25 June 2018

- Joint Industry statement ahead of the 28-29 June European Council -

European Commission proposals on taxation of digital activities

Our organisations represent businesses in Europe and globally, across different sectors of the economy. We are writing to you in relation to the ongoing Council discussions on the “digital taxation package”, and in particular the draft Digital Services Tax Directive (DST).

We share the Commission’s view that unilateral tax actions by individual Member States would be undesirable – and believe the Commission should refrain from pursuing precisely the same unilateral actions.

We urge Member States to refrain from adopting unilateral national tax approaches, to redouble their commitment to vigorously pursue the discussion for a global solution within the OECD’s inclusive framework, and to recommend that the Commission do the same.

While we recognise the digitalisation of the global economy has created challenges to international tax policy, the proposals through which the European Commission is seeking to address perceived imbalances in the corporate tax system raise a number of questions and concerns.

Imposing a tax on revenues, taxing digital advertising, or moving the place of taxation from the company’s permanent establishment to users’ location – would be deeply harmful to Europe’s business climate and arguably lead to double taxation. These proposals represent a troubling departure from ongoing multilateral OECD discussions, undermining certainty and predictability for trade and investment.

Taxing digital revenues rather than profits would not only overturn longstanding international principles on corporate taxation. It could also disproportionately harm the companies that Europe is most interested in supporting, namely start-ups and scale-ups that have expenses exceeding revenues. The idea that revenue thresholds are the right approach to ensure that smaller start-ups and scale-up businesses remain unburdened is incorrect, given the effects this tax could have
on the ecosystem as whole, for example potentially creating higher selling and marketing costs for European players and particularly SMEs and start-ups. These measures would create an uncertain business climate and affect potential future investment, job creation and overall competitiveness.

The proposal would collect tax revenues in the Member States where users are located (location of consumption rather than production). Ostensibly, this tax would raise serious concerns that companies could face widespread double taxation.

The current European approach would undermine the productive consensus-based multilateral process currently ongoing at the OECD, resulting in unilateral, short-term measures that could hinder the European single market. A fair and proportionate reform of the corporate tax system can only be achieved at a global level through the OECD. The Base Erosion and Profit Shifting (BEPS) process is scheduled to conclude in 2020 with business and countries having already made significant changes as a result. Countries should not rush to enact measures that would negatively impact the progress that has already been made. Europe should ensure that technological innovation from digital is not unduly taxed, as it underpins and drives much of the efficiencies upon which European growth and competitiveness depend.

While the draft measure appears directed at Internet platforms, e-commerce and online advertising companies, the issues that the EU seeks to address are not unique to those kinds of companies. As all industries continue to digitalise, digital technologies enable companies in all sectors to rely less on physical presence. As noted in the 2015 BEPS Action 1 Report, the digital economy is increasingly becoming the entire economy and cannot be ringfenced for tax purposes. As such, the digital tax debate is less about tech companies and more about companies in every sector adopting digitalisation.

Europe’s tax policies should not discriminate against any company based on their business models or otherwise focus on certain kinds of companies, since virtually all companies now do business digitally.

Our organisations are committed to a thoughtful yet expeditious resolution to these issues and will work to support intensive continued work at multilateral level. While the economy is rapidly changing, and new policies may be necessary, replacing current rules and norms with a patchwork of policies would greatly and undeniably harm Europe’s single market.

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