Cuts and Jobs Act.

Businesses can deduct various taxes as expenses. Most taxes paid in the course of business operations, such as “state and local income taxes, payroll taxes, and property taxes”, are generally deductible. It is important to distinguish between personal and business taxes, as only the latter can be deducted. Specific tax situations arise, such as the

deductibility of sales tax and the treatment of estimated tax payments. Businesses must keep accurate records of all tax payments to ensure compliance and maximize their deductions.

Insurance expenses related to business operations can be deducted. Premiums paid for various types of business insurance, such as liability insurance, property insurance, and workers' compensation insurance, are generally deductible as business expenses. For many businesses like platforms, it is important to maintain adequate insurance coverage to protect business assets and mitigate risks. The treatment of prepaid insurance premiums, which must be deducted over the period of coverage rather than all at once. Understanding the deductibility of insurance expenses is crucial for businesses to effectively manage their costs and ensure financial stability

So, individual businesses like platform workers should understand which expenses are deductible, including ordinary and necessary expenses related to operations. They need to be aware of limitations on deducting interest expenses, especially under the Tax Cuts and Jobs Act. Research and experimental expenditure must be amortized over a 5-year period starting in

2022, so businesses should plan accordingly. It's important to understand the rules surrounding depreciation and capitalization of business assets, including Section 179 expense. Maintaining thorough and accurate records of all transactions is crucial for compliance and maximizing deductions. Staying informed about changes in tax laws that may affect operations is essential. Businesses should also be aware of the tax implications of fringe benefits provided to employees, as many can be deductible. Timely payment of estimated taxes is necessary to avoid penalties, and businesses should calculate these payments based on expected income and deductions for the year.

As above, in the U.S. we discuss the tax deductibility of various business expenses, including employee compensation, rent, interest, taxes, and insurance. Employee payments such as wages, bonuses, and commissions are generally deductible in the year they are paid, provided they are reasonable and directly related to the services rendered. Rent for business property is fully deductible in the year incurred, while improvements to rented property must be capitalized and depreciated. Interest on business loans is also deductible, as are taxes related to business operations. Insurance premiums

must be deducted over the coverage period. It is important to understand these rules, maintain accurate records, and stay informed about tax law changes to maximize deductions and ensure compliance

2) Expense Deduction in Korea Individual Taxation

(1) Deduction of Global Income

The income for each type of global income is calculated individually. These amounts are then combined to determine the total global income. The global income tax base is determined by subtracting the global income deduction from the total global income. Non-residents follow the same rules as residents for determining the income tax base and tax amount. However, non-residents are not eligible for personal deductions (basic and additional deductions) for dependents or special deductions under Article 122. Only the basic deduction and additional deductions for the filer, such as those for elderly or disabled individuals, are applicable.

a. Basic Deduction (Income Tax Act Article 50)

Residents with global income can claim a deduction of 1.5 million won per individual, including themselves and eligible dependent family members.

- “A spouse with income of not more than 1 million won per year (Where he/she only has wage & salary income, the total annual pay should be not more than 5 million won.)”
- “A dependent falling under any one of the below living together with a resident, whose annual income does not exceed 1 million won (Where he/she only has wage & salary income, the total annual pay should be not more than 5 million won.)”

b. Additional Deduction (Income Tax Act Article 51)

If a person eligible for the basic deduction (a resident, their spouse, or dependent family members) meets any of the following conditions, an additional deduction will apply.

- “Where a person is 70 years old or older (for persons born on or before Dec.31, 1953, income attributable to

2023): 1,000,000 won per capita”

- “Where a person is handicapped: 2,000,000 won per capita”
- “Where a person has global income of 30 million won or less and is a female with no spouse and the head of a household with dependents, or a female with a spouse: 500,000 won a year”
- “Where a person has no spouse and has lineal descendants or adoptees: 1 million won a year (If the person also falls under 'iii, iv shall apply.)”

c. Pension Contribution Deduction (Income Tax Act Article 51-3)

- If a resident with global income has made contributions or individual payments under public pension-related laws, the pension contributions paid during the taxable period will be deducted from the global income for that period.

d. Special Deduction (Income Tax Act, Article 52)

- Insurance Premium: If a resident (excluding daily workers) has paid employee-borne insurance premiums under “the National Health Insurance Act”, “the Employment Insurance Act”, or the “Long-Term Care Insurance for the

Aged Act”, the amount paid during the taxable year will be deducted from their wage and salary income for that taxable period.”

- Housing Purchase Funds : Repayment of the principal on a housing lease loan is deductible if the employee is the head of a household without housing or if household members qualify when the head did not claim housing-related deductions. The deductible amount includes the repaid principal of loans from financial institutions used to rent a national housing-sized house or a residential-use office Tel. The repaid interest on long-term housing mortgage loans is deductible if the head of a household owns no housing or only one housing (or household members qualify if the head did not claim housing-related deductions). The mortgage must have been taken out from a financial institution to purchase a house valued at no more than 500 million won in standard market price at the time of purchase.
- Donation : Starting in 2015, donations are no longer deducted but are instead eligible for a tax credit. However, for donations made up to 2013 that were carried forward due to not being deducted within the past 10 years, an income deduction will apply.

(2) Tax Credits

A tax credit refers to the reduction of a specific amount from the calculated tax liability of a taxpayer who meets the requirements set out under “the Income Tax Act” and “the Restriction of Special Taxation Act”.

< Tax Credit Under Income Tax Act¹¹ >

Tax credit	Deducted Amount	Ceiling
Tax credit for dividend income (Article 56)	Dividend income ×11%	Withholding tax & comparative taxation applied
Tax credit for bookkeeping (Article 56-2)	Calculated tax for income on books ×20%	1 mil. won
Foreign tax credit (Article 57)	Amount of foreign income tax	Calculated tax for overseas-source income
Tax credit for casualty loss (Article 58)	Income tax × Asset loss ratio	Value of asset losses

¹¹ National Tax Service, Individual Income Tax and Benefit Guide for Foreigners 2024, p.233

Tax credit for wage & salary income (Article 59)	Calculated tax \times 55% (30% when calculated tax is over 1.3 mil. won)	740,000 (660,000, 500,000) won
Tax credit for pension accounts (Article 59-3)	Amount paid into pension accounts \times 12% (global income up to 45 mil. won, gross wage & salary up to 55 mil. won: 15%)	Up to 9 mil. won including retirement pension
Tax credit for taxpayer association (Article 150)	Calculated tax for wage & salary income \times 5%	

A platform worker with wage and salary income (excluding daily workers) is eligible for a special tax credit for items such as insurance premiums, medical expenses, educational expenses, and donations. Additionally, compliant business operators and those subject to confirmation of compliant filing, who meet specific conditions under “Article 122-3 of the Restriction of Special Taxation Act”, can claim a 15% deduction on medical and educational expenses incurred in the relevant taxable year. This deduction is increased to 20% for medical expenses related to premature babies and babies with birth

defects, and 30% for infertility treatment expenses. These deductions apply only to income tax for business income in the relevant taxable year.

