Expert Round Table:

“Online Impact of EU’s Digital Taxation Proposal on European SMEs”

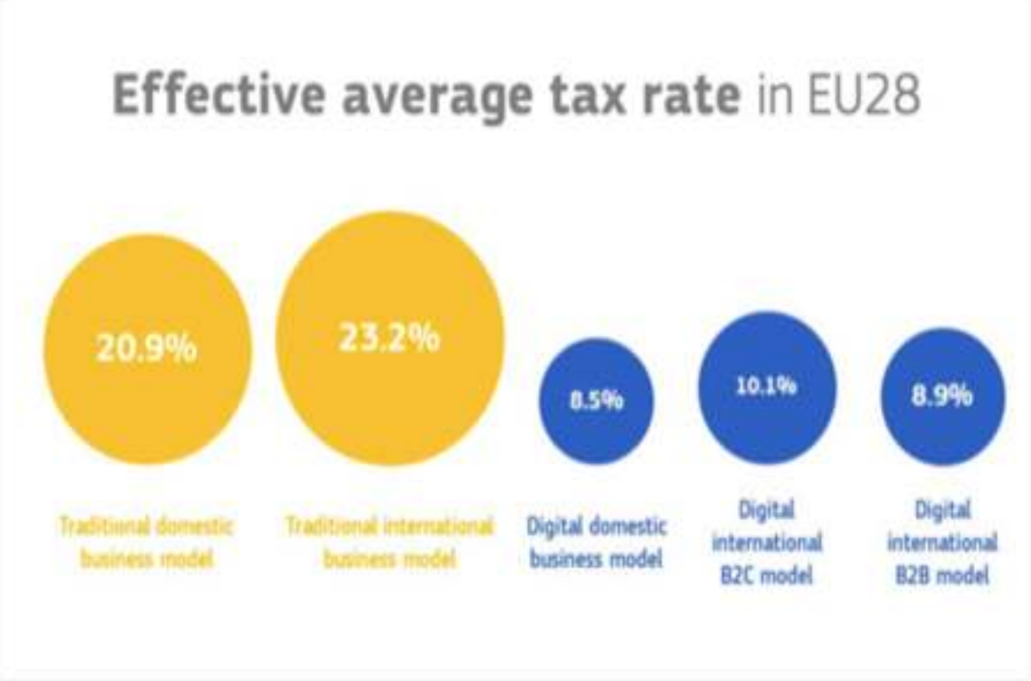
SME Connect, EPP, Brussels, 19 February 2019

What is #FairTaxation?

European Commission @EU_Commission · 7. März

Domestic digitalised business models are subject to an effective tax rate of only 9%. This is less than half compared to traditional business models facing an effective tax rate of 21%.
We will tackle this issue at the #FairTaxation roundtable today.

Original (Englisch) übersetzen



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Pierre Moscovici @pierremoscovici · 3. März

D-18 to @EU_Commission's proposal for #FairTaxation of #digital economy: "Between now and the 21st of March, I plan to regularly share my thoughts with you on this strategic subject. So stay tuned!" #DigiTax

Original (Englisch) übersetzen

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The European Commission’s political statement

