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PLATFORM FOR TAX GOOD GOVERNANCE

SHORT-TERM SOLUTIONS TO TAX THE DIGITAL ECONOMY

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Context

The digital economy is growing fast, and so are the challenges this poses to taxation. Failure to agree on a meaningful solution in adequate time will exacerbate the pressure to act at national level and will undermine the Single Market.

It remains that the ideal approach would be to find multilateral, international solutions to taxing the digital economy given the global nature of this challenge. Unfortunately, it has proven difficult up to now because of the multitude of actors and a lack of consensus in the international debate. This is further complicated by the multidimensional nature of this challenge, to the constantly changing nature of the digital economy, and the diversity of the business models and the complexity of ecosystems in which they create value.

Alongside the work on the longer-term strategy, there are also more immediate, supplementary and short-term measures that should be considered to protect the direct and indirect tax bases of Member States.

Some policy options

Various ideas have been considered in the EU and internationally to capture the digital activity of new business models to protect the direct and indirect tax bases of Member States while to ensure equal treatment and a level playing field for all businesses.

In September, France, Germany, Italy and Spain, in a joint initiative, asked the Commission to explore EU law compatible options and propose any effective solutions based on the concept of establishing a so-called "equalisation tax" on the turnover generated in Europe by the digital companies. In the Informal ECOFIN in Tallinn, the Presidency supported by a large number of Member States called on the Commission to explore options and propose effective solutions, with a view to agree on a way forward for the EU by the end of the year.

The short-term policy options are solutions outside of the international corporate tax framework and seek to tax digital activities on the basis of something other than profits. The underlying idea of such options is to levy a tax in situations where companies are able to generate revenues from customers in the EU without a physical presence.

Such alternative options for shorter-term solutions include (as listed in the September communication):

Equalisation tax on turnover of digitalised companies - A tax on all untaxed or insufficiently taxed income generated from all internet-based business activities, including business-to-business and business-to-consumer, creditable against the corporate income tax or as a separate tax.

Withholding tax on digital transactions - A standalone gross-basis final withholding tax on certain payments made to non-resident providers of goods and services ordered online.

Levy on revenues generated from the provision of digital services or advertising activity - A separate levy could be applied to all transactions concluded remotely with in-country customers where a non-resident entity has a significant economic presence.

All short-term options have pros and cons, and further work is needed on the detailed approach to find a workable solution for the Single Market and the global economy as a whole. Questions about the compatibility of such approaches with the double-taxation treaties, State aid rules, fundamental freedoms, and international commitments under the free trade agreements and WTO rules would need to be examined.

Questions

1. What should be the scope of short-term solutions? Which transactions or companies should be covered?

2. How to design the solution that would minimise potential distortions and compliance costs, for example risk of double taxation?

3. Do you see additional short-term solutions?

4. Can you share experiences with unilateral tax measures that were motivated by the challenges of digital economy?