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TAXING THE GIG ECONOMY IN INDIA: A FRAMEWORK FOR SIMPLIFIED COMPLIANCE AND SOCIAL SECURITY INTEGRATION

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TAXING THE GIG ECONOMY IN INDIA: A FRAMEWORK FOR SIMPLIFIED COMPLIANCE AND SOCIAL SECURITY INTEGRATION

Sanvi Pipada & Lakshaya Singh Parihar*

Abstract

The rapid expansion of India's gig economy has created a diverse and flexible labour market, but has also exposed significant gaps in taxation and social security frameworks. Unlike traditional employees, gig workers operate without employer-provided benefits, structured payroll systems, or standardised tax compliance mechanisms. Existing tax laws fail to accommodate irregular income patterns, high compliance burdens, and a lack of financial protections, leading to widespread non-compliance and revenue losses. While global tax systems have evolved to address similar challenges, India's framework remains fragmented and inadequate for the gig workforce.

The paper proposes innovative changes in taxation on gig workers toward developing a balanced and inclusive tax structure that enterprises are inclined to comply with, providing adequate financial security. It proposes simplified presumptive taxation targeted at low-income gig work, rationalised TDS rates, and a platform-based tax collection model that shifts compliance to digital platforms, cutting the bureaucracy load8 Further, it proposes establishing a gig worker welfare fund financed by platform contributions that should give such workers health, accident, and retirement benefits, as well as the possibility of a tax-cum-social security mechanism. This work provides a holistic integration of taxation, technology, and social security, wherein extant literature has mainly been fragmented. This paper proposes an integrated policy framework on AI-enabled tax compliance and financial transactions in real-time. Through this, India can build a sustainable, fair, and tech-driven taxation framework that allows for long-term growth of the gig economy while ensuring worker representation and fair tax contribution.

Keywords: *Gig economy, workers, taxation, framework, systems.*

I

Introduction: Defining the Gig Economy in India

Gig workers engage in on-demand, contract-based jobs with no long-term commitment, in contrast to the conventional employee-employer model[1]. One of the recent trends within the labour market, the gig economy, is characterised by short-term, part-time, and freelancing work[2]. Besides high-skilled employees such as lone graphic designers or IT consultants, this market also incorporates platform workers such as food-delivery and ride-hailing drivers[3].

As digital platforms migrated in the early 2000s, coinciding with the expansion of the internet and digital platforms. Initially, the gig jobs that existed in the early days were mainly restricted to the design or information technology segment[4]. The rise of app-based businesses- Ola, Swiggy, Zomato, Uber - transformed employment as it opened up gig work avenues for low-skilled people. By mid-decade, millions of city workers saw their livelihoods primarily rely on the gig economy. India contributes nearly 40% of the total freelance work happening in the world, with around 15 million of skilled workers filling the growing demand for freelance activities[5]. Flexibility, freedom and variety of work are the benefits of the gig economy.

Yet India's gig economy, on the one hand, has not been able to ensure a sound legal and policy framework for itself in a littered politics. All along, the government has given importance to employment in the formal sector; there are signs it is finally waking up to laws that safeguard the rights of gig workers. The more the gig economy expands, the more challenging it will be to deal with issues that ensure employee protections and persistent growth.

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[1] Tanmay Sachdeva, *The Gig Economy in India: Unpacking the Economic and Social Implications*, XV JRPS 166 (2024).

[2] Mark Graham, *Digital Labour and Development: Impacts of Global Digital Labour Platforms and The Gig Economy on Worker Livelihoods,* XXIII ETUI 135, 135-162 (2017).

[3] Sara Duvisac, *The unfulfilled promise of gig work: unpacking informality and gig work in India* in THE ROUTLEDGE HANDBOOK OF THE GIG ECONOMY 361 (Immanuel Ness, ed. 2022).

[4] Manpreet Singh, *India's Gig Economy: A Legal Minefield,* MANUPATRA (ONLINE), (2024).

[5] MONDAQ, *India and the Gig Economy: A Legal Minefield* (Aug. 1, 2019) *available at* - https://www.mondaq.com/india/employee-rights-labour-relations/832012/india-and-the-gig-economy (last visited Feb. 15, 2025).

Growth Trends and Economic Implications

India's gig economy has expanded significantly over the past decade and is expected to grow further. In 2020-21, approximately 7.7 million people were employed in the gig economy, and projections suggest it will rise to 23.5 million by 2029-30[6]. This expansion reflects the evolving nature of work in India, with more and more people choosing flexible, short-term, and task-based work arrangements.

A 2020 report by Boston Consulting Group (BCG) and the Michael and Susan Dell Foundation estimated the gig economy in India at 8 million jobs. It is estimated that the jobs are likely to grow significantly, and the non-farm sector can create up to 90 million gig jobs by the next decade. The jobs will likely develop transactions of 250 billion US dollars, equivalent to approximately 1.25% of India's GDP.[7]. This economic contribution at such a scale indicates the growing importance of the gig economy, not just as a job creator but as a force that can potentially change the overall economic model.

The gig economy in India is set to experience significant growth, with technology-driven jobs (platform work) expanding rapidly, converting an estimated 24 million jobs over the next few years. Demand for shared and household services is also expected to add millions of jobs. A report by Fairwork India highlighted that those 11 major platforms have already employed 30 lakh workers, showcasing the gig economy's widespread reach.[8]. By 2029-30, gig workers are projected to make up 4.1% of India's workforce, reflecting a shift from traditional employment to gig and freelance work.[9]. This growth underscores the need for policy interventions and regulatory frameworks to address the unique challenges of this evolving workforce and ensure protection for gig workers.

II

The Role of Taxation in Ensuring Compliance, Revenue Collection, & Financial Security for Gig Workers

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[6] NITI Aayog, *India's Booming Gig and Platform Economy: Perspectives and Recommendations on the Future of Work* (Jun. 25, 2022) *available at - https://www.niti.gov.in/sites/default/files/2022-06/25th_June_Final_Report_27062022.pdf?src_trk=em662dd7fc580868.22972544883053027* (last visited 15 Feb., 2025).