21 September 2017: Communication “A Fair and Efficient Tax System in the European Union for the Digital Single Market

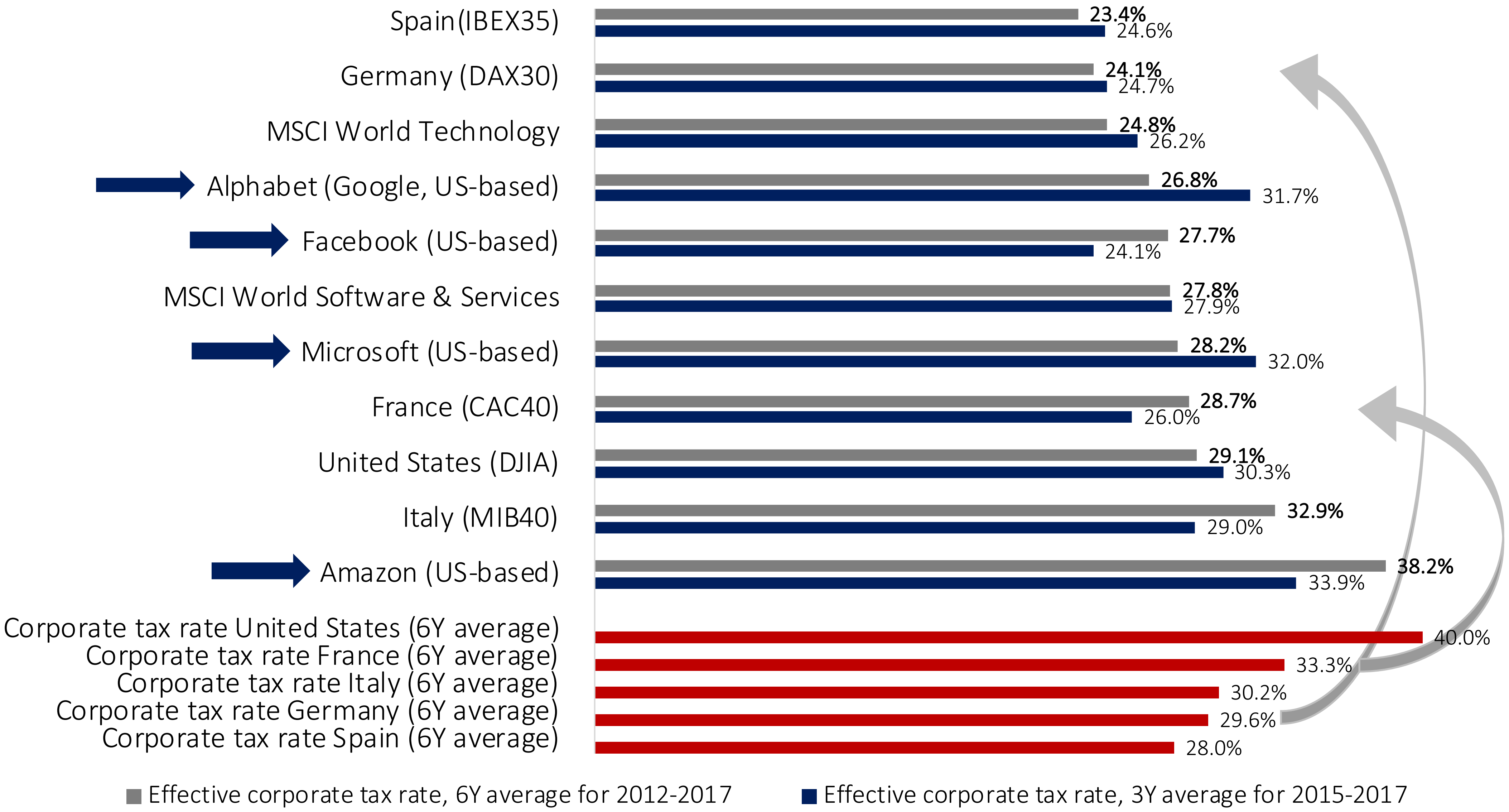
- “Failure to address these situations will lead to […] **erosion of the social budgets**, and it will destabilise the level playing field for businesses.”

- “This **puts at risk EU competitiveness**, fair taxation and the sustainability of Member States’ budgets.”

European Commission numbers: effective tax rates of *hypothetical* companies

"The study **does not** calculate EATRs [Effective Average Corporate Tax Rates] **using tax information for actual companies or sectors**; more importantly, the **study cannot be used to compare the tax burdens of 'digital' and 'traditional' companies**. In interviews with Bloomberg, Law360, and Disco, Prof. Spengel of ZEW made clear that the **study does not support conclusions that the digital sector is undertaxed**. In summary, the ZEW-PwC study enables a comparison of the relative attractiveness of certain countries' tax regimes for intangible assets developed through R&D, but **does not** analyze the effective tax rates of actual enterprises or **allow conclusions to be drawn regarding corporate taxes paid by the 'digital sector'**." (PWC 2018)

Effective tax rates, US-based digital corporations vs. average effective tax rates large EU-based companies

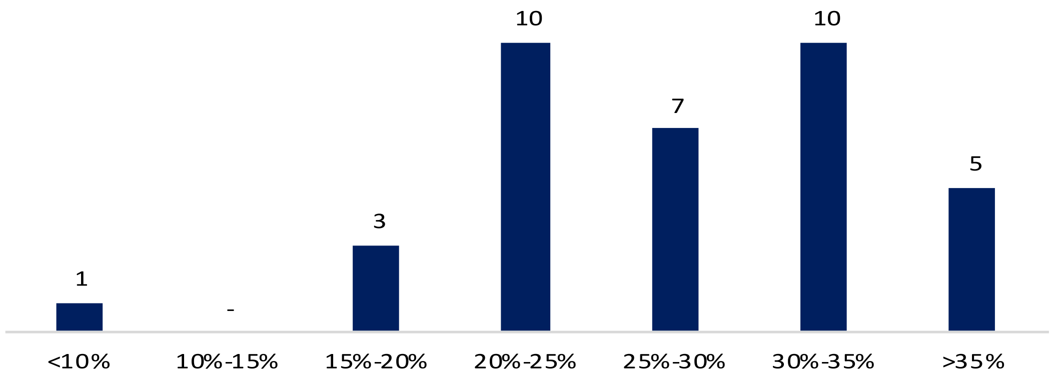


Differences in ECTRs, Renault vs. Alphabet (Google)