<Special Tax Credit Under Income Tax Act¹²>

Tax Credit		Ceiling	Rate
Insurance Premium	Indemnity insurance premiums	1,000,000 won per year	12%
	Indemnity insurance premiums for the disabled	1,000,000 won per year	15%
Medical Expenses	Taxpayer, The Aged (65 years old or older), The Handicapped	“In excess of 3% of the total wage and salary income” a: no tax credit limit b: limit of 7,000,000 won a year	15% (20% for medical expenses for premature babies and babies with birth defects; 30% for infertility treatment expense)
	Other Dependents		
Educational	Taxpayer himself/herself	Entire amount	
	Children not-yet-enrolled in elementary schools	3,000,000 won per capita	

¹² National Tax Service, Individual Income Tax and Benefit Guide for Foreigners 2024, p.247

Expenses	Students enrolled in elementary schools, middle schools, high schools	3,000,000 won per capita	15%
	College students	9,000,000 won per capita	
	The handicapped	Entire amount	
Donations	Political fund donation	Donations to political parties	100/110 for 100,000 won or less; 15%, 25% for over 100,000 won
	Statutory donation	Contributions for national defense and war relief	15% for 10 mil. won or less; 30% for over 10 mil. won
	Donation to an employee's stock ownership association	Income deduction for donation to an employee's stock ownership association, donations to an employee's stock ownership association	
	Donation to a religious organization	Religious organizations registered at the competent authority	
	Donation to other organizations	Designated social, welfare and cultural art organizations	

We reviewed an overview of tax deductions and credits related to housing and donations in South Korea. We can specify that

the interest paid on long-term housing mortgage loans is deductible if the head of the household owns no more than one property, and the mortgage must be from a financial institution for a house valued at no more than 500 million won. Since 2015, donations are no longer eligible for deductions but can qualify for tax credits, while donations made before 2013 may still be deducted if not previously claimed. Various tax credits are available under the Income Tax Act, including those for dividend income, bookkeeping, foreign taxes, casualty losses, and wage income, each with specific ceilings and rates. Additionally, platform workers with wage income can access special tax credits for insurance premiums, medical expenses, and educational expenses, with enhanced deductions for medical costs related to premature babies and infertility treatments. There are also the limits for tax credits on donations to political parties, registered religious organizations, and designated social and cultural organizations.

3) Expense Deduction Comparison: U.S. and Korea

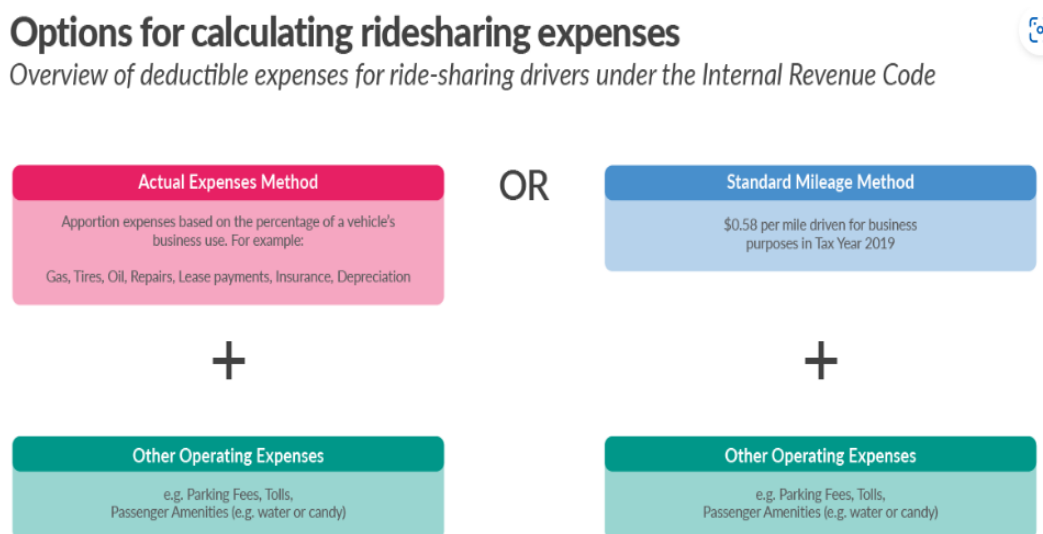
In the U.S., which taxes income comprehensively regardless of source, there is no basic distinction between wage earners

and business income earners when calculating income tax liability. Employees may deduct from gross income necessary and ordinary expenses incurred in the performance of their duties, but only if they are not reimbursed by their employer, or if their employer reimburses them for work-related expenses, the reimbursement is excluded from gross income and the related expenses are not deductible. Self-employed can deduct necessary and ordinary expenses incurred while conducting a business, but taxpayers are required to report these expenses to the IRS and provide supporting documentation.

If you're a gig worker who is classified as self-employed in the U.S., you can generally take the following deductions: business deduction, standard deduction or itemized deduction, and self-employed deduction. Gig workers can deduct ordinary and necessary business expenses incurred in the course of their gig activities as business deduction. These expenses can include supplies, equipment, mileage, marketing costs, and home office expenses. Gig workers can choose between taking the standard deduction or itemizing deductions on their tax return. The standard deduction provides a flat amount based on filing status, while itemized deductions allow for specific

expenses to be deducted.

<Example 1 : Options for ridesharing expenses, Tax Foundation(2019)>



Depending on their circumstances, gig workers may opt for the standard deduction if it results in a higher deduction amount than itemizing their expenses. Self-employed gig workers are subject to self-employment tax, which includes Social Security and Medicare contributions, allowing individuals to deduct 1/2 of the self-employment tax to adjust income on the tax returns.