[7] *Supra* note 2.

[8] THE FAIRWORK NETWORK, UNIVERSITY OF OXFORD, *Fairwork 2020 Annual Report* (Dec. 18, 2022) *available at* - https://fair.work/wp-content/uploads/sites/17/2020/12/Fairwork-2020-Annual-Report.pdf (last visited Feb. 15, 2025).

[9] *Supra* note 6, Niti Aayog, *at* 3.

The gig economy in India has experienced significant growth, providing flexible employment opportunities to millions of individuals across diverse sectors. Nonetheless, the lack of a clearly defined taxation framework has resulted in challenges related to compliance, revenue collection, and financial security for gig workers[10]. A comprehensive taxation system is crucial to fully integrate gig work into the formal economy, ensuring workers, platforms, and the government all benefit from a structured financial model.

Taxation is a validating mechanism for gig work, integrating it into the formal economy and ensuring that workers and platforms are responsible for their financial obligations. Without a comprehensive tax framework, gig workers may operate outside the established system, resulting in tax evasion and a disproportionate tax burden, with traditional salaried employees shouldering the majority of tax responsibilities. By implementing structured tax regulations, the government can guarantee that gig workers make equitable contributions to state revenue, fostering a more just and balanced tax system[11].

A structured tax policy also benefits the government's revenue collection, expanding its tax base and increasing funding for public services and infrastructure development. Taxing digital platforms that facilitate gig work also ensures that they contribute to worker welfare and national development, rather than operating outside regulatory oversight.

A well-structured taxation system can also act as a mechanism to ensure financial security for gig workers. In contrast to traditional employees who benefit from established social security programs, provident funds, and health insurance, gig workers frequently lack similar protections. Tax incentives and organised deductions can facilitate access to retirement savings, health insurance, and other welfare initiatives, thus providing them with long-term financial stability.

Existing Taxation Framework for the Gig Economy in India: Overview of Relevant Tax Legislation

Income Tax Act, 1961

Under the Income Tax Act of 1961[12], individuals working in the gig economy are categorised as self-employed professionals or independent contractors, with their earnings classified as 'income from business or profession'. In contrast to salaried

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[10] Freedman Judith, *Rethinking Legal Taxonomies for the Gig Economy: Tax Law, Employment Law, and Economic Incentives*, XXXIV OXFORD REVIEW OF ECONOMIC POLICY 475 (2018).
[11] *Id.*
[12] The Income Tax Act, 1961.

employees, gig workers are obligated to submit their tax returns and remit taxes directly. They can deduct expenses associated with their work, including vehicle maintenance, internet charges, and software subscriptions, from their gross income.

For individuals with an annual income of **up to ₹50 lakh**, the **presumptive taxation scheme** as delineated in **Section 44ADA**[13] is applicable, allowing 50% of their income to be categorised as profit. This provision facilitates tax compliance by obviating the necessity for exhaustive accounting. Conversely, gig workers with higher income levels are required to maintain comprehensive financial records and are subject to standard tax provisions and audits as outlined in **Section 44AB**[14].

While the Income Tax Act of 1961[15] It establishes a basic framework for taxing gig workers but fails to address the gig economy's specific complexities and issues. Because gig workers frequently work under diversified, flexible, and short-term contracts, the existing system does not adequately account for the many income sources and irregular work patterns they confront. As a result, there is an increasing need for developing specialised legislation geared exclusively at taxing gig economy workers, ensuring a more tailored and practical approach to their tax duties.

The Goods and Services Tax, 2017

The Goods and Services Tax (GST) of 2017[16] applies to gig workers and freelancers, categorising them as businesses or sole proprietors. Registration for GST is mandatory if their annual turnover exceeds ₹20 lakh (or ₹10 lakh in specific states)[17]. Registration is not required for those whose turnover is below this threshold, irrespective of whether services are rendered domestically or internationally. Registered individuals must maintain comprehensive accounts, issue GST-compliant invoices, and file returns promptly.

Services rendered to overseas clients are considered zero-rated under GST, signifying no GST is applied[18]. However, gig workers must fulfil specific documentation requirements to qualify for this benefit. An essential aspect of GST compliance is the Reverse Charge Mechanism (RCM), which transfers the responsibility of GST payment to the service recipient under specific conditions[19][20].

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[13] The Income Tax Act, 1961, S. 44ADA.
[14] The Income Tax Act, 1961, S. 44AB.
[15] *Supra* note 12.
[16] The Central Goods and Services Tax Act, 2017.
[17] The Central Goods and Services Tax Act, 2017, S. 20(1).
[18] The Integrated Goods and Services Tax Act, 2017, S. 16(1).
[19] The Integrated Goods and Services Tax Act, 2017, S. 5(3), 5(4).
[20] The Central Goods and Services Tax Act, 2017, S. 9(3), 9(4).

This means that gig workers are liable to pay GST if they engage the services of unregistered suppliers. Unfortunately, many independent contractors and platform workers are unaware of this obligation, which may lead to unforeseen tax liabilities and compliance challenges.

Although GST aims to formalise and enhance transparency in gig work, the complexity—especially concerning international transactions, reverse charge provisions, and periodic returns—imposes a significant compliance burden. Numerous gig workers find these regulations challenging, and the likelihood of non-compliance increases without the support of accounting services. This emphasises the necessity for dedicated, simplified legislation addressing the taxation of the gig economy, promoting equity and encouraging adherence to compliance.

