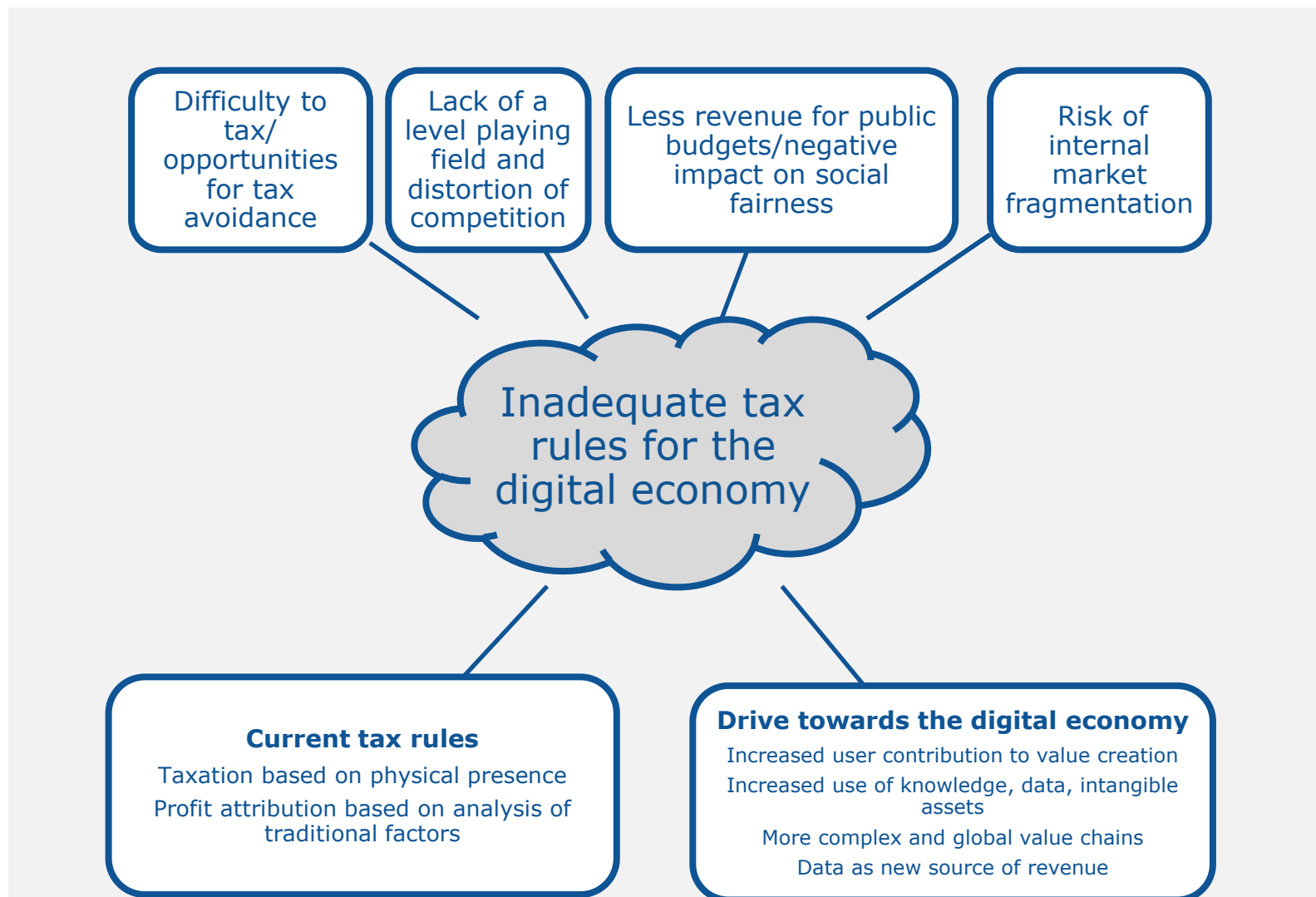




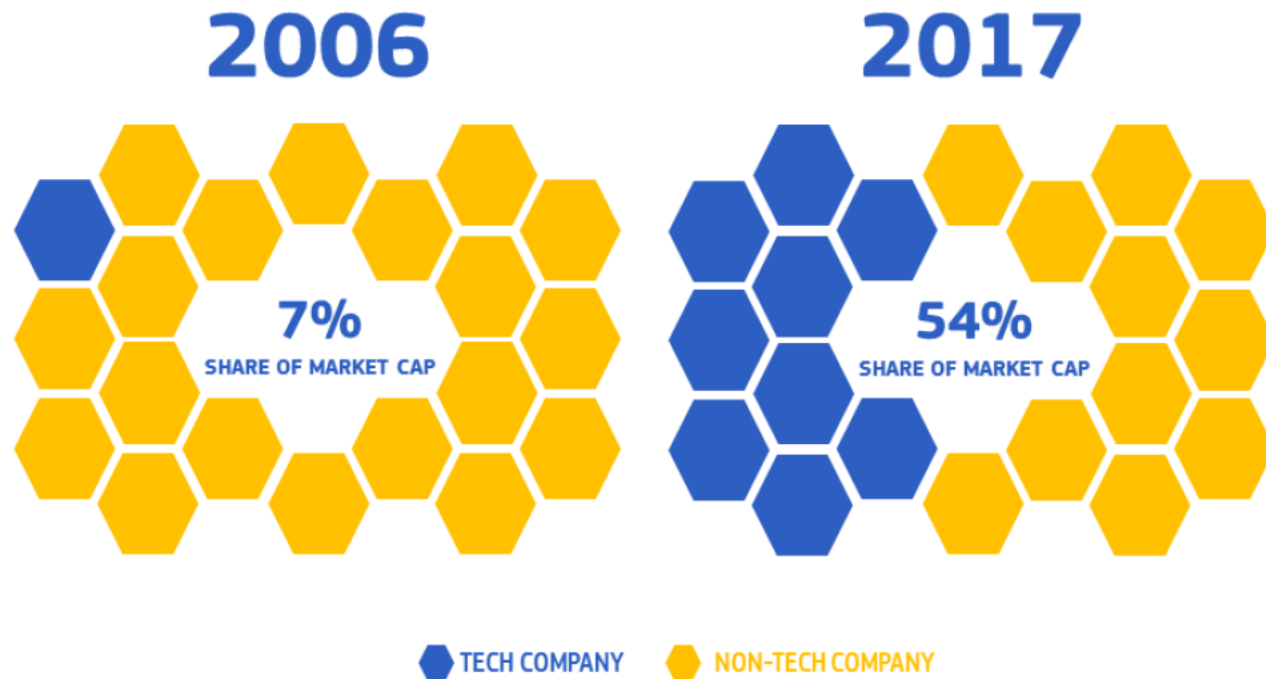
Fair taxation of the digital economy

**European
Commission
DG TAXUD**

The issue at stake



All these issues are only set to grow

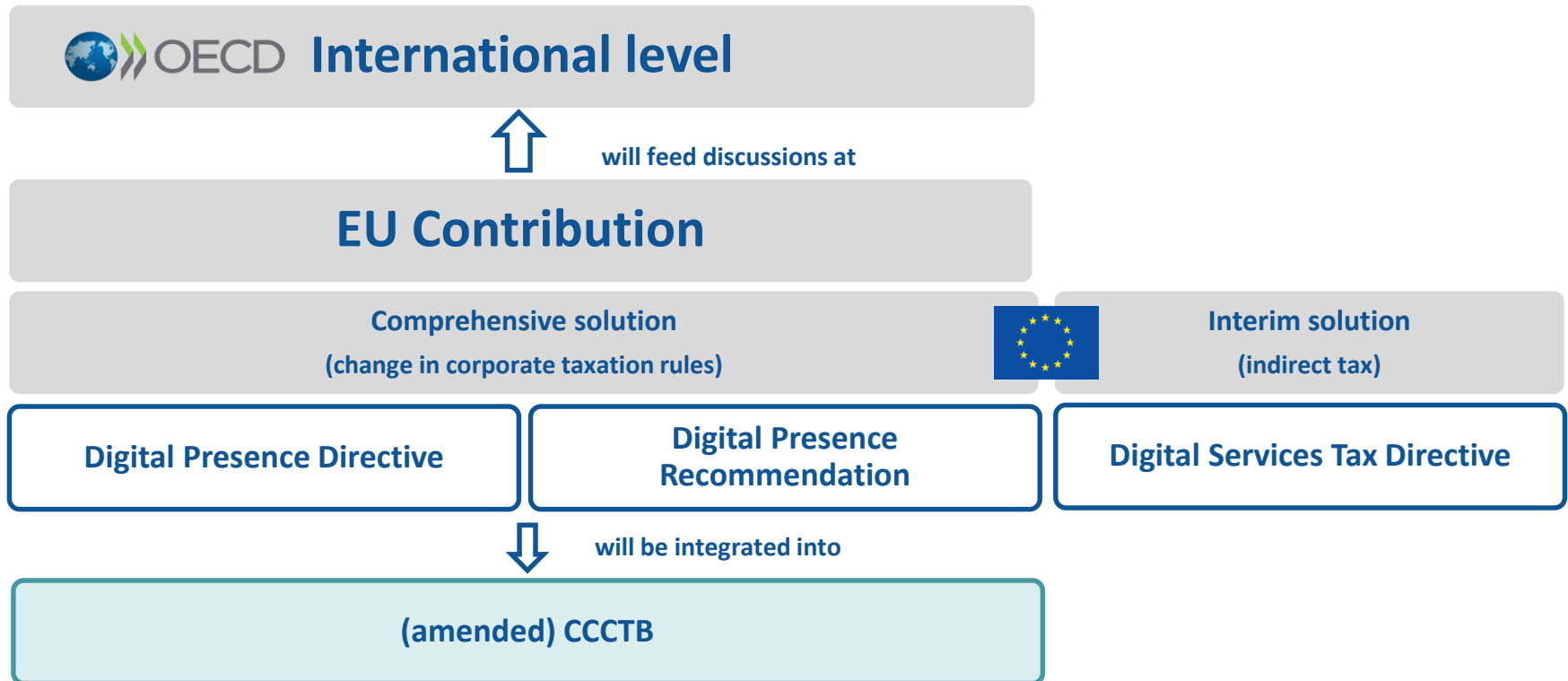


Source: Global Top 100 Companies by market capitalisation' PWC, 2017; Financial Times Global 500 database, 2006.

Context