< Example : Calculating Tax Owed – Independent Contractor, Tax Foundation(2019)>

Independent Contractor

Contractor earns \$15,000 in gross earnings on a Form 1099-K and \$50,000 in employee wages on a Form W2

Exclude ridesharing platform fees from earnings on Form 1099-K

Exclude \$3,750, or 25% of 1099 earnings.¹

$\$15,000 - \$3,750 = \$11,250$ in earnings net of platform fees

Deduct business-related expenses on Schedule C of Form 1040

Contractor elects to take the standard mileage deduction in lieu of actual expenses

5,000 business miles driven at \$0.58 per mile
= \$2,900 in vehicle expenses

\$500 in other operating expenses, such as water for passengers and parking fees

$\$2,900$ vehicle expenses + $\$500$ operating expenses =
\$3,400 business expenses

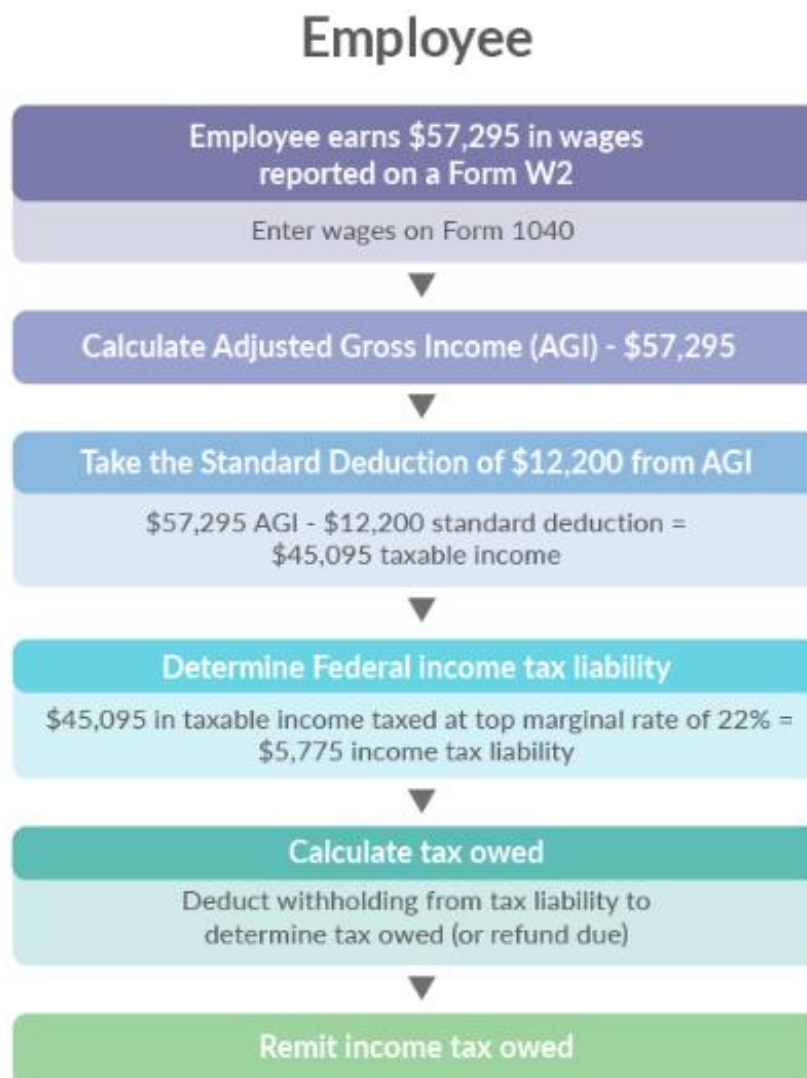
$\$11,250$ earnings - $\$3,400$ business expenses =
\$7,850 in net profit



In the U.S., the deductions available to employees and self-employed individuals are almost same, so there aren't many equity issues based on employment status, but record keeping for business deductions and documentation, the decision between taking the standard deduction and itemizing deductions and calculating self-employment tax can be a

significant burden on gig workers' tax returns, which is discussed in the next section.

< Example : Calculating Tax Owed – Employee, Tax Foundation(2019)>



In Korea, labor income and business income are taxed together as comprehensive income, but they are fundamentally different in nature, such as the degree of risk borne by the taxpayer and the stability of income. Wage and Salary income refers to remuneration for the provision of labor and includes salaries, wages, salaries, taxes, wages, allowances, bonuses, etc. that are paid in exchange for labor provided under a labor contract, etc. Business income is income generated from a business that is operated continuously in an independent status, and the specific types and scope are defined in Article 19 of the Income Tax Act and related enforcement regulations and are based on the Korean Standard Industrial Classification notified by Statistics Korea, except where the scope of the business is specifically stipulated. In the case of business income, taxability is determined by voluntary reporting and payment based on the books kept by the taxpayer operating the business, so the level of confidence in the transparency of the tax source and the optimization of the tax base is not the same as that of labor income, where tax is collected at the same time as payment through the withholding method. In other words, in the case of business income, since the tax administration cannot verify

the size of taxable income individually and basically relies on the individual's reporting, there is a possibility that some of the income may be omitted to reduce the taxable income, while in the case of ordinary employees, the income is fully exposed to the tax authorities and there is little room to reduce the taxable income.¹³ For these reasons, the current Income Tax Act makes certain differences in the application of necessary expenses, deductions, and credits between employees and business income earners when calculating the amount of income tax liability, i.e., limits the deductions and credits applicable to business income, while providing employees with deductions and credits for earned income, working tax credits, and various special tax credits.

Under Korea's system of differentiated deductions for labor and business income, this creates an equity issue for platform workers. platform workers, who are economically similar to employees but are categorized as self-employed because they have greater autonomy over when, where, and for how long they work, are subject to fewer deductions and a higher tax burden for the same level of income. Of course, the system is

¹³ 김재진 외 2인, 근로소득자와 사업소득자를 위한 소득세 공제제도 국제비교, 한국조세재정연구원, 2014, p. 121

designed to compensate for the differences in the relative proportions of wage earners and business earners across countries and the greater potential for tax evasion of business income, but as long as platform workers are subject to a higher tax burden than workers earning the same income under the current system, equity concerns will continue to be raised.