TDS Requirements for Freelancers and Contractual Workers

One of the most essential tools for guaranteeing tax compliance is Tax Deducted at Source (TDS)[21]. Payments made to gig workers before the money is credited to their accounts are subject to TDS, as stated in Chapter XVII B of the Income Tax Act.[22]. Contractors whose earnings exceed a specified threshold are liable for TDS, with rates differing based on the nature of the services provided. For instance, payments exceeding ₹30,000 are subject to a 10% deduction under Section 194J[23], whereas technical service fees incur a 2% deduction. In cases where a Permanent Account Number (PAN) is not supplied, the deduction rate escalates to 20%. Additionally, Section 194O[24] Requires e-commerce platforms to withhold 1% TDS on payments made to gig workers.

Although TDS facilitates tax collection for the government, it can adversely affect the cash flow of gig workers, many of whom are unaware that they can claim TDS credit when filing their Income Tax Returns (ITR). Workers earning below the taxable threshold can avoid TDS by submitting Form 15G or 15H[25]. Section 44ADA[26] Presents a presumptive taxation scheme, allowing freelancers to classify 50% of their income as taxable, alleviating accounting complexities.

Nonetheless, the TDS provisions frequently create confusion, potentially leading to overpayments or refund delays. It is imperative to educate gig workers on these regulations; however, the existing system underscores the necessity for distinct

[21] The Central Goods and Services Tax Act, 2017, S. 51.
[22] The Income Tax Act, 1961, S. 192-206C.
[23] The Income Tax Act, 1961, S. 194J.
[24] The Income Tax Act, 1961, S. 194O.
[25] The Income Tax Act, 1961, S. 197A.
[26] *Supra* note 13.

legislation tailored to address the taxation of the gig economy, ensuring clarity and equity.

Compliance Obligations for Gig Workers and Platforms Like Uber, Zomato, Swiggy, Upwork, etc.

Tax compliance is a significant challenge in the gig economy since independent contractors are required to self-report and pay taxes, unlike regular workers who have taxes automatically withdrawn at the source. In India, gig workers who earn more than ₹2.5 lakh in a fiscal year must file Income Tax Returns (ITR)[27]. In addition, freelancers and independent contractors earning above ₹20 lakh a year have to get registered under GST and pay an 18% GST on their services. Many gig workers, however, may not comply with their tax requirements owing to ignorance about them and may incur penalties as a consequence.

Some examples of platforms working under the gig economy are Uber, Zomato, Swiggy, and Upwork. The GST Act Sections 52[28] mandate that these platforms deduct Tax at Source from payments made to gig workers, thus guaranteeing that tax will be collected at the point of transaction. For the same reason, Section 194O of the Income Tax Act, 1961,[29] Platforms must retain 1% TDS from the overall payment before payment to the gig workers. Though national laws may differ, international frameworks stress the imposition of everyday transparent responsibilities regarding taxation, which would make it easy for platforms and gig workers to comply. For example, while in the US, gig platforms issue to the contractors a Form 1099-K[30] After certain thresholds have been met, the EU requires platforms to comply with VAT obligations.

In India, however, there has been ambiguity among contradictory tax regulations, frequent regulatory changes, and the ambiguity of the applicability of Goods and Services Tax to gig workers. The gig platforms must comply with TCS and TDS duties to avoid any acts of infringement. In contrast, the gig workers would be required to have informed knowledge about tax obligations to avoid overpayment and/or underpayment of taxes.

This illustrates the urgent need for clear and straightforward legislation that addresses taxes on the gig economy. A reasonable tax system with explicit compliance norms would not only commit to increasing tax justice and mitigating

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[27] *Supra* note 17.

[28] The Central Goods and Services Tax Act, 2017, S. 52.

[29] *Supra* note 24.

[30] INTERNAL REVENUE SERVICE *available at* https://www.irs.gov/pub/irs-pdf/f1099k.pdf (last visited Feb. 15, 2025).

penalties but also make it easier for the gig workers and platforms to parse through their tax obligations.

II

Gaps in the Current Taxation Framework: Ambiguity in the Classification of Gig Workers

Lack of Clear Distinction Between Employees, Self-Employed Individuals, and Independent Contractors

One of the significant problems with the existing tax framework is of "gig" workers- those caught in limbo between independent contractors, self-employed, and legitimate employees. Determining their rights, obligations, and corresponding privileges while working independently becomes complicated in such circumstances. Legal and tax compliance, therefore, suffers.[31].

Certain states have attempted to define gig workers by passing legislation such as California Assembly Bill 5(AB5), seeking to classify many gig workers as employees to provide them with better protection. Subsequent legislation allowed gig platforms to continue their operations, being classified as independent contractors and receiving fewer benefits.

The complex nature of gig work, where the traditional employer-employee relationship is not always easy to determine, has led to a variety of court decisions throughout the world. Courts in some countries, such as Spain and the United Kingdom, have ruled to classify gig workers as employees and grant them benefits such as sick leave and minimum wage. In others, such as Australia and Brazil, courts have held on to the independent contractor classification, favouring flexibility over minimal employment entitlements.

Benefits and taxes are not defined for gig workers as they are not defined as employees under Indian labour laws.[32]. As they are not salaried employees, there is no provision for formalised social security contributions, benefits provided by their employers, and source deductions. Instead, they are taxed as independent professional taxpayers under the Income Tax Act. In most circumstances, they are

[31] Anand Pawar & Ankit Srivastava, *Gig Workers and Employment Laws: An Indian Perspective,* V SML. L. REV. 88 (2022).

[32] Haini Tayal, *Regulating the Gig Economy in India: How Secure are Gig Workers?,* XXVIII SUPREMO AMICUS 7 (2022).

responsible for doing their tax compliance without the benefit of the conventional payroll mechanism.

Compliance is complicated since a definite classification for establishing fiscal responsibilities or social security entitlement does not exist.[33]. This lack of a legal definition complicates the determination of gig workers' tax burdens and could contribute to inadvertent non-compliance. Therefore, a robust regulatory framework must fill the void to adequately classify gig workers in such a way as to make their sector visible, given the available flexibility and minimal protections.

