

Before the
Office of the United States Trade Representative
Washington, D.C.

In re Proposed Action Regarding Digital
Service Taxes - Multijurisdictional

Docket Number USTR–2021–0001
Docket Number USTR–2021–0002
Docket Number USTR–2021–0003
Docket Number USTR–2021–0004
Docket Number USTR–2021–0005
Docket Number USTR–2021–0006

POST-HEARING SUBMISSION
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION (CCIA)

At the May 3 hearing on *Proposed Action Regarding Digital Service Taxes - Multijurisdictional*, CCIA was asked about project compliance costs associated with various digital services taxes (DSTs). This submission provides an estimated compliance cost, drawing from often-cited reports on corporate tax compliance. While not specific to DSTs or similar discriminatory measures, these estimates prepared by CCIA are representative of the burden on firms when setting up novel tax compliance mechanisms in multiple jurisdictions. Notably, the two distinct methodologies used produced almost identical estimates of total tax compliance burdens on U.S. firms, \$228 million and \$235 million. When added to estimates of total payment obligations to the six governments of \$2.85 billion, both methodologies estimate total burdens on U.S. commerce of approximately \$3.1 billion.

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Tax Compliance Costs and Notes Regarding Methodology

Two methodologies were used to estimate DST tax compliance costs for covered firms: the aggregate and individual cost estimation approaches. The **two distinct methodologies in the literature yield almost identical aggregate tax compliance burden estimates** across the six DSTs: **\$228 million** using the aggregate approach versus **\$235 million** using the individual approach. Both methodologies yield the same estimated total burden on U.S. commerce from the six DSTs after incorporating \$2.85 billion in estimated payments to the six governments: **\$3.1 billion in total burdens to U.S. commerce.**

At the aggregate level, a review of the literature on corporate tax compliance costs indicates that corporations typically spend between 4% and 12% of payments made to each government on tax compliance expenses in that jurisdiction. (See Salvador Barrios, Diego d'Andria, Maria Gesualdo, Reducing tax compliance costs through corporate tax base harmonization in the European Union, *Journal of International Accounting, Auditing and Taxation*, Volume 41, 2020, 100355, ISSN 1061-9518, <https://doi.org/10.1016/j.intaccudtax.2020.100355>; See also European Commission Study on Tax Compliance Costs for SMEs, Final Report, 2018, <https://op.europa.eu/en/publication-detail/-/publication/0ed32649-fe8e-11e8-a96d-01aa75ed71a>).

Taking the midpoint of aggregate costs at 8% of revenues paid to each government would be a reasonable estimate of tax compliance costs. As CCIA estimated aggregate revenues to the six governments were at least \$2.85 billion, 8% would be \$228 million as a reasonable estimate of compliance burdens on covered companies. \$2.85 billion in payments to governments plus \$228 million in tax compliance burdens equals approximately **\$3.1 billion in aggregate burdens to U.S. commerce.** As CCIA's estimates of payments to governments were all minimums rather than estimates of central tendency, and this approach sets tax compliance burdens equal to a proportion of government revenues, CCIA would expect its tax compliance burden estimates to be underestimates as well.

At the individual level, research from the United States Internal Revenue Service suggests that corporate tax compliance costs for each firm with over \$500 million in total receipts are about \$1.1 million per firm per country (*See* Contos et al., Taxpayer Compliance Costs for Corporations and Partnerships: A New Look, Internal Revenue Service, Tax Year 2009, <https://www.irs.gov/pub/irs-soi/12rescontaxpaycompliance.pdf>). As USTR identified at least 214 U.S. firms likely to be covered by DSTs across the six countries, this approach yields a total tax compliance burden estimate of 214 firms * \$1.1 million per firm = \$235 million. Added to CCIA's estimate of direct payments to the six governments of \$2.85 billion, this yields a total estimated burden on U.S. commerce of approximately **\$3.1 billion**, the same as the aggregate methodology.

Note that this is an underestimate both because the estimation is over a decade old, meaning that the figure should be larger due to inflation, and also because the IRS research was based on ongoing costs, whereas digital services taxes are new taxes that will require incremental initial fixed costs to establish compliance systems for each affected firm in each country. For example, many affected entities will have to spend significant staff time creating country-specific reporting systems that look at revenues by ad viewer rather than ad buyer. Such costs are expected to be nontrivial for each affected firm but are not included in our quantitative estimates due to time and data limitations.