The comparison of expense deductions between the U.S. and South Korea shows significant differences in tax treatment for wage earners and self-employed individuals. In the U.S., both employees and self-employed gig workers can deduct necessary business expenses, but employees can only do so if not reimbursed by their employer. Self-employed individuals must report these expenses to the IRS with supporting documentation. Gig workers can choose between a standard deduction or itemizing their expenses, which can include various costs related to their work. They also face self-employment tax, which includes Social Security and Medicare contributions. In contrast, South Korea taxes labor and business income as comprehensive income but treats them differently. Wage income is straightforward, while business income relies on voluntary reporting, leading to potential

underreporting. The Income Tax Act in Korea limits deductions for business income earners compared to employees, creating equity issues for platform workers who, despite being economically similar to employees, face higher tax burdens and fewer deductions. This disparity raises concerns about fairness in the tax system, particularly for platform workers who have more autonomy but are taxed more heavily than traditional employees earning similar incomes.

4) Standard and Simplified Expense Rate System in Korea

All business operators are required to file their returns based on their bookkeeping records. However, for self-employed taxpayers who do not maintain books, taxable income is calculated by applying a presumed expense rate (such as standard or simplified expense rates) to the previous year's gross revenue, as the exact income amount cannot be determined in these cases.

(1) Simplified Expense Rate: For taxpayers using the simplified expense rate, income is calculated by subtracting necessary expenses from revenue. Necessary expenses are determined by multiplying gross revenue by the simplified

expense rate.

(2) Standard Expense Rate: For taxpayers subject to the standard expense rate, primary expenses (such as purchase expenses, rent, and wages) that are supported by documentary evidence are considered necessary expenses. Other expenses are recognized as necessary expenses based on the amount calculated using the standard expense rate designated by the NTS . However, to prevent a significant increase in tax burden, taxpayers under the standard expense rate can choose the lower amount between income calculated using the standard expense rate and income derived by multiplying income calculated using the simplified expense rate by a designated multiplying factor.

Taxpayers are subject to the standard expense rate when 1) Taxpayers who do not maintain books and are not eligible for the simplified expense rate, 2)Taxpayers who do not keep books and whose total gross revenue for the preceding tax year is equal to or exceeds the specified amount, 3)Newly established businesses in 2023 whose gross revenue for the taxable period exceeds the minimum revenue threshold.

Taxpayers are subject to the simplified expense rate when 1) Businesses that were newly started in the same taxable year and whose minimum revenue does not reach the specified amount. 2) Businesses that do not report income based on bookkeeping records and whose revenue for the preceding taxable year falls below the specified threshold.¹⁴

Industry	Minimum Revenue	
	Continuing Business	New Business
1. "Farming and forestry, fishing, mining, wholesale and retail (excluding commodities brokerage), real estate brokerage and industries that do not fall under category 2 and 3"	60 Million Won	300 Million Won
2. "Manufacturing, lodging and food service, utilities (electricity, gas, steam and air conditioning), water, sewage waste disposal, raw material recycling, construction (excluding construction of non-residential	36 Million Won	150 Million Won

¹⁴ National Tax Service, Individual Income Tax and Benefit Guide for Foreigners 2024 , P.59

buildings), real estate development and supply (limited to residential buildings), transportation and storage, telecommunications, finance and insurance services, commodities brokerage”		
3.”Real estate lease, real estate-related services (excluding real estate sales), lease services (excluding real estate lease), professional science and technology services, business facility management, business support and lease service, education services, health and social welfare, art, sports and leisure-related services, associations and groups, repairing services, personal services, hiring activities in households”	24 Million Won	75 Million Won

D . Record keeping, Tax Filing and Payment

U.S. individuals typically file their taxes using IRS Form 1040 or one of its variants, depending on their specific circumstances. The deadline for filing taxes is usually April 15th of the following year, though this date may vary due to weekends or holidays. If gig workers are classified as employees, they receive W-2 forms from their employers, detailing their wages and taxes withheld throughout the year. Taxes are automatically deducted from each paycheck, simplifying the process of meeting their tax obligations. Employees can claim certain deductions for expenses related to their work, like unreimbursed business expenses, on their tax returns. They file Form 1040, possibly with additional schedules for specific deductions, to report their income and claim any eligible tax credits. If gig workers are classified as self-employed, tax filing process is more complex. They must track all income earned throughout the year and report it accurately to the IRS. Unlike employees, self-employed individuals are responsible for calculating and remitting their own taxes, including self-employment taxes for Social Security and Medicare. Gig workers as typically considered self-employed individuals are responsible for paying estimated

taxes If they anticipate owing \$1,000 or more in taxes when filing their annual tax return. (Estimated tax payments are due “four times a year on April 15, June 15, September 15, and January 15 of the following year”). They can deduct a wide range of business expenses, such as office rent, supplies, and health insurance premiums, to reduce their taxable income. Self-employed individuals file Form 1040 along with Schedule C to report their business income and expenses.

Gig workers in the U.S. may face difficulties in accurately reporting their income from multiple sources and determining which expenses qualify as deductible business expenses and how to properly claim them on tax returns can be complex for gig workers. And failure to make accurate and timely self-employment tax and estimated tax payments throughout the year can result in underpayment penalties when filing tax returns. These issues can lead to non-compliance risks, increased administrative burden, exposure to audit risks and heightened financial burden and mental stress for gig workers.

If a platform worker's income is classified as business income, platform workers in Korea should also maintain detailed records of income, expenses, receipts, and other

financial transactions throughout the year, which places a similar burden of record keeping as gig workers in the United States. In addition, similar to the quarterly estimated tax in the U.S. but once in a year, gig workers in Korea are required to pay an interim estimated tax notice or interim estimated tax within the period from November 1 to November 30 for the period from January 1 to June 30, representing a half of the previous year's tax liability.