No uniform taxation policy for various types of gig workers

India's gig economy enumerates various categories of gig workers like delivery agents, independent online content creators, ride-hailing drivers, and digital service workers. However, disparities and non-compliance in the existing gig workers' environments result from a lack of a standard tax policy. Uber and Ola drivers can get a 5% refund of their GST by using a reverse charge mechanism that allows the platforms to withhold GST on behalf of the drivers. Drivers who earn less than ₹20 lakh a year are not to be charged GST. On the other hand, any platform provider, such as YouTubers and influencers, whose total annual revenue exceeds ₹20 lakh, has to account for GST and deposit a 10% TDS under Section 194J of the Income Tax Act, 1961[34]. Unlike ride-hailing drivers, platforms do not deduct tax from content providers at the source, making compliance more difficult.[35].

Another issue is the taxation of marketplace facilitators versus independent freelancers. Section 194O,[36] makes it easier for users of businesses like Amazon, Fiverr, and Upwork to comply with tax laws by requiring them to deduct 1% TDS before paying gig workers. However, independent contractors who work directly with clients are exempt from this condition, and their tax treatment varies based on the terms of their employment contract.

The tax strategy needs to be structured considering the criteria of income, the nature and classifications of work, and the roles of digital platforms, whose compliance

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[33] BOSTON CONSULTANCY GROUP, *Unlocking the Potential of the Gig Economy* (Mar. 30, 2021) *available at* - https://media-publications.bcg.com/India-Gig-Economy-Report.pdf (last visited Feb. 15, 2025).

[34] The Income Tax Act, 1961, S. 194J.

[35] K R Balasubramanyam, *GST on rides: Platforms, unions push for review of levy on SaaS model as CBIC escalates it to GST Council*, THE ECONOMIC TIMES (Dec. 23, 2024) *available at*- *GST on ride-hailing services: GST on rides: Platforms, unions push for review of levy on SaaS model as CBIC escalates it to GST Council - The Economic Times* (last visited Feb. 15, 2025).

[36] *Supra* note 24.

requirements should be mutual for each gig economy domain, which will ensure transparency and equity for job sectors.

Complexity in GST Compliance: High Compliance Burden for Gig Workers Earning Above ₹20 Lakh

Gig workers who earn above ₹20 lakh per annum face a heavy compliance burden with the GST registration requirement, unlike salaried workers, who deal primarily with TDS and income tax returns. Besides this, gig workers have more challenging questions concerning their services, including GST registration, filing returns, reconciling bills, and determining if they are liable to pay GST.[37]. Handling these obligations can be challenging for those unfamiliar with tax laws, and they often require professional assistance, increasing their operating costs.

By integrating multiple taxes, the GST, prevalent in more than 160 countries, aims to improve compliance. However, applying traditional GST procedures to gig economy transactions presents several challenges.[38]. Some primary concerns include classifying gig workers as service providers, clients, or companies; determining their responsibility to collect and pay GST; determining GST on dynamic pricing models; and managing cross-jurisdictional reporting obligations. Tracking transactions through digital platforms aggravates compliance challenges for gig workers.

Independent of who might have optimal GST registration benefits, all registered businesses, including skill-based mobile workers, can claim input tax credits. They can subtract GST paid on purchases from their overall tax dues in more understandable terms. This may eventually lead to reduced expenses on software subscriptions, internet access, and professional tools. Since the input tax credits are not permitted for personal costs, the gig worker may need to maintain two separate bank accounts for business income and expenses, which could be challenging for most independent contractors. The nature of informal gig work makes perfect accounting of GST burdens for tax collection more difficult, particularly when creating a legally registered company structure is the first consideration.[39].

Disparities in GST Compliance for Platform-Based Taxation

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[37] *Supra* note 35.
[38] *Id.*
[39] Aaryan Singh, *GST and The Rise of The Gig Economy*, CAPTAINBIZ (Oct. 25, 2024) *available at-* https://www.captainbiz.com/blogs/gst-and-the-rise-of-the-gig-economy/ (last visited Feb. 15, 2025).

The taxes of gig workers vary substantially based on the platforms they utilise and the kind of job they perform. Food delivery aggregators like Swiggy and Zomato are considered e-commerce operators. They are required to pay the government on behalf of delivery workers by directly collecting a 5% GST from the total amount of the order. The arrangement gives rise to one single payment that reduces the compliance burden since delivery workers do not now have to register for GST or file separate returns.

However, authors, graphic designers, and consultants who work as independent contractors must navigate a far more complex tax structure. Unlike platform-based workers, whose tax responsibilities are managed by aggregators, freelancers must handle GST registration, invoicing, and return filing. If their annual revenue exceeds ₹20 lakh (₹10 lakh for northeastern states), they must register for GST and charge 18% GST.[40] On their services. Some of the significant responsibilities of compliance involve keeping books of sales records, filing GST reports at certain intervals, and claiming input tax credit if possible. Most of these rules prove very administratively burdensome, especially for people without anyone to facilitate them professionally.

The fact that online platforms act primarily as facilitators makes tax compliance even more difficult, as they are not in a position to withhold or report income taxes for freelancers. However, the tax authorities still face problems monitoring earnings because online transactions are somewhat opaque, providing opportunities for taxpayer to understate their returns and evade taxes.

Given these obstacles, there is an increasing need for legislative changes that assign characteristics of unique tax considerations to freelancers and gig workers, which would help attune the fair taxation practices to the different types of gig working classes.

III

Absence of a Social Security Mechanism for Gig Workers: Gig Workers Lack Access to Social Benefits Like EPF, Gratuity, and Health Insurance

One of the primary flaws in India's tax system for the gig economy is the absence of a dedicated social security tax system. Unlike regular employees, gig workers cannot access essential benefits, including health insurance, maternity benefits, the Employees' Provident Fund (EPF), and gratuities. This lack of financial security

[40] *Supra* note 17.

significantly disadvantages them, particularly during medical emergencies or uncertain economic conditions.