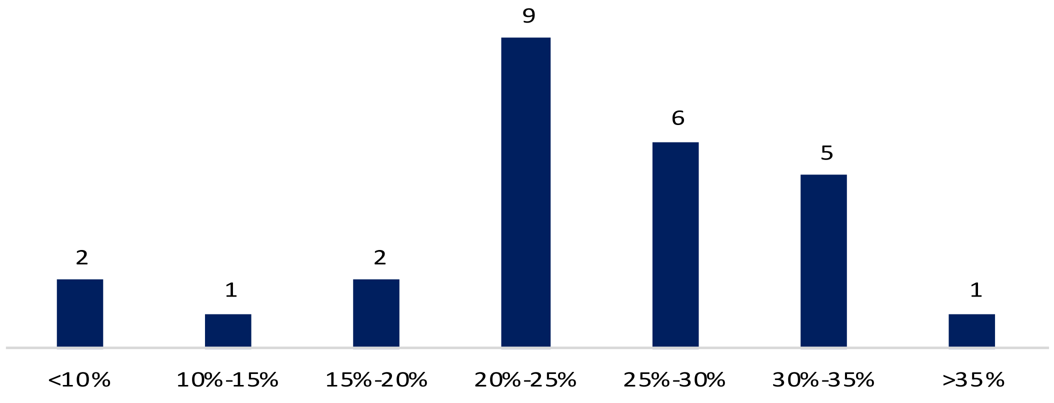
		2015	2016	2017
Renault	Pre-tax income	1.96	2.96	3.3
Fiscal year is January-December. All values in billion EUR.	Total income tax	0.366	1.06	0.891
	Income Tax - Current Domestic	0.527	0.728	0.634
	Income Tax - Current Foreign			
	Income Tax - Deferred Domestic	-0.161	0.327	0.257
	Income Tax - Deferred Foreign			
	Income Tax Credits			
	ECTR total	18.7%	35.8%	27.0%
	ECTR current	26.9%	24.6%	19.2%
	3Y average 2015 - 2017, ECTR total		***28.2%***	
	3Y average 2015 - 2017, ECTR current		***23.0%***	
Alphabet (Google)	Pre-tax income	19.65	24.15	27.19
Fiscal year is January-December. All values in USD billions.	Total income tax	3.3	4.67	14.53
	Income Tax - Current Domestic	2.84	3.83	12.61
	Income Tax - Current Foreign	0.723	0.966	1.75
	Income Tax - Deferred Domestic	-0.241	-0.07	0.22
	Income Tax - Deferred Foreign	0.017	-0.05	-0.043
	Income Tax Credits			
	ECTR total	16.8%	19.3%	53.4%
	ECTR current	18.1%	19.9%	52.8%
	3Y average 2015 - 2017, ECTR total		***31.7%***	
	3Y average 2015 - 2017, ECTR current		***32.0%***	

Distribution of effective corporate tax rates, 6Y averages, 2012-2017

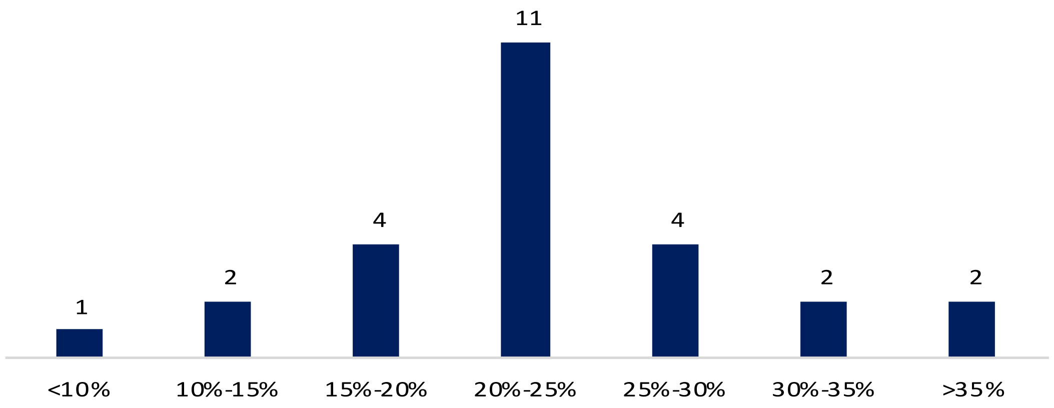
France (CAC40; statutory corporate tax rate 2017: 33.3%)



