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Opted on the Taxation of global internet Giants

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A new digital economy, full of promise, is unfolding before our eyes.

But the rules in this new world need to be written to ensure a fairer distribution of wealth, greater social and tax justice, and to prevent capital and knowledge from becoming overly concentrated in the hands of a privileged few.

Tax justice is an integral part of a working democracy. It is through taxation that our vital public services are paid for. The future of our democracies depends on everyone paying their fair share of tax. Yet this is not the case today.

At an unprecedented pace and in barely a decade our daily lives have been digitalised Driven by a handful of global web giants, our handheld devices put the world at our fingertips. Access to extensive content is just a few clicks away, and we can communicate between ourselves faster and more easily than ever before. These companies have changed our lives and our consumption patterns.

We are not criticising them for being successful. Absolutely not- these companies have driven innovation, and created thousands of jobs. Instead, our criticism is focused on a blatantly unfair situation: the colossal divide between the wealth these companies create, using mostly publically funded infrastructure and our personal data, and the amount of tax they pay into the system.

Until now, we have preferred to turn a blind eye rather than tackle this situation head-on. We have preferred a situation in which the great majority of companies pay income tax rates that are 14 percentage points higher than what the internet giants pay. We have tolerated a situation in which these companies use our personal data to build up their wealth without really paying anything back in return.

Internet giants have taken advantage of our failure to act. While they have been changing the world, we have not adapted our regulatory framework. They have taken advantage of our inability to work together to update tax rules that are still stuck in the 20th century, with taxes calculated mainly on the basis of the physical location of production facilities.

But now we must take action. The matter is urgent. Technical issues should not divert our attention from what is really at stake. Year after year, this unfair competition is sapping our economies' innovative capacity, undermining the ambitions of our entrepreneurs and draining funds from the public purse.

Most of all, this situation is detrimental to all those who pay their fair share of tax. If the most profitable corporations avoid paying tax, the consequences are straightforward: all other companies – big and small, and all citizens end up paying much more tax. If not, we cannot fund the services that are essential to the public interest.

So we must act now to respond to the justified expectation of European citizens for fair and efficient taxation. We will not be successful if each country tries to go it alone with its own tax rules because the internet giants will use the differences to their advantage by pitting countries against one another.

Europe is in a position to be the first to change this situation. Only at a European level can we defend our common interests. We have done so to protect our personal data and to protect materials subject to copyright; now we must do the same to restore fairness in our tax system.

For more than a year now, several European countries, including France, have been at the forefront of this fight.

Some told us that it could not be done, as changing tax rules would require unanimous agreement. We were told that nobody could convince all 28 EU Member States – especially not those that benefit the most from the current situation.

As of today, there are more than 20 Member States on board in support of a straightforward and effective solution: a 3% tax on the turnover of the largest corporations in the digital technology sector. We wish to reach agreement on the legislative proposal by the European Commission by the end of the year, and for it to take effect as soon as possible.

This solution is not perfect; an ideal response would be global in scope. However, no global response will be successful unless we can first implement this temporary solution at European level. Never before have we been so close to restoring fairness to our tax system. Why would we continue to put off what we can fix now?

The citizens of Europe will no longer tolerate the status quo. They no longer have the patience to endure a long succession of meetings behind closed doors, conferences of experts and summits that fail to produce tangible results. It is time to decide.

Together, we must acknowledge that the current situation is unfair and we must take action. Six months before the European elections, we have an opportunity to prove that Europe can improve the daily lives of its citizens. It is time for us to seize this opportunity.

ANNEX 1

A call for adopting the digital Services Tax (DST) by 2018

A year ago, at the Tallinn informal Finance Ministers Council (September 2017), a significant number of Finance Ministers called for action at the EU level to tackle head on the challenges raised by the digital economy with regard to international taxation. Indeed, the difficulties to appropriately tax the revenues made by Internet Giants operating in Europe raise growing concerns among European populations and governments, resulting in an unfair situation where digital companies are taxed 14 points less than similar companies in other sectors.

To answer this call, on March 21st, the EU commission tabled 2 directives; one providing for a long term solution aimed at contributing to the international discussion taking place at the OECD and the other providing for a short term interim solution at EU level: the digital services tax (DST), through a temporary taxation of turn-over.

This latter proposal for a directive on the digital services tax is of utmost political importance as it will provide a quick, effective and immediate response to help restore fairness and efficiency, while waiting for an international consensus at the OECD level that can take more time. Discussions are currently taking place in the Council.

There is a real momentum to support the quick adoption of the digital services tax, among member States, in the public opinion and in the European Parliament. We believe it is possible to reach a political agreement between EU Finance Ministers before the end of 2018, under the Austrian Presidency.

