



EUROPEAN COMMISSION

DIRECTORATE-GENERAL
TAXATION AND CUSTOMS UNION

Brussels, 21 March 2014

COMMISSION EXPERT GROUP ON TAXATION OF THE DIGITAL ECONOMY

Meeting 13-14 March 2014¹ - Summary Record

Present:

<u>Chair</u>	Mr Gaspar
<u>Members</u>	Mr Collin, Mr Devereux, Mr Snabe, Ms Walsh and Mr Westberg
<u>Commission representative</u>	Mr Zourek
<u>Secretariat</u>	Commission Services
<u>Absent</u>	Ms Varrak

1. Opening & Adoption of the Agenda

The group agreed the agenda of the meeting. The Chair welcomed the presence of Mr Snabe and recalled the most important objectives of this meeting. Firstly, agreeing in substance on the analysis and policy options as regards the importance of digitalisation for the EU and the challenges posed by the increased digitalisation to VAT. And secondly, having an intensive debate and agreeing directions concerning the challenges posed by the increased digitalisation to CIT.

2. Understanding the Digital Economy and its impact

On the basis of a working paper prepared by the Commission Services, the group discussed in more detail how digitalisation has transformed the EU and global economy and will continue to do so in future. This concerns in particular the influence on mobility/location, the importance of data and the use of networks. The group agreed that in the context of its work, a distinction between types of business models should be made based on relevance for taxation purposes. Professor Cincera from the Université Libre de Bruxelles presented the results from his research on differences in size and R&D

¹ The group also held a working dinner on the 13th in the evening. Following an introduction by Ms Ann Mettler from the Lisbon Council, the group held a debate on potential barriers for the expansion of young innovative companies in the EU as well as the available policy options to address them.

investments for global 'Yollies', i.e. Young Leading Innovators - companies established after 1975. The group discussed possible reasons for the differences between EU and US 'yollies' and for the underrepresentation of successful digital start-ups in the EU in general. The group agreed that the rule that investment precedes profit is vital especially in the digital economy due to the overwhelming importance of scale. Policy should therefore focus on facilitating rapid growth. The group concluded on the importance of removing barriers to develop a true digital single market in this respect and identified the potential role for taxation.

3. Institutional framework for potential policy options

Following an oral presentation by the Commission, the group discussed the institutional framework in which international tax legislation and/or standard setting is developed. This includes the work done at OECD level, the political steering by the G20 and the legal basis and political context for developing and implementing EU legislative or coordinating measures.

4. Interaction with OECD work

Following a presentation by Mr Pascal Saint-Amans and Mr Raffaele Russo from the OECD, the group had an intensive discussion on how the OECD's work on Base Erosion and Profit Shifting (BEPS) relates to the digital economy. It was informed on the current state of play of the BEPS work and the on further process. It discussed different ways of defining the issues and possible ways of addressing them. This includes a different application of existing rules, amendment of the rules within the current system or amendment of the entire system. The group also discussed the specific challenges at OECD/Global level compared to EU specific priorities.

5. Digital Economy and VAT

On the basis of a further Working Paper prepared by the Commission, the group discussed in more detail the new rules concerning the supply of electronic services that will enter into force in 2015. These rules will set the destination principle as the general rule for telecommunication, broadcasting and electronically provided services and will be combined with a Mini One Stop Shop (MOSS) to facilitate administration for businesses. The group deliberated on how the scope of the 2015 system could potentially be extended at a later stage. The group discussed in more detail how remaining challenges for tax administrations in the area of enforcement and audit could be addressed.

The group also deliberated on possible further improvements of the VAT system in the EU on the medium and longer term, improving neutrality in general and reducing the administrative burden for both companies and tax administrations. The group agreed that digitalisation could also represent a useful tool in this respect.

6. Solutions for taxing the digital economy

Following an oral introduction by the Commission, the group discussed the main issues in the area of company taxation. It discussed the EU's priorities in the global tax debate and focussed both on the specific characteristics of digitalisation causing challenges for corporate tax systems (i.e. intangibles and nexus) as well as more fundamental systemic topics such as basing the place of taxation on the residence or on the source principle. The group also held an intensive debate on the creation of value within the different

digital business models identified previously and how this should be reflected in establishing the appropriate place to tax profits from international digital business activities. The group addressed how the digital economy poses difficulties for the application of current principles for the allocation of profits between group companies and it discussed possible ways to address these, both in the short/medium term and in the longer term. The group agreed on the importance for the EU to work towards globally accepted solutions and discussed various EU policy options to best achieve this ultimate goal.

7. Future actions and division of tasks

The group asked the Secretariat to develop a draft index and outline of the report to facilitate future drafting. The group also asked the Secretariat to supervise the drafting of the various sections of the draft report and to give group members clear deadlines for delivering their contributions. To ensure continued transparency of the group's work, the working papers, the agenda and a Summary Record for this meeting will be published on the group's website in due course.

8. AOB

The group confirmed its next meeting for 24/25 April 2014 in Brussels where it will discuss and fine-tune a draft version of its report.