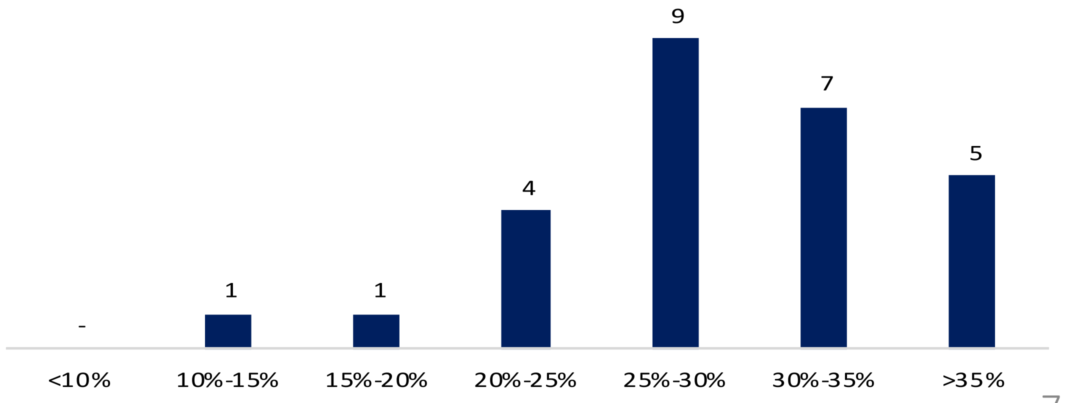
Germany (DAX30; statutory corporate tax rate 2017: 29.7%)



Spain(IBEX35; statutory corporate tax rate 2017: 25%)

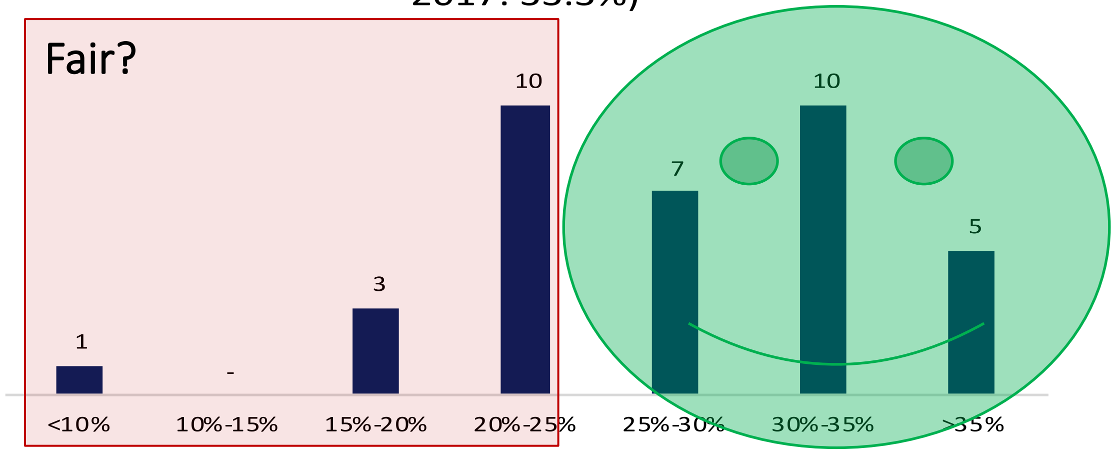


United States (DJIA; statutory corporate tax rate 2017: 40.0%)



Fairness in the distribution of effective corporate tax rates

France (CAC40; statutory corporate tax rate 2017: 33.3%)



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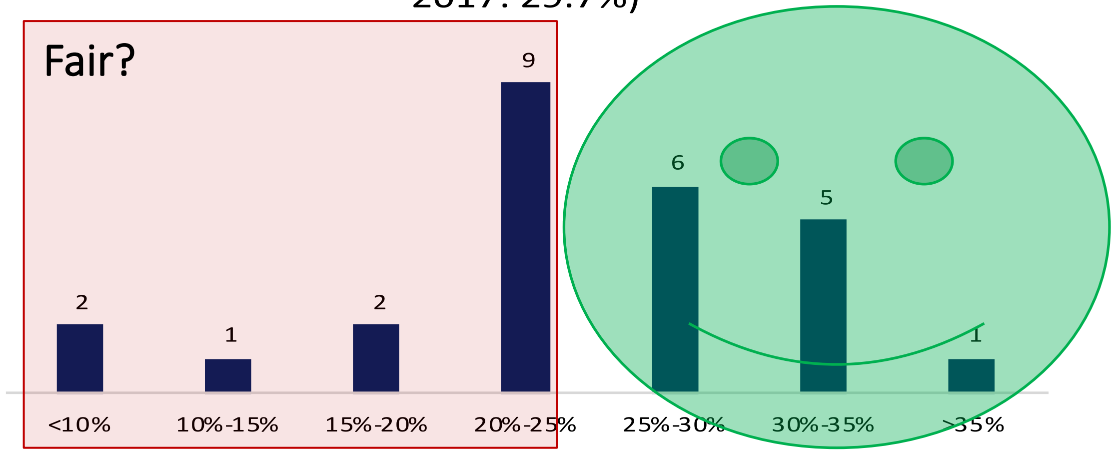