However, unlike the U.S., Korean gig workers can use a wider range of expenses deduction for estimated taxation using the special expense deduction system. In this system, all businesses are required to keep books and submit financial statements or income statements that aggregate the contents of the books to the income tax return, but even if the business does not keep books, the amount of taxable income can be estimated through special deduction and be taxed. It may seem similar to the U.S. standard deduction, which deducts a certain amount, but it is a system that deducts from a certain percentage of business income a wide range of expenses by industry as a means of estimating business expenses. The regulations are complicated, but the core of the system is that (1) a certain percentage of business revenue is deducted at a

higher level for certain low-income brackets, (2) a lower percentage is deducted for certain higher income brackets, but additional deductions are allowed for certain record-keeping items to encourage record-keeping, and (3) certain percentage of revenue deducted as expenses by industry is revised and published annually by the National Tax Service based on statistical data by industry. For example, in the case of the delivery food rider, which is a typical example of a gig worker, if the business revenue in 2022 was 36 million won or less, 80% of the business revenue in 2023 is deducted as an expense. However, if their revenue in 2022 was more than 36 million won but less than 75 million won, they can deduct 20% as an expense by default, and additional deductions are allowed if you have proof of expenses for certain items.

As such, platform workers in South Korea face fewer tax compliance burdens than gig workers in the U.S. in that they pay estimated taxes once a year instead of four times a year, and they can deduct expenses without recordkeeping to a greater extent than with itemized deductions. However, a system that provides a total expense deduction based on the percentage of expenses on revenue by industry reduces the incentive for gig workers to systematically record and report

their expenses, and if the deduction rate is different for gig workers who actually record and report their expenses, this also poses a problem in terms of tax equity. It would also be an administrative burden for tax authorities to calculate and publish the percentage of expenses to income by industry every year in the ever-changing platform economy market.

So, in the United States, self-employed individuals are required to make estimated tax payments quarterly if they expect to owe \$1,000 or more in taxes when filing their annual return. They can deduct a wide range of business expenses, such as office rent, supplies, and health insurance premiums, to reduce their taxable income. However, gig workers often face challenges in accurately reporting income from multiple sources and determining which expenses qualify as deductible, leading to potential underpayment penalties and increased administrative burdens. In South Korea, platform workers are classified as self-employed and must maintain detailed records of their income and expenses for tax purposes. They are required to pay an interim estimated tax based on the previous year's tax liability once a year, between November 1 and 30. Unlike their U.S. counterparts, South Korean platform workers benefit from a special expense deduction system that allows for

a broader range of expense deductions. For instance, if their revenue was 36 million won or less in 2022, they can deduct 80% of their business revenue in 2023 as expenses. Overall, South Korean platform workers face fewer tax compliance burdens compared to U.S. gig workers, as they only need to make estimated tax payments once a year and can deduct expenses more easily. However, the system's reliance on industry-specific expense ratios may reduce the incentive for systematic record-keeping, presenting its own challenges for compliance and financial management.

D. Disposing Business Property

1) U.S Tax Law(IRS Publication 334, 2003)

(1) Transaction regarded as Disposition of property¹⁵

- a. “When sell property for cash or other property.”
- b. “When exchange property for other property.”
- c. “When receive money as a tenant for the cancellation of a lease.”
- d. “When receive money for granting the exclusive use of a copyright throughout its life in a particular medium.”
- e. “When transfer property to satisfy a debt.”

15

Nontaxable Exchanges: Certain property exchanges are not subject to taxation. This means any gain from the exchange is not recognized, and any loss cannot be deducted. Your gain or loss will only be recognized when you sell or otherwise dispose of the property you receive.

Like-Kind Exchanges: A like-kind exchange involves trading one property for another of the same kind. This is the most common form of nontaxable exchange. To qualify as a like-kind exchange, both the property given and the property received must meet the following criteria:

- (a) They must be real property, and
- (b) They must be used for business or investment purposes.

- f. “When abandon property.”
- g. “When bank or other financial institution forecloses on your mortgage or repossesses your property.”
- h. “when property is damaged, destroyed, or stolen, and receive property or money in payment.”
- i. “When property is condemned, or disposed of under the threat of condemnation and receive property or money in payment.”
- j. “When give property away.”

(2) Gain or Loss Calculation: Amount Realize – Adjusted Basis

Amount Realized: “The amount realized from a disposition is typically the total sum of all money received, plus the fair market value of any property or services obtained. This amount also includes any of your liabilities assumed by the buyer and any liabilities tied to the property, such as real estate taxes or mortgages.”

Basis: “The basis of a property is typically its purchase price or cost, and it is used to calculate any gain or loss upon its

sale or other disposition. However, if the property was acquired through a gift, inheritance, or other means, the basis may differ from its cost.”

Adjusted Basis: “The adjusted basis of a property is generally its original cost or other basis, with certain additions and subtractions applied. Additions can include capital improvements, while deductions may include depreciation or casualty losses. When determining gain or loss, the costs associated with transferring the property, such as selling expenses, are added to the property's adjusted basis.”

Amount Recognized: “The gain or loss you realize from the disposition of property is typically recognized for tax purposes. Recognized gains must be reported as part of your gross income, while recognized losses can generally be deducted from your gross income. However, gains or losses from certain property exchanges may not be recognized. Additionally, losses from the sale or disposition of property held for personal use cannot be deducted.”

Fair Market Value: “Fair market value is the price at which a property would be exchanged between a willing buyer and

seller, with neither being compelled to buy or sell and both having a reasonable understanding of all relevant facts.”

(3) Ordinary or Capital Gain or Loss, Short or Long term

Taxpayers must classify their gains and losses as either ordinary or capital to calculate their net capital gain or loss. Generally, a capital gain or loss arises when they dispose of a capital asset. Most items they own and use for personal purposes or investment qualify as capital assets. Certain property used in a business is not considered a capital asset. Gains or losses from the disposition of such property are typically classified as ordinary gains or losses. However, if a taxpayer held the property for more than one year, taxpayer might be eligible to treat the gain or loss as a capital gain or loss. These are referred to as *section 1231 gains and losses*.

If a taxpayer has a capital gain or loss, he must determine whether it is classified as long-term or short-term. This classification depends on the duration of his ownership of the property before its disposition, known as the holding period.

2) Korea Tax Law

Until December 31, 2017, gains from the disposal of real estate such as land and buildings were taxed as capital gains, and gains from the disposal of a passenger car for business use by a double bookkeeper were taxed as business income. Other gains from the disposal of tangible assets for business use were not taxed because they were not listed as taxable under the Income Tax Act.

However, as of January 1, 2018, a regulation has been in place to tax gains from the disposal of all business tangible assets as business income. However, this does not apply to all businesses, but is limited to double-entry bookkeepers, and simple bookkeepers are excluded from taxable businesses due to concerns about the increase in tax cooperation costs¹⁶.