To address this disparity, the Indian government introduced the Code on Social Security, 2020[41]. This regulation obliges aggregators, including Ola, Swiggy, Zomato, and Uber, to contribute towards a social security fund for their workers. While this represents a good beginning, its actual implementation remains unverified, a situation compounded by the unclear regulations relating to the contribution rates, eligibility conditions, and fund disbursement procedures.

The state of Rajasthan has taken the initiative with the Rajasthan Platform-Based Gig Workers (Registration and Welfare) Act, 2023[42] . This law requires the creation of a welfare board to oversee the collection of a tax by aggregators, which would then be used to provide social security benefits to gig workers. Other states like Tamil Nadu and Haryana look into similar welfare board concepts. However, these regulations do not impose any legal obligations on gig workers or require aggregators to give benefits that are on par with those offered to regular employees.

The government can design a hybrid contribution program whereby aggregators and gig workers contribute towards a separate social security fund. This would effectively allow employers to sidestep the usual mask of compliance. The platforms may also avail of tax benefits upon providing voluntary health-care insurance, pension plans, or other benefits.

A government response should be swiftly turned into a policy of establishing a sustainable social security system to accommodate the increasing gig economy. Therefore, workers will remain in perpetual precariousness, void of necessary financial protections for any long-term management to occur.

Absence of Specific Tax Incentives for Contributions to Retirement and Health Funds

India's tax system offers no particular incentives for gig workers' retirement savings and health insurance. Unlike regular employees who receive employer-sponsored benefits, gig workers, who often face difficulties due to their irregular income and lack of official tax support, must independently arrange for financial security.

Since gig workers switch across platforms like Uber and Swiggy, the fragmented nature of freelance work makes them wait longer to get benefits. Most remain

[41] The Code on Social Security, 2020.
[42] The Rajasthan Platform-Based Gig Workers (Registration and Welfare) Act, 2023.

uninsured and financially insecure without employer-sponsored healthcare and pensions.

To counter that, there must be an incentive to plan financially in the long run through health insurance credits and tax deductions for retirement savings, such as NPS, PPF, etc. Aggregator platforms will introduce a pooled social security fund and a portable benefits plan to help gig workers gain financial stability.[43].

IV

Tax Evasion and Informality in the Gig Economy

Informal Work Practices and the Challenges of Tax Compliance

One of the significant challenges in imposing taxes on India's gig economy is the prevalent informality and extensive tax evasion among gig workers. Numerous individuals operate outside the formal tax framework due to insufficient awareness, intricate compliance requirements, or intentional income underreporting. Unlike traditional employees, gig workers are responsible for reporting their income and ensuring adherence to income tax and GST regulations, which complicates tax enforcement and heightens the risk of evasion.

Gig workers frequently underreport their income by utilising various digital payment methods and cash transactions, making it challenging for tax authorities to monitor earnings.[44]. Moreover, misclassifying gig workers as independent contractors by platforms decreases tax obligations and complicates tax collection efforts. This situation exemplifies the broader issue of inconsistent tax collection and regulatory conflicts resulting from deficiencies in the current system.

Globally, nations such as Italy and the UK have encountered comparable challenges.[45], where platforms exploit regulatory loopholes to evade taxes, further complicating enforcement. Gig workers also manipulate taxable income by timing income declarations or claiming excessive expenses, which pressures tax authorities.

A separate, structured tax framework for gig workers is necessary to address these challenges. Without such reforms, India's gig economy risks remaining a grey area

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[43] Jonathan Gruber, *Designing Benefits for Platform Workers,* Working Paper 29736 NBER 1 (2022).

[44] *Supra* note 30.

[45] OECD, THE SHARING AND GIG ECONOMY: EFFECTIVE TAXATION OF PLATFORM SELLERS: FORUM ON TAX ADMINISTRATION WP 2/WD (Mar. 28, 2019) https://doi.org/10.1787/574b61f8-en.

in tax enforcement, resulting in revenue losses and inequity between formal employees and gig workers.

Difficulty in tracking cross-border transactions and payments

Global gig economies complicate tax administration because cross-border transactions involving digital platforms and cryptocurrency cannot be disclosed. With no central supervision, tax inspectors could not enforce compliance while ascertaining incomes.

One specific challenge is ascertaining which state has the power to tax gig workers who typically work on remote assignments scattered throughout various jurisdictions. This increases the risk of double taxation or tax evasion. Despite the advantages where Double Taxation Avoidance Agreements are concerned, independent contractors have to deal with intricate international tax laws because of discrepancies and gaps.

Furthermore, using tax-friendly jurisdictions to minimise responsibilities, thus minimising the government's capacity to impose taxes, poses a challenge to taxation on gig earnings receipt. Cross-border transactions complicate the efficacy with which the effort to impose GST/VAT on digital services can be implemented. As a result of the platforms' inability to be transparent, getting wage data on gig workers proves difficult for regulators. Digital and crypto payments make tax evasion very easy. Global standardisation of tax practices is needed, along with countries actively modernising their tax codes and requiring that the platforms report on income. Otherwise, there will never be a way to stop reducing taxes due to cross-border tax evasion.

V

Global Comparative Analysis

Different countries have crafted different tax structures to respond to the gig economy's challenges. An analysis of the United States, European Union, Australia, and Canada follows; the insights may bear fruit for India.

United States: IRS Classification and Tax Withholding Policies

In the U.S., gig workers are classified as independent contractors according to the IRS, which makes them responsible for reporting their income and paying their self-employment taxes, including Social Security and Medicare taxes. Forms 1099-NEC and 1099-K will help gig workers report income. While self-reporting is essential for ensuring independence, it opens avenues for tax evasion and underreporting because workers must book their deductions[46].

