

ESO – Sieps seminar on digital taxation

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Many changes in the global economy linked to sinking transport costs

- Radically cheaper to transport commodities: new patterns of global trade and international division of labour.
- Radically cheaper passenger transport: new patterns of international mobility and migration.
- Radically lower costs for the transmission of texts, sounds and pictures.

The latter development particularly crucial for the emergence of the **digital economy**.

The digital revolution

- 25 years ago the biggest enterprises of the world were oil companies, banks and giants in manufacturing - today they are all digital conglomerates that did not exist 25 years ago.
- At the outset, the digital economy was treated as something special and separate - today it seems doubtful whether a separate digital sector of the economy can be distinguished. As reflected in some recent wisecracks:

"a car nowadays is just an assembly of computers between four wheels"

"today there are only two types of enterprise, digital companies and companies that are not yet digital"

- These are exaggerations, but even the most traditional and labour-intensive parts of our economies are increasingly affected by various forms of IT.

Many policy dilemmas surge with the digital revolution

Digitalisation raises concerns in many policy areas. To name but a few:

- **Surveillance and privacy:** the new technologies open up perspectives for extensive supervision, while rising security concerns also increase the acceptance of such methods
- **Competition and level playing fields:** many skills and branches of the economy are becoming obsolescent, with social consequences
- **Digital divide:** as both governments and enterprises rationalise their activities, population segments with weaker learning capacities are left behind
- **Defence and security considerations:** cybersocieties experience new forms of vulnerability
- **Maffias without frontiers:** governments are keen to promote many kinds of innovations, but criminals are also inventive.
- **Welfare society:** will the robot taking my job pay for my pension?

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In focus today: taxing the digital economy

At this seminar, our focus will be on **the fiscal aspects of the digital economy**.

Many reasons why this has caught public attention. Questions abound:

- Are the digital companies great tax evaders?
- Is there unfair competition?
- Do some countries make great gains while others lose both tax revenue and economic activities?
- Is the national tax sovereignty under threat? Can we take back control?
- Do foreign states discriminate against our exports?
- Where should intellectual property rights be taxed?
- How can we tax cyberspace and the cloud?
- Many stories about tax havens and clever combinations such as "double Irish with a Dutch sandwich"

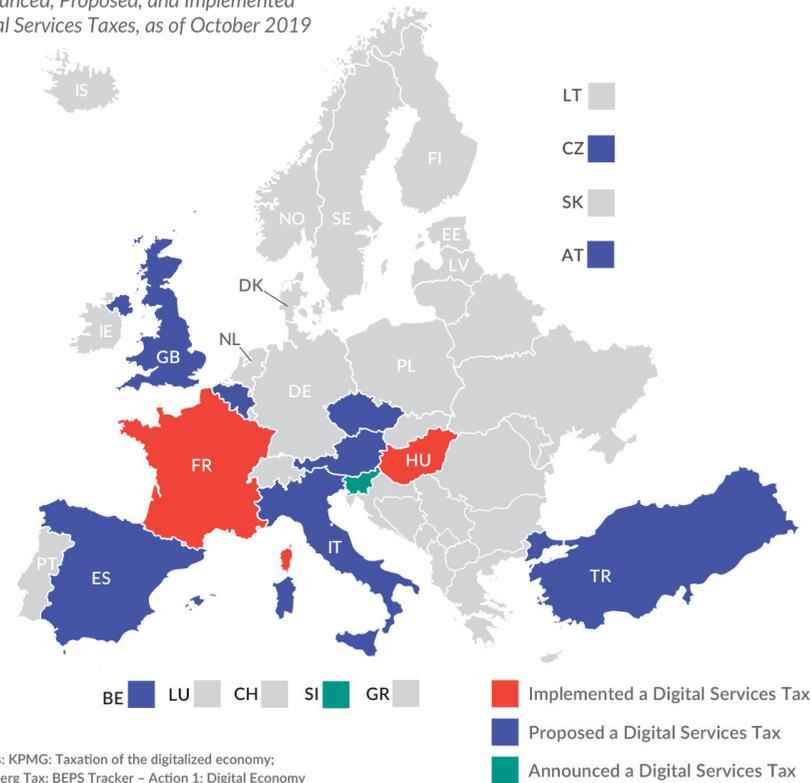
A three-level search for fiscal solutions

1. Global efforts through the OECD:
 - Base Erosion and Profit Shifting (BEPS) first package of proposals in 2013, approved by G20.
 - The Inclusive Framework started 2016 (137 member states, Dec. 2019)
2. EU Commission proposals 2018 for
 - i. a short long-term solution enabling member states to tax profits generated in their territory even if the company does not have a physical presence there, and
 - ii. a short-term Digital Services Tax at EU level at a rate of 3% on gross revenue from digital services.
3. National initiatives (enacted or proposed)

National digital taxes

Digital Services Taxes in Europe

Announced, Proposed, and Implemented
Digital Services Taxes, as of October 2019



Sources: KPMG; Taxation of the digitalized economy;
Bloomberg Tax; BEPS Tracker – Action 1: Digital Economy

US reaction to "la taxe GAFA": Discriminatory, unreasonable and burdensome



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OECD Inclusive Framework: 137 States involved

Pillar 1: allocation of taxing rights, including nexus rules

Pillar 2: other BEPS issues, including the right to "tax back" where other jurisdictions have not used their primary taxing rights

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