¹⁶ The person in charge of the double-entry bookkeeping shall record and manage the books in accordance with the double-entry bookkeeping so that the facts of all transactions related to the business can be objectively identified, and the certificates for calculating the amount of income can be prepared.

In the case of a business that is subject to simplified accounting under a certain size by industry, the obligation shall be deemed to be fulfilled if the simplified accounting is prepared and the transaction facts of the business are

Income Tax Act Article 19 (Business Income)

(1) “Business income shall be the following income generated during the relevant taxable period: Provided, That the foregoing provisions shall not apply where tax on such business income is withheld or a final return on the tax base of such business income has been filed, by treating that income as other income under Article 21 (1) 8-2:”

20. “Income that a person subject to double-entry bookkeeping under Article 160 (3) gains from transferring any of the tangible business-use assets specified by Presidential Decree, such as vehicles or delivery equipment: Provided, That any income constituting capital gains under Article 94 (1) shall be excluded herefrom”

3) Comparison between U.S. and Korea

recorded in good faith.

In the U.S., the gain or loss is determined by subtracting the adjusted basis from the amount realized, which includes all money received and the fair market value of any property obtained. Recognized gains must be reported as gross income, while losses can generally be deducted, except for personal property sales. Taxpayers classify their gains and losses as ordinary or capital based on the asset's use and holding period, with long-term capital gains applying to assets held for over a year. In contrast, under Korean tax law, as of January 1, 2018, all gains from the disposal of tangible business assets are taxed as business income for double-entry bookkeepers, while simple bookkeepers are exempt due to concerns about tax compliance costs. We can verify a significant difference in how business income is treated in Korea compared to the U.S., where the classification of gains and losses is more focused on the nature of the asset and the duration of ownership. So, when gig workers sell their properties like cars, motorcycles, computer appliances, it should be quite differently in the U.S and South Korea.

IV . Policy Suggestion for Taxing Platform Workers

A . Income reporting and withholding tax

As mentioned above, unlike traditional workers, gig workers are rarely subject to withholding taxes (as in the U.S.), and the fact that gig workers are sometimes paid directly for their services rather than through a platform provider, and that their income is often irregular, short-term, and multiple across multiple platforms, makes it more difficult for tax authorities to capture the income of gig workers. If the threshold for submitting income information for gig workers is high, as it is in the U.S., it is important to lower the threshold to capture the widest possible range of income information for gig workers.¹⁷ Lowering the threshold for reporting earnings in the gig economy can significantly improve tax compliance among participants. This adjustment would lead to increased reporting, providing workers with a clearer understanding of their income and tax obligations, reducing the likelihood of underreporting. It would also enhance data matching for the IRS, helping to identify discrepancies and enforce tax

¹⁷ Garrett Watson, Improving the Federal Tax System for Gig Economy Participants, Tax Foundation, 2019, p.14

compliance more effectively. By offering policy certainty to platforms and streamlining reporting processes, the lower threshold can ensure consistent and accurate income reporting. While there may be a slight increase in administrative costs for platforms, the overall benefits of improved transparency, data accuracy, and compliance in the gig economy outweigh this potential drawback. Recently, for tax year 2024, the IRS plans for a threshold of \$5,000 to phase in reporting requirements while for 2023 and prior years, Payment apps and online marketplaces were only obligated to provide Forms 1099-K to taxpayers who earned over \$20,000 and completed more than 200 transactions.

Although Korea collects income information on some platform workers through withholding taxes, it is necessary to expand the criteria for submitting income information on non-withholding taxpayers (tax data on service providers if business owners provide a place of business related to the person providing the service mentioned in the previous section) to the maximum extent possible and implement various incentive policies to facilitate cooperation in submitting information of gig workers. In particular, it is important to establish a system for tax authorities, labor

authorities, and platform operators to share information on this new type of worker, not only domestically but also internationally, in order to capture the income of gig workers. Tax authorities should actively cooperate with labor authorities to understand the status of the gig economy and share issues arising in the labor and tax fields, and tax authorities should discuss the scope of basic information collection and information exchange with multinational platform operators for effective taxation of nationals earning income through foreign platforms.

In addition, countries that do not have a withholding tax on gig workers, such as the United States, should start to implement it gradually. In fact, many experts in the US argue that a non-employee withholding tax is necessary in response to the continued growth of the platform economy.¹⁸ Under the withholding system, platform companies would be required to withhold a fixed percentage of a gig worker's gross receipts to cover the worker's self-employment and income tax obligations. This withholding mechanism is similar to the tax withholding that traditional employee experience, where taxes

¹⁸ KATHLEEN DELANEY THOMAS, TAXING THE GIG ECONOMY, University of Pennsylvania, Law Review, 2018, p 1443.

are deducted from their paychecks and remitted to the IRS on their behalf. By implementing non-Employee Withholding, gig workers would no longer need to make quarterly estimated tax payments themselves, as the platform companies would handle the withholding and tax remittance process. This reform seeks to alleviate the burden on gig workers of managing their tax obligations, ensuring that taxes are paid throughout the year rather than in a lump sum at tax filing time. It also aims to improve tax compliance among gig workers by simplifying the process and reducing the likelihood of underpayment or non-compliance. Overall, Non-Employee Withholding is designed to streamline the tax compliance process for gig workers, making it more akin to the tax withholding experience of traditional employees and reducing the administrative complexities associated with self-employment tax obligations in the gig economy. One important consideration is the appropriate level of withholding tax rate for gig workers. While a significant difference from the tax rate applied to employees may raise equity issues between employees and gig workers, the nature of platform workers who earn income from various platforms on an irregular basis makes it necessary to differentiate the rate to some extent from employees who are exclusively employed by one company and earn income on a regular basis.

