



TAX CHALLENGES IN THE DIGITAL ECONOMY

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01

KEY FEATURES OF THE DIGITAL SECTOR

- **Rapid expansion** of the digital sector and digitalisation of the **entire economy**
- Specificities of **digital goods**
- **New business models** (MNEs such as Amazon using multiple business lines)
- Transformation of the **value creation process**
- Reliance on **network effects, user participation and user-generated content**



02 | THE IMPACT OF THE OECD'S 15 BEPS ACTIONS

- Effective at setting **minimum standards**
- Some achievements include **new nexus approach** and **new transfer pricing rules**
- Rather **slow progress** in actions most relevant to **digitalisation**
- **No consensus** among different countries on some actions (e.g. Action 7 on PE).
- The effective implementation of some actions depends on **domestic legislations**
- **Voluntary cooperation** by some MNEs
- **Tax administrations** are better equipped to address profit shifting
- Application of the destination principle in **VAT regimes**



03 | UNILATERAL MEASURES TARGETING THE DIGITAL SECTOR

➤ Examples of **unilateral measures** in the EU and beyond :

- **Italy**: Levy on digital transactions
- **Hungary**: Advertisement tax
- **France**: Tax on online and physical distribution of audio-visual content
- **UK**: Diverted Profits Tax
- **US**: Base erosion and anti-abuse tax
- **Israel**: Significant economic presence test
- **India**: New nexus and equalisation levy

➤ **Risks** arising of such measures :

- Negative impact on investment, innovation and growth
- Over-taxation
- Administrative costs

➤ Such measures should be **compatible with the international law** and potentially target businesses such as **Internet advertising and intermediation services**.



04 | TAX DEVELOPMENTS IN THE EU

- **European Commission's Directives** of 21 March 2018:
 - Short-term measure: **Digital Service Tax**
 - Long-term stand-alone measure: **Digital PE** and **profit allocation**
- **Divergences** among MS:
 - **In favour:** France, Austria, Bulgaria, Spain, Italy, Germany, the UK, Slovenia, Greece, Portugal and Romania
 - **Against:** Sweden, Denmark, Ireland, Luxembourg, Malta, The Netherlands
- **EP's position** in support of digital PE as an amendment to the CCCTB.
- **Unanimity** voting
- The reaction of the **US** following its own tax reform



CONCLUSIONS

- Diverging views on digital taxation among 113 Inclusive Framework members
- The question of **beyond BEPS** issues such as **data, nexus and characterisation**
- **Gig and sharing economy, increase in peer to peer transactions, the development of technologies such as blockchain, Internet of Things** etc. may further exacerbate tax challenges arising from the digital economy.
- Would **unilateral actions** harm international **tax cooperation** or trigger **tax trade wars**?
- **A balanced approach** is needed not to harm growth and technological advancement in the EU.
- It remains to be seen whether the OECD will reach a **consensus** by 2020. A **global, holistic solution** would be preferable.