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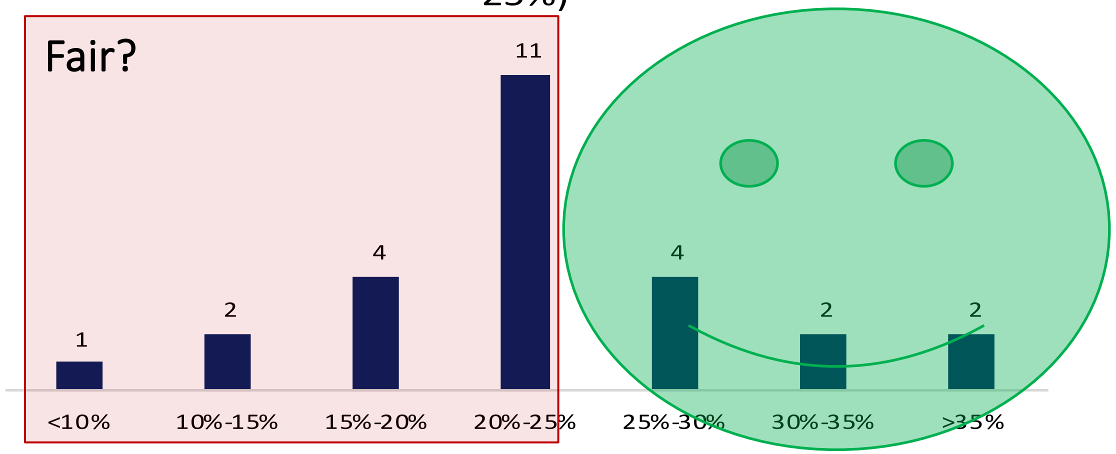

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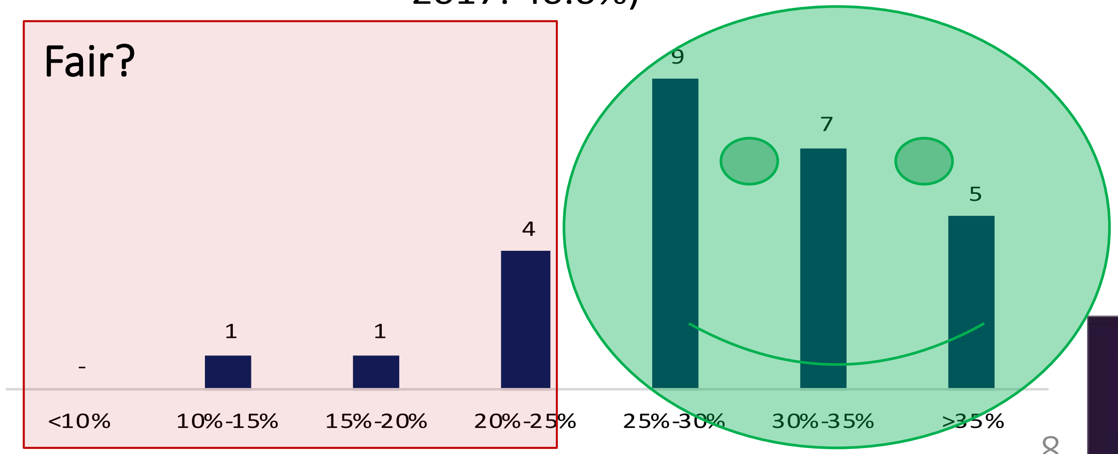
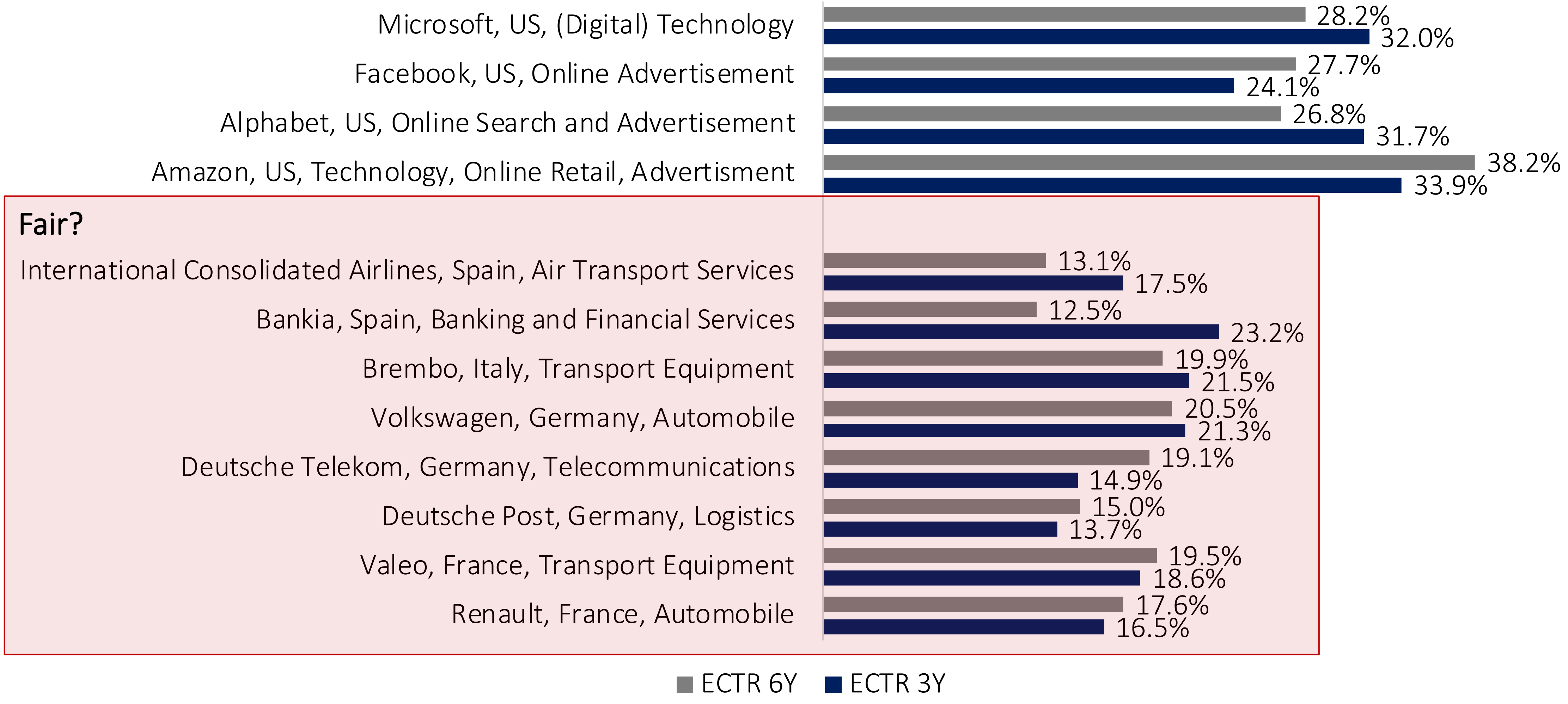