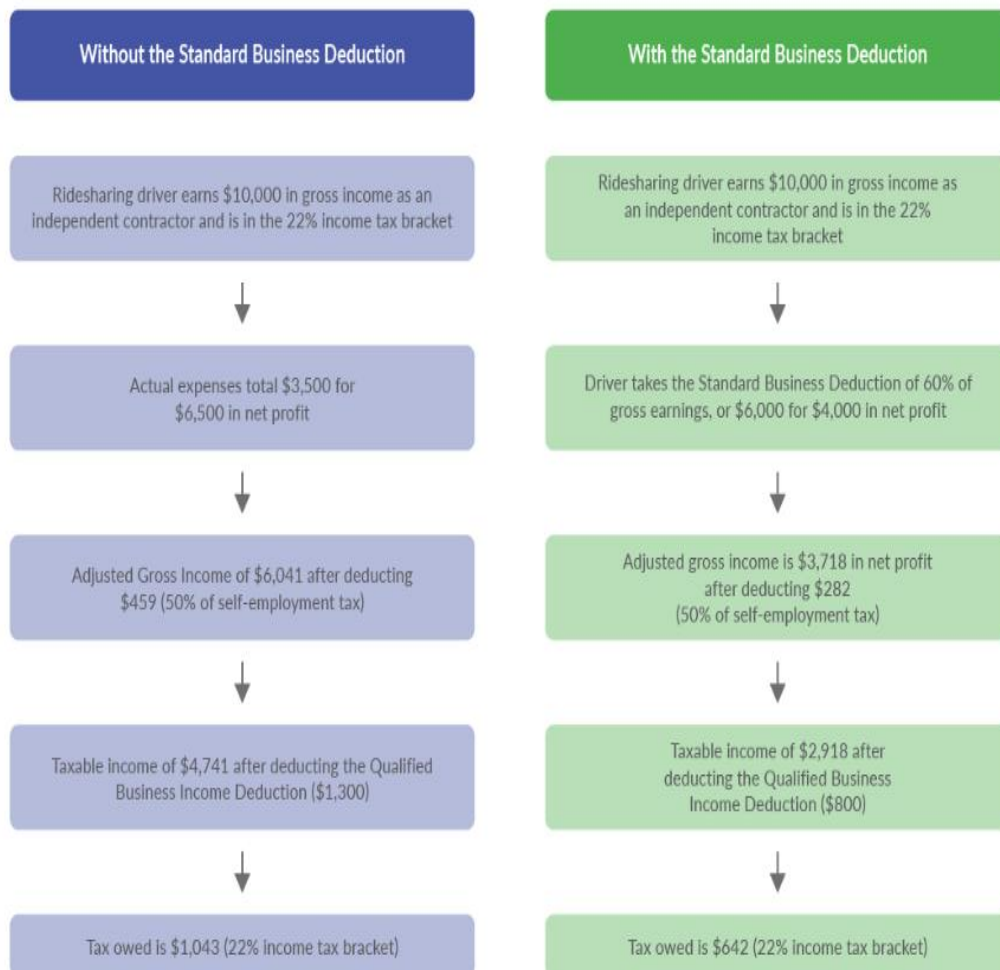
Gig workers face unique challenges regarding tax compliance, as they are rarely subject to withholding taxes, and their income is often irregular and derived from multiple platforms. To improve tax reporting and compliance, it is essential to lower the income reporting threshold for gig workers, which would facilitate better understanding of their tax obligations and enhance data matching for tax authorities. In South Korea, there is a need to expand criteria for collecting income information from non-withholding taxpayers and to promote collaboration between tax and labor authorities. Additionally, introducing a non-employee withholding tax in the U.S. could simplify tax obligations for gig workers, making the process more akin to that of traditional employees and addressing equity concerns regarding differing tax rates.

B . New deduction system for platform workers

The current tax regime for gig workers in the U.S. can be complex and burdensome, especially when it comes to tracking and reporting business expenses and gig workers may face compliance challenges due to the complexity of tax rules and the temptation to underreport expenses or make errors in tax reporting. Simplifying worker expenses and deductions in the gig economy is crucial for improving tax compliance and reducing complexity for gig workers. One way to achieve this is by introducing a Standard Business Deduction (SBD), which would allow gig workers to deduct a proportion of their gross earnings as business expenses without the need to track and itemize individual expenses. This approach, proposed by experts like Kathleen DeLaney Thomas, eliminates the burden of detailed expense tracking and apportioning business expenses from personal ones.¹⁹

< Example : Standard Business Deduction, Tax Foundation(2019)>

¹⁹ KATHLEEN DELANEY THOMAS, TAXING THE GIG ECONOMY, University of Pennsylvania, Law Review, 2018, pp.1454-1457.



By providing a standardized deduction based on industry data or average profitability rates, the SBD streamlines the deduction process for platform workers, making it easier for them to calculate taxable income and comply with tax obligations. This simplification can help reduce errors in

expense reporting, improve tax compliance rates, and alleviate the administrative burden on platform economy participants.

The special expense deduction for estimated tax implemented in Korea is similar to this Standard Business Deduction.

However, this type of expense deduction may raise issues such as the equity of expense deduction between employees and gig workers and the equity of expense deduction between platform workers, so efforts should be made to overhaul the system so that tax neutrality is maintained according to the type of labor and industry. In the case of newly emerged jobs, the distinction between employee and freelancer may not be clear due to the increase in the variety of employment forms and non-standard employment contracts, and since such deductions in Korea are differentiated by industry, the rate of expense recognition among platform workers varies depending on the industry they belong to.

To solve this problem, the overall deduction level for employees and the standard business deduction level for platform workers should be set at a similar level. In the case of platform workers who are affiliated with a platform rather than a general business that employs other people or has physical

facilities, the deduction level should be set at a similar level to that applied to employees, but the deduction level should be reviewed annually to ensure that various expenses (such as platform fees) incurred due to the characteristics of gig work that distinguish it from traditional employment are appropriately reflected.

In addition, a more sector-specific approach should be taken, such as allowing additional deductions for specialized expenses to the extent they can be substantiated. This approach should be supported by a careful analysis of the platform economy, which requires an accurate understanding of the market structure and the revenue and cost structure of platform operators and platform workers, and an analytical approach to policy design and implementation.

The tax regime for gig workers in the U.S. is often complicated and burdensome, particularly regarding the tracking and reporting of business expenses, which can lead to compliance issues and underreporting. To address these challenges, the introduction of a Standard Business Deduction was proposed, allowing gig workers to deduct a percentage of their gross earnings as business expenses without the need for

detailed tracking. This simplification aims to enhance tax compliance and reduce administrative burdens. However, similar deductions in Korea show potential equity issues between employees and gig workers, necessitating a review to ensure fair treatment across different labor types. A sector-specific approach is recommended, allowing for additional deductions for specialized expenses, supported by a thorough analysis of the platform economy's structure. Overall, establishing a balanced and equitable deduction system is essential for accommodating the unique characteristics of gig work while maintaining tax neutrality.