1. The digitalization of the economy challenges current international tax rules.

As emphasized by G20 leaders and highlighted in ongoing OECD work, the current international framework does not allow for the appropriate taxation of profits made by some digitalized business models, in particular when such digital companies =operate in a jurisdiction without any significant physical presence. Furthermore, these companies rely on a specific and new value creation process, notably through Internet user participation, which itself falls outside traditional taxation frameworks.

This means that for some companies, their profits are not taxed where value is created. More generally, digital multinationals (MNEs) pay less tax than other businesses even though they make very important and increasing profits. There is therefore an issue of fairness between companies and for citizens, as well as of sustainability for public finances.

Today, digital companies in Europe pay an average of 9 % taxes whereas companies in other sectors pay an average level of 23 % taxation[1].

2. Europe is legitimate in taking action fast in order to improve and protect its single market.

The EU has achieved the world's largest single market. Thanks to the EU's fundamental freedoms, it is more open than any other domestic market, and it has been progressively harmonized to provide for fair competition and to avoid distortions.

The EU is therefore a major market place for all digital companies, notably thanks to investments – both public and private – made to enable better access to the Internet for all citizens. For digital MNEs operating worldwide, the EU on average represents at least 25% of their revenue.

Some actors, for instance in online advertising, have grown so rapidly, while paying less tax, that they have become dominant, which raises serious market concerns. Finally, because of the differences in taxation, the current situation is strongly detrimental to companies subject to regular taxation, including digital SMEs or startups. The EU's level playing field, which underpins the single market, is thus undermined.

1. European Commission – Impact assessment for the directive on the digital services tax.

There is thus a real urgency to act as the single market is at risk. Some countries may be tempted to legislate at a national level to deal with the existing problems. This is understandable but potentially further fragments the single market. It is thus essential to have a European framework to uphold the integrity of the single market.

Besides, a European single rule would ensure tax predictability, would be simpler for businesses, and would improve tax compliance, while new extra domestic rules may create insecurity and additional costs.

3. An interim solution does not conflict with a global response.

The ultimate goal is to reach an international consensus on the way forward, as agreed by the G20. But, as countries legitimately express different views which still need to be reconciled, this may take a long time to be implemented effectively.

That's why, as set out in the last OECD report, countries may need to take interim measures to fix loopholes. Many countries have already acted or are considering to do so soon.

The EU is thus justified in taking interim measures. This does not undermine the EU's commitment to reach a global agreement, on the contrary. Equally, it does not preempt the content of the future international solution.

4. The DST is targeted and limited

The DST has been designed on purpose as an interim measure with a limited and targeted scope (online advertising, platforms' intermediation fees and data selling) and will only affect the largest companies. As such, it is aimed at fixing quickly the most obvious loopholes in the existing taxation framework.

5. The DST is designed to be an interim measure

When a long term solution is implemented, the DST will no longer be needed. As foreseen by the Austrian Presidency, a sunset clause will be inserted in the Directive to make it clear.

6. The DST ensures that all companies pay a fair level of tax.

Unlike traditional business, interactive digital business models and other business models that require active engagement of web-users include a new type of integrated value creation chain. In those digital business models, web-users play an essential part. This is particularly the case when business models rely on user-related data (content data and metadata).

The DST targets digital profits which are not captured by existing tax rules, in particular the extra value generated by the use of data and via integrated business models relying on source-related input.

User participation should not be confused with consumption (which requires no participation); therefore, the DST does not rely on a destination based principle, and it does not jeopardize any current international rules.

7. The DST does not undermine innovation.

The DST applies only to the largest web companies (with a turnover superior to 750 million euros). It excludes SMEs, start-ups and all traditional businesses even if they also provide digital services. The EU will continue to actively promote and foster an open and creative digital market.

The DST will contribute to restoring a level playing field between digital companies whatever their size and location. This is why the DST is a key element of the EU's digital single market strategy.

Besides, as MNEs are highly profitable, the tax revenues from the DST will remain modest – approximatively 5 billion EUROS for the EU as a whole. Therefore, the DST will not have an excessive impact on the financial capacities of MNEs or their investment decisions in Europe.

8. The DST is a directly operational solution and will not increase administrative burden.

As the DST is only a temporary solution and the number of taxable persons is very limited, it shall remain simple to administer.

The DST will not represent an additional burden for big companies. It relies on turnover which is already calculated by companies and on the digital activity conducted in each Member States for the allocation of resources.

ANNEX 2

On 23rd October 2018 in Strasbourg, the Members of the ECON and TAX3 Committees of the European Parliament held an exchange of views with Mr Bruno Le Maire, the French Minister for Economy and Finance on digital taxation. Current tax rules are not fit for the digital economy. They need to be modernised to ensure that digital companies contribute with their fair share of taxes.

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