ECTRs of selected companies headquartered in Large EU Member States vs. large US-based "digital companies", 2012 – 2017 and 2015 - 2017



Impact on SMEs (impact assessments available for Germany and Spain)

- The majority of the tax cost will be borne by SMEs using digital platforms, i.e. restaurants, brick-and-mortar retailers, online shops
- Increase in the cost of sales and online advertising
- Reduction of margin and the ability to communicate with customers
- Drop in sales, in case of transferring the cost to the price
- Relative reduction in productivity and competitiveness
- Advantage of the offline channel versus the online one, reducing the digitalisation level

Impact on SMEs (impact assessments available for Germany and Spain)

- Distorting tax on the digital infrastructure that businesses (most notably SMEs) rely upon to reach more customers at lower costs
- Individual countries: disadvantage of national digitalised exporters and advantage of foreign exporters over domestic ones
- Less diffusion of digital technologies among European SMEs
- Lower productivity, less entrepreneurship, R&D and innovation (business model innovation; technological innovation)

Tax incidence: Who's really going to pay?

Companies (GAFA + Uber + AirBnb + …)

Formally required to pay

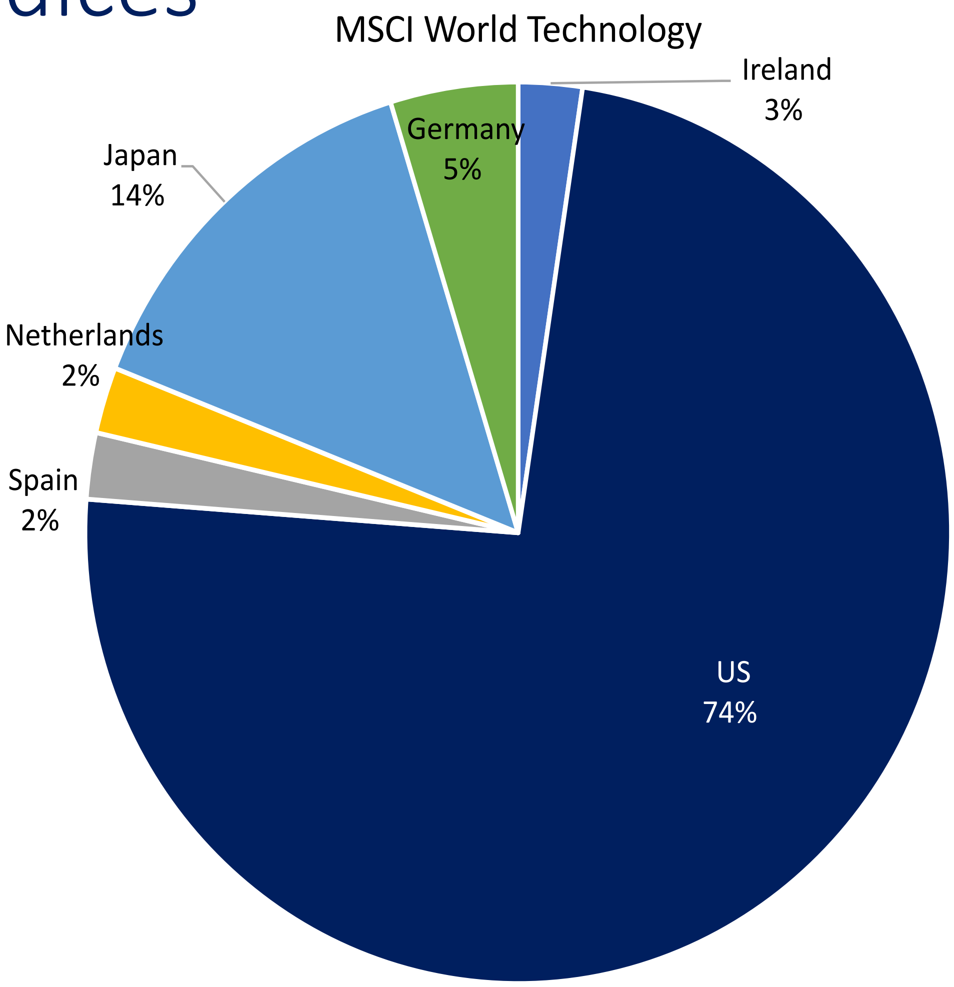
Consumers (B2B, B2C, final consumers)