C . Support system for platform workers' filing

In addition to improving laws and systems, such as securing income information through platform operators, implementing a withholding system and Standard Business Deduction to simplify expense deductions, a support system is needed to help platform workers file tax returns without much difficulty when actually filing. As many platform workers are not fully aware of their tax obligations and tend to neglect to file income taxes due to the incidental or irregular nature of platform work, various education and outreach activities are needed to make platform workers aware of their tax obligations and promote tax cooperation. Integrated tax guidance targeting platform workers, such as the US IRS's Gig Economy Center, is an excellent example. For these centers to be effective, cooperation with digital platform operators is crucial. Platform operators have information about individuals who utilize digital platforms for economic activities. If tax authorities can utilize this information, they can better communicate with these platforms to provide guidance and reminders about filing tax returns. To be effective, such tax guidance should provide detailed information on (1) the distinction between employees and self-employed (there are arguments that a safe harbor is

needed for this distinction)²⁰, (2) the scope of tax obligations depending on the type and scope of income, (3) the scope of deductibility of expenses (providing a comparison of the tax burden of taking the standard deduction and not taking the standard deduction), and (4) points to note when reporting income and deducting expenses according to the major gig work industries. In particular, it will be a key challenge for tax authorities to analyze the platform economy in detail and to simplify the reporting process by easily communicating the expense deductions that vary depending on the type of platform worker.

²⁰ Garrett Watson, Improving the Federal Tax System for Gig Economy Participants, TaxFoundation, 2019, p.16 : Safe harbors and worker classification play a significant role in tax reform for the gig economy by providing clarity and certainty regarding the employment status of gig workers. Safe harbors, such as those proposed in legislation like the NEW GIG Act, offer objective tests to determine whether a gig worker is an independent contractor, simplifying the complex worker classification process. By relying on specific criteria to demonstrate worker independence, safe harbors aim to reduce ambiguity and potential disputes over worker status, benefiting both platforms and workers.

V . Conclusion

The platform economy has fundamentally transformed the landscape of work, introducing a new paradigm characterized by flexibility, autonomy, and a diverse range of income-generating opportunities. As millions of individuals engage in platform work across various sectors, from transportation and delivery services to freelance creative roles, it is essential to recognize the profound implications this shift has on tax systems and regulatory frameworks. The complexities of platform work present unique challenges for both workers and tax authorities, necessitating a reevaluation of existing tax policies to ensure they are responsive to the evolving nature of employment relationships.

One of the most pressing issues highlighted throughout this paper is the challenge of tax compliance for platform workers. Unlike traditional employees, who benefit from automatic tax withholding and employer support in navigating tax obligations, platform workers often operate as independent contractors or self-employed individuals. This classification places the responsibility of income reporting and tax payment squarely on the shoulders of the workers themselves. The

irregular and unpredictable nature of platform work further complicates this process, as many workers earn income from multiple sources, making accurate tracking and reporting a daunting task. Consequently, platform workers face a heightened risk of underreporting income, which can lead to penalties and increased scrutiny from tax authorities.

Tax authorities in various jurisdictions, including the United States and South Korea, are beginning to recognize the need for tailored approaches to address the specific tax issues faced by platform workers. In the U.S., the Internal Revenue Service (IRS) has proposed measures to lower the reporting threshold for income earned through digital platforms, aiming to capture a broader range of income information and enhance compliance. By adjusting the criteria for income reporting, the IRS seeks to ensure that platform workers fulfill their tax obligations while also maintaining the integrity of the tax system. However, these measures must be implemented thoughtfully to avoid placing undue burdens on workers who may already be navigating a complex and often precarious employment landscape.

In South Korea, the National Tax Service (NTS) has taken

steps to collect income information on platform workers through withholding taxes, but there remains a pressing need to expand the criteria for submitting income information on non-withholding taxpayers. The NTS faces the challenge of adapting its tax regulations to the unique characteristics of platform work, ensuring that tax compliance is manageable for workers while also safeguarding the tax base. This requires a collaborative approach that encourages cooperation among platform workers, platform operators, and tax authorities to facilitate accurate income reporting and compliance.

Moreover, the platform economy raises important questions about tax equity and fairness. As platformworkers often face different tax obligations and compliance burdens compared to traditional employees, disparities can arise in how individuals contribute to the tax base. This situation can create an uneven playing field where compliant taxpayers bear a disproportionate burden while others evade taxes through underreporting or noncompliance. Addressing these tax equity issues is crucial for fostering a fair and effective tax system that supports all workers, regardless of their employment status. Policymakers must consider how to create a level playing field that ensures all individuals contribute fairly to the

tax system while also providing the necessary support and resources for platform workers to navigate their tax obligations.

As the platform economy continues to expand and evolve, it is imperative that tax systems adapt in tandem to meet the unique needs of gig workers. This includes not only revising tax regulations but also providing education and resources to help platform workers understand their tax obligations and navigate the complexities of income reporting. Tax authorities should consider implementing outreach programs that inform platform workers about their rights and duties, and the deductions and credits that are available to help alleviate their tax burdens.

Furthermore, collaboration between tax authorities and digital platforms is essential for improving compliance and ensuring accurate income reporting. Platforms can play a pivotal role in facilitating tax compliance by providing workers with clear information about their earnings, tax obligations, and available resources. Promoting transparency and collaboration enables platform workers and tax authorities to jointly build a more streamlined and effective tax system.

In conclusion, the platform economy signifies a major transformation in the labor market, presenting both advantages and difficulties for workers and tax authorities. As digital platforms continue to reshape the nature of work, it is essential that tax systems evolve to meet the unique needs of platform workers. By addressing the complexities of income reporting, tax compliance, and equity, policymakers can create a more inclusive and effective tax framework that supports the diverse needs of platform workers while upholding the integrity of the tax system as a whole. The future of work is evolving, and it is crucial that tax systems adapt to meet the challenges and opportunities presented by this dynamic landscape. Through thoughtful policy changes, collaboration, and education, we can create a tax environment that not only supports platform workers but also contributes to the overall health and sustainability of the economy.

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