European Union: VAT on Digital Services and Worker Protections

The European Union imposes value-added tax on the digital services that alien platforms supply to domestic consumers. The European Commission across the member states ensures that platforms like Uber and Airbnb collect and remit VAT. Also, worker protections are not uniform in all member states, although they would face some challenges in their uniform implementation. The European Commission attempts to secure fundamental rights for gig workers, including minimum wage and social security (European Commission, 2021)[47].

Australia & Canada: Specific Tax Regimes for Gig Workers

Platform providers that supply or facilitate marketplaces for transactions in Australia must register for GST if they are service operators facilitating transactions between local buyers and sellers. This threshold captures most gig workers-AU$75,000-against which small, casual workers may be most disadvantaged (ATO, 2022)[48]. In the case of Canada, gig workers are regarded as self-employed, where the platforms would report their earnings to the Canada Revenue Agency. Canada has an even higher threshold of registration for GST/HST, thus lessening the compliance process for small workers (CRA, 2020)[49].

Lessons India Can Learn from Global Models:

1. Taxpayer education: India should make sure, just like the IRS and the ATO, to educate gig workers about tax obligations and ease the filing to make compliance less burdensome.

2. Cross-border Taxation: India can look to enter the EU's model of ensuring platform accountability for GST collection, particularly regarding cross-border transactions.

[46] Surjit Raiguru, *Taxation Dilemma in the Gig Economy: Bridging the Gap between India and the World*, V JOURNAL OF TAXATION AND REGULATORY FRAMEWORK 28 (2023).
[47] *Id.*
[48] F. Zaccagnino, *Gig Economy Law in Different Countries around the World*, BUNNY STUDIO BLOG (September 2021) available at - https://bunnystudio.com/blog/gig-economy-law/ (last visited Feb. 15, 2025).
[49] *Id.*

3. Simplified regimes for smaller workers: India is suggested to have a clear registration threshold for ease of compliance relating to taxes on smaller gig workers, akin to the example of Australia.

4. Social protection: India has made some headway by introducing the Code on Social Security (2020), but it should work towards better access to health insurance and retirement funds for gig workers.

VI

Proposed Solution: A Balanced Taxation Framework

Special tax slab or presumptive taxation scheme for gig workers earning below a threshold.

Gig workers are challenging to tax due to their unpredictable income and varying work schedules. A particular tax slab or presumptive taxation scheme can facilitate compliance and create a more equal system for people earning less than a specific amount.

With presumptive taxation, gig workers may pay taxes on estimated earnings instead of reverting to an exhaustive documenting of every transaction. This would perhaps be similar to that of India's Section 44ADA[50] For independent contractors, which may impose a specific ratio of gross revenues for taxation, this would thus simplify compliance and reduce the administrative burdens.

Reducing compliance problems is generally more critical than enabling the tax authorities to broaden their tax base, knowing that many gig workers do not declare their incomes because it is complicated and they fear penalties. Moving towards simpler structures, especially for taxing small earnings, could foster formalisation and greater participation in the gig economy.[51].

A framework based on some threshold may properly define small earners' tax obligations while avoiding taxing them too heavily. Further complications are introduced when compliance systems complicate treating other workers with high earnings. Therefore, such a move is indeed more or less favourable to a larger portion of taxpayers since the tax burden is much more equitably distributed in this way.

[50] *Supra* note 13.
[51] *Supra* note 33.

Standardised deductions for work-related expenses (e.g., internet, travel, software)

Gig workers are independent contractors and are simply responsible for covering all of their work-related expenses that arise while performing their gigs. These expenses include Internet bills, the purchase of software, and travel expenses. However, keeping a record of such costs becomes complicated for many, making very few of them deduct these results and increase their tax liabilities or noncompliance with the tax regime. A more straightforward and simplified tax scheme providing simple and uniform deductions for generic expenses could reduce this burden, providing equity in tax equity and some relief from an administrative nightmare.

Standardised deductions would permit the assignment of specific typical work-related expenses, for example, software subscriptions, internet, and travel, to gig workers in a lump sum, rather than requiring them to keep track of all allowable expenses. Flat-rate deductions, like 10 to 15 per cent of income or a set amount, would make the tax return process easier and reduce the paperwork. A cap may be set for more expensive deductions, such as software subscriptions, to prevent abuse. Sectoral deductions, however, would also include expenses that vary for different gig jobs, such as software subscriptions for independent contractors or fuel for delivery drivers.

This approach would simplify tax filing for gig workers, especially part-time workers, by providing clear deduction guidelines. If it's easy to claim certain deductions, employees will be more likely to disclose their incomes, increasing tax compliance. If everyone can take standardised deductions, certain costs incurred while performing work benefits will be taxed at the average rate on their net income. This may instigate a formal spirit among the gig workers for their registration and declaration of income. By eliminating the need for the tedious active audit and verification procedures, such an attempt works to ease tax enforcement and lessen bureaucratic burdens on the tax authorities.

Reducing GST compliance burden by increasing exemption limits

One of the most significant challenges for gig workers and freelancers, especially those with irregular or low incomes, is the complexity of GST compliance. The current ₹20 lakh exemption limit places a significant hardship on small-scale gig workers who lack the administrative and financial resources to handle tax filings appropriately. Some independent contractors find it hard to continue working independently because the compliance effort is too high to sustain when their earnings exceed the threshold requirement[52].

Raising the GST exemption threshold could be a valuable way of erasing that cost because the higher cap will enable the country to nudge voluntary compliance and avoid overtaxing low-income gig workers. This modification would reduce the workload of maintaining financial records, filing several forms, and tracking input tax credits—tasks that many small freelancers find too challenging to manage.

Additionally, increasing the exemption level would promote the formalisation of the gig economy. Many workers are now working informally to avoid GST registration, thus leading to a considerable loss of tax revenue.[53]. A gradual diminution of the entry threat would compel voluntary registration for more gig workers to be inducted into the formal tax system without severe financial strain.