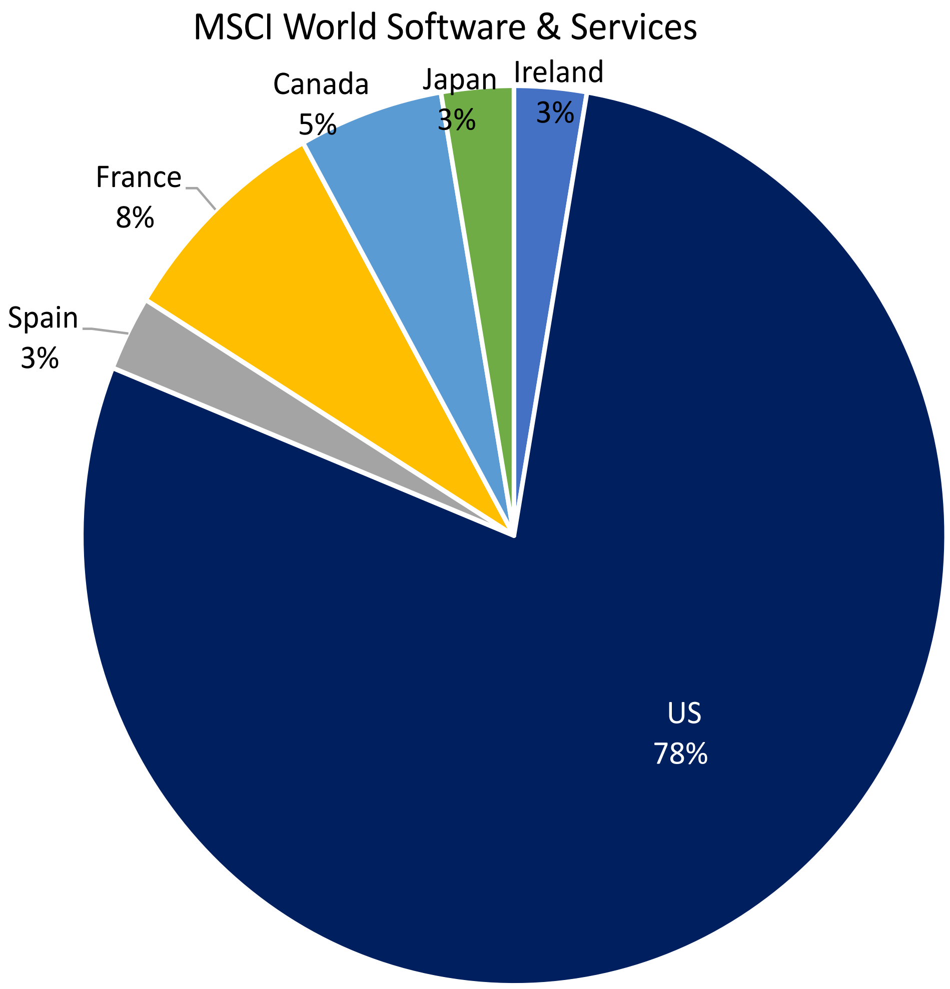
Workers (directly, indirectly, 50-70% of burden)

Owners (shareholders)

Effectively bearing the burden of the tax

Place of headquarter of constituent companies of MSCI World Technology and MSCI World Software and Services indices





Retaliation of third-country governments (US, …)

The retaliatory trickling-down effect of an EU tax on selected digital services

Time

European Commission and EU Member States (first-mover outside OECD-mediated process)

