

Uber could save families \$10b per year - but it faces tax threats

Written by The Conversation

Uber has [reached 15000 drivers](#) in Australia. If this growth continues, with Uber, traditional taxis and other services all competing to drive us around our cities, then we will have a metropolitan transport revolution. But with opportunity comes threats.

First the opportunity. As the article notes, the growth of Uber leads to complex transport changes.

The obvious part is substitution and competition. Uber and traditional taxis are substitutes. Taxis have long been protected from competition with high license costs built into the fares. Pre-Uber, taxi licenses in [Sydney](#) and [Melbourne](#) traded at up to \$400,000 to \$500,000 each. Those prices reflect a government orchestrated rip off of passengers. Your taxi fares pay for these fees that go to license owners not drivers. Uber undercuts traditional taxis. It provides a great service at a (generally) low price. This hurts the owners of taxi licenses who are [fighting back](#), both here and overseas.

But the real gains from ride sharing come from substitution with cars. With cheap reliable ride services, people don't need to own as many cars.

Have two cars? Why, when ride sharing is cheap and reliable? Why spend [\\$5000 plus per year](#) on a car when you can ride share? Sell one (or both). It's good for your pocket and avoids the waste of an underused vehicle.

When taxis and ride services are cheap and reliable then they start to replace cars. This is the promise of Uber and similar services. And this will be a great future, particularly for lower income families living in outer suburban areas with nonexistent public transport.

What are the size of the gains?

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According to the [Australian Bureau of Statistics](#), Australia has around 18 million motor vehicles. Suppose that effective taxi and ride-sharing services reduce this number by just 10%. A reduction of 1.8 million mid-sized cars at a cost to households of around \$8000 per year is an immediate saving of around \$14.4 billion to Australian families. Now, let's say that the costs of providing ride sharing takes up one third of these savings. Then that is still \$9.6 billion potential gain per year for Australian families - just in reduced car expenses.

We can then add on the benefits to the poorest families who cannot afford 'extra' cars and for whom ride-sharing can provide a cheap reliable alternative to poor public transport.

So what are the threats?

The first relates to taxes and the status of Uber drivers. The threat is not the GST, but income tax.

In June, the California Labor Commission ruled that an Uber driver should be treated as an employee. The Commission noted that Uber performs background and Department of Motor Vehicle checks on potential drivers and requires that the drivers provide Uber with a California drivers license, a Social Security Number, personal address, bank information and proof of insurance. The relationship between Uber and its drivers goes beyond just a 'contractor'.

If Uber drivers are employees, then Uber should be collecting pay-as-you-go income tax from the drivers. It doesn't. But if tax authorities in the US and elsewhere rule that drivers are employees, Uber may face a very large back tax bill.

This is a real threat. [Other sharing economy platforms](#) in the US such as Shyp (a packing and shipping service), Instacart (a grocery delivery company) and Munchery (for home delivered meals) have moved from informal contract workers to full time employees.

Fortunately, in Australia, ride sharing appears safe. The [ruling by the Australian Tax Office](#) on Uber and GST contained a much more important statement on employee status.

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“Based on our knowledge of the ride-sourcing industry, we consider drivers to be independent contractors instead of employees. ”

So Uber is safe from having to collect income tax in Australia. But this is not going to help if overseas authorities, particularly in the US, take a different approach. The threat of adverse tax rulings and a large back tax bill could kill Uber.

The threat in Australia is more mundane. Uber is still fighting obsolete taxi regulations. Hopefully our state governments will see sense and change these rules. Because the potential benefits, in terms of fewer private cars, less road congestion and less waste, is huge.

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