In addition, given inflation and increased income levels, it is time to take a fresh look at their current barrier. The ₹20 lakh cap was set years ago and does not account for how the economy and the nature of digital labour have changed. Adjusting the exemption ceiling to reflect today's financial realities could allow small independent contractors and freelancers to continue thriving without paying excessive taxes while complying with tax requirements.

Introducing a platform-based tax collection model to ease compliance for individual gig workers

Due to the informality of the gig economy, it is quite a challenge to tax it. Unlike regular workers, gig workers independently serve multiple platforms, making income and compliance monitoring and control very difficult. Many are unsure about what the GST filing process involves or what their tax obligations are. As a result, underreporting and tax evasion become common. The requirement to register for GST currently applies to gig workers earning above ₹20 lakh, but this barrier excludes many small freelancers and increases administrative expenses for those earning more.

The platform-based GST collection system shall ensure compliance by shifting tax collection onto the digital platforms. In other countries' systems, delivery services, freelance marketplaces, and ride-hailing companies would swiftly file an earnings report to tax authorities, who would then deduct GST at the source. This strategy

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[52] Aditi Mishra, *Navigating the Challenges of the Gig Economy: A Legal Analysis of Protection to Gig Workers in India and Overseas*, VI IJLMH 2183 (2023).
[53] *Supra* note 1.

will control tax evasion, allow consistent revenue collection, and promote compliance[54].

The government should lower the GST rates for gig workers and make it mandatory for platforms to register and withhold GST for smooth implementation, and not to overtax them. A further standardised deduction for labour costs and proper integration with tax reporting would simplify compliance. This approach will streamline tax administration, reduce the price on workers, and align India with global best practices while ensuring that gig work in the economy is taxed fairly.

A Mechanism for Platforms to Deduct and Deposit Taxes on Behalf of Workers

Tax compliance is now complex for gig service workers, who must self-report their income and manage their tax bills, unlike salaried employees. Therefore, many do not file their respective taxes or underreport their earnings without formal payroll processes, leading to unexpected liabilities and revenue losses.

An option based on a platform-based tax deducted at source (TDS) could be imagined to circumvent this impediment. Online businesses such as freelance platforms and ride-hailing would deduct a small portion of earnings as TDS before payments are paid out, ensuring compliance and relieving their employees of the burden of taxes. This process would be beneficial for one-off gig workers who are unaware of the taxation system.

The primary benefits of this model are higher tax compliance and revenue collection. Since taxes are withheld at source, gig workers are saved from being hit by unforeseen tax burdens and tend to underreport less.[55]. This also eases the tax reporting, especially for low-income or part-time workers. Countries like the United States, the United Kingdom, and Australia have also used similar strategies to ease employee taxation on digital platforms.

India can also, like Austria, align this with social security payments, wherein, to some extent, worker protections come from gig economy taxes. The TDS is modernising the tax field, achieving compliance, and integrating gig workers into the official economy within a streamlined, structured tax system.

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[54] Dr. Manjunatha K., *Gig Economy in India: From the Perspective of Challenges, Opportunities and the Best Practices*, XI JRBM 120, 120-124 (2023).

[55] E T Bureau, *India's gig economy set to boom: Navigating the future of work*, THE ECONOMIC TIMES (Feb. 9, 2024) *available at:* [India's gig economy set to boom: Navigating the future of work - The Economic Times] (last visited 15 Feb., 2025).

Rationalising TDS rates to avoid excessive tax deductions

There must be an equilibrium in the Indian tax structure for gig workers between revenue collection and financial safety. While TDS envisages tax collection at source against Income, over time, this structuring process leads to excessive deductions against the time one is paid a strict form of income. Every transaction falling under TDS makes it possible for misinformation regarding total annual revenue, which often results in advances paid as taxes by low-income gig workers during a year; as a result, their liquidity is locked until they go through refund redressal for tedious activity.

Likewise, many freelancers are subject to TDS deduction every month even when their income is below the taxable threshold of ₹2.5–₹5 lakh. Again, this deadlock in the capital caused delays in refunds. The present TDS rates-10% on professional services under Section 194J[56] and 1% on e-commerce under Section 194-O[57]- Disregard the fact that the wages of gig workers are inherently variable.

The easiest taxation structure for independent contractors would involve a little TDS, say 1-2%. However, a separate exemption limit is called for for low-income tax workers. Confirmation from gig workers of the self-declaration of interests paid into their bank accounts could be introduced as a 15G/15H mechanism so that no excess deductions are made for income. Tax should be set independently for full-time and part-time online gig workers to promote fairness further.

Quick refund procedures are also needed; otherwise, tax deductions tend to exceed actual tax liability and create cash pauses that financially strain the workers. Such reforms in tax deduction policy with lower rates, some exemptions, and quicker refunds will strengthen tax morale while ensuring that gig workers retain their earnings.

VII

Social Security Contributions Through Taxation

A small percentage of platform earnings funds a mandatory gig worker welfare fund.

On the one hand, it gives maximum freedom to workers, but the gig economy does away with basic benefits like paid time off, health insurance, and retirement security. The gig workers' welfare fund can provide consent and security from

[56] *Supra* note 23.
[57] *Supra* note 24.

modernity without burdening the workers, and it is funded through a small percentage of revenues from all participating platforms.

Additional important issues arise for gig workers accessing their health care, especially concerning employer-sponsored insurance. Drawing from the strategies of success abroad, the platforms could subsidise a welfare fund to compensate for all health care bills, sick leave, and subsidised health insurance. Similarly, high-risk gig workers, such as those in ride-hailing and delivery, must be covered by accident insurance. Embedded into the platform might be an insurance scheme in which part of their revenue is devoted to making timely compensation payments with little or no paperwork for claims.
Another key challenge is the security of pensions. Most workers do not have access to formal pension plans. A platform-contributed pension scheme, based on the model used in the UK, would ultimately provide the long-term sustainability we seek. Emergency funding, such as the COVID-19 relief fund for drivers, also goes a long way in facilitating sustenance in times of crisis.[58]
Thus, Workers will not pay additional social security costs through a structured welfare fund supported by platform contributions. Thereby, India could build a more broad-based equal system conforming to global standards concerning taxing gig economy sectors, including healthcare, insurance, and pensions.[59].