Introduction of special taxes on imports of selected digital services, as proposed by the European Commission on 21 March 2018

a) a special tax on online advertisement services

b) a special tax on online intermediation services

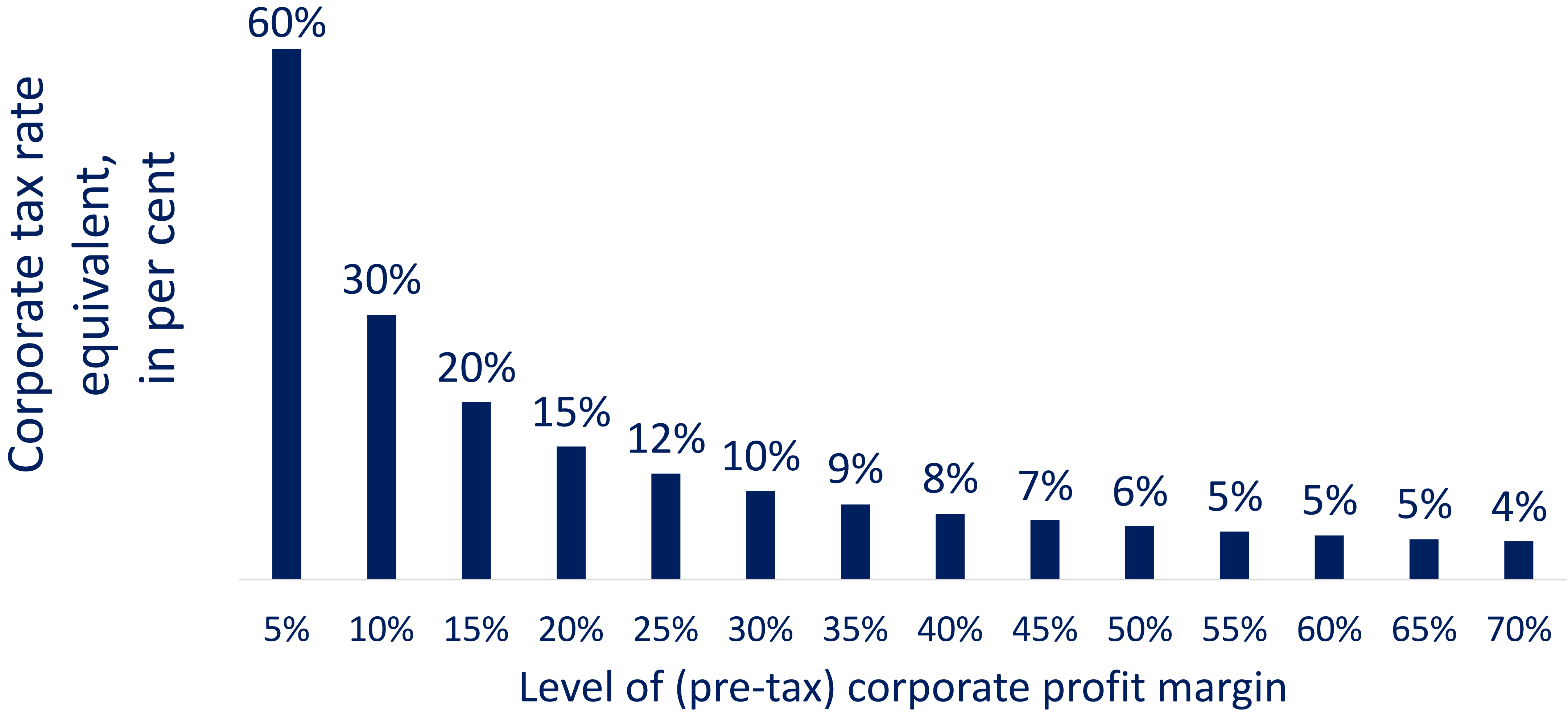
Retaliating governments of non-EU countries

Introduction of special taxes on imports of selected goods and non-digital services

Physical goods and intermediary products *(e.g. cars, chemical products, special machinery, foodstuff and agricultural commodities)*

Non-digital services *(e.g. business and technical services, legal services, architecture services)*

Impact of a 3% tax on gross revenues – Fair?



Source: ECIPE calculations.

Tax code complexity out of control; impact of DST ignored by certain policymakers

- Commission numbers are for “hypothetical” companies, not for real ones
- Survey quoted (and commissioned by?) Paul Tang (S&D): “[t]he most important finding is that over 80 per cent of all citizen in Denmark, Sweden, France, The Netherlands, Germany and Austria (strongly) agree with introducing a tax on tech companies, particularly when confronted with the low level currently paid and the possibilities of tax evasion.” (Kieskompas 2018, p. 3)
- New special taxes on digital services = another complex layer of tax code on an overly complex corporate tax system
- Detrimental to SMEs, consumers and increase of unfairness in taxation
- Corporate tax code effectively out of control of elected lawmakers