Tax incentives for gig workers contributing to retirement and health schemes

Gig economy workers are financially precarious because they are neither insured against health emergencies nor able to save for retirement. Strong state involvement is required to ameliorate the financial situation of these workers. These include a system of tax deductions for deferred income sourced from contributions made towards health and pension plans, promoting both long-term planning and providing them with greater short-term avenues of savings.

Some gig workers see their irregular income as an obstacle. They should be encouraged to save through tax deductions on their contributions to NPS and insurance premiums on Section 80D. Graded contribution schemes could be considered. Similar to tax incentives for retirement in the United States, tax incentives that match government contributions can incentivise saving.

Gig workers can open a government-sponsored health savings account (HSA) to accumulate money for medical expenses, free of income taxes, similar to the

[58] Vijay Thakur, *Emergency Funding and Crisis Relief: The Role of Government Aid in Sustaining Livelihoods*, XII ECON. & POL'Y J. 78, 82 (2022).
[59] P. Dubey, *Gig & Platform Workers: A Way Towards Formal Labour Recognition* I SLS NAGPUR MULTIDISCIPLINARY L. R. 57 (2022).

MediSave program in Singapore. Through these tax incentives, India can promote voluntary savings, enhance financial stability, and create a more inclusive economic structure.

Using fintech solutions for real-time tax filing and compliance

Technology is putting income reporting, tax computations and filing on a bot for the gig worker, which is altering their tax compliance system. Fintech and AI solutions trim down the process and facilitate staying compliant in real-time without unnecessary difficulty.

AI-generated enforcement of taxing systems augments responsibility and decreases tax evasion by identifying irregularities in undeclared income. Transaction information is already being amassed by digital platforms, which can be merged with automated tax reporting to share information with authorities and withhold tax at source, saving on admin work. Countries such as Singapore and Estonia have already implemented these digital tax schemes for freelancers.[60]. Mobile-based tax solutions can be used in India for quick payments, TDS deductions, and automatic GST calculations. A tech-driven approach may enhance efficiency, transparency, and the collection of taxes due in India's gig economy.

Digital wallets or auto-tax deduction systems for seamless tax collection

Combining digital wallets and automatic tax deduction-based systems might make tax compliance easier for gig workers. Tax compliance of gig workers becomes the trickiest undertaking owing to the difficulty of taxing informal or decentralised work, especially with the rapidly increasing gig economy. Digital wallets supplement such de facto solutions with real-time taxation directly drawn from the earnings.

A digital wallet system with payment platforms like Paytm or Google Pay, or with dedicated fintech solutions for gig workers, can effectively mean "taxes deducted at the point of transaction. If a gig worker is paid for a ride or a freelance project, on the spot, a percentage of their earnings can be withheld for GST, TDS, or any other taxes. Such a deduction mechanism on taxes lifts the burden from workers of calculating and remitting taxes themselves and thus leads to reduced error rate and improved levels of compliance. In addition, it eases the load on tax authorities,

[60] Rajiv Sharma, *Digital Tax Policies for Freelancers: The Cases of Singapore and Estonia*, XV INT'L TAX REV. 45, 49 (2022).

providing a constant flow of accurate tax data that does not require great audits or investigations[61].

There are also plans to integrate auto-tax deduction systems with digital wallets to promote transparency and accountability in income tax systems. With the connections to the national tax platforms, it can automatically track the accrued earnings while ensuring taxes owed are secured for gig workers. With such wallets, built-in tax calculators work to portray real-time situations of tax liability, thus letting gig workers know precisely what tax amounts they may owe as they earn.

Such a system also guarantees that taxes will be deducted at the point of payment when workers provide service. The immediate, point-of-payment tax collection mirrors the deductions taken directly from workers' salaries, but it is structured for the world of gig economy workers.

With such techniques, digital wallets and auto-tax deduction schemes will help curb tax evasion, causing higher compliance and easier tax collection, particularly among the developing gig working segment. They also provide a big step toward a progressive and just taxation system in India, eliminating human intervention, cutting administrative costs, and boosting trust between tax authorities and gig workers.

Conclusion

Following a swift rise, the gig economy in India emerged as an innovative, economic, and employment provider. However, it has brought many challenges for the gig workers regarding financial security, tax compliance, and obligations. Tax compliance poses an uphill task to gig workers due to the absence of social security benefits, employer contributions, and a lack of a structured reporting schedule. Because the current tax system does not appreciate the innate differences, such as gig work, when established to govern organisations and salaried workers, non-compliance is frequent, revenue loss is common, and the financial lives of independent contractors are rendered undependable.

India must design a balanced and equitable system for taxation in the gig economy performance that assures similar tax payments by gig workers while fast-tracking compliance. Regarding the gig economy, the presumptive taxation regimes would allow a gig worker to pay taxes at a certain percentage of their income rather than based on mountains of proof in terms of expenses incurred. Further, compliance would be easy with standardised deductions for work-related expenses such as internet fees, software subscriptions, and travel, ensuring that gig workers are not

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[61] *Supra* note 31.

excessively taxed on costs for their trade. Equally, factoring in the gig workers' variable income while changing the rates of TDS will alleviate the burden of excessive tax deductions that sometimes create a cash crunch and delayed refunds.

Through such measures, India would be able to create a tax structure that is fair and sustainable, protecting workers' rights while supporting the further development of the gig economy. Stipulates that a transparent tax policy will guarantee gig workers' long-term financial security, encourage them to formally act in the economy, and allow the government to undercut fraud. This would balance security with flexibility, especially with the rise of digital employment in India's labour market. This will ultimately create a fair and inclusive economic environment for all stakeholders.