- OECD/G20 BEPS Action 1 report (2015)
- Work under Estonian Presidency
- Letter from 10 Ministers of Finance calling for EU action
- September 2017 Communication: *A Fair and Efficient Tax System in the European Union for the Digital Single Market*
- European Council conclusions of 19 October 2017
- ECOFIN Council conclusions of 5 December 2017
- Public consultation (October 2017 – January 2018)
- OECD Interim report / G20 Finance Ministers meeting
- **Digital taxation package (21 March 2018)**

The architecture of the proposals



Comprehensive solution

Policy objectives

- **Misalignment** between place where value is created and place where profits are taxed.

Where to tax?

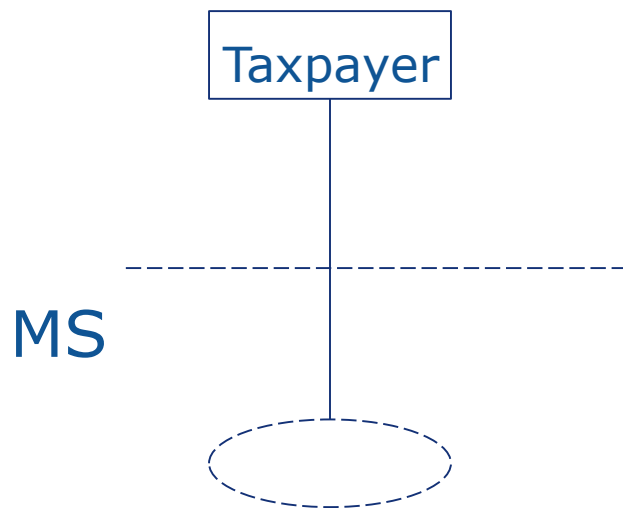
- Need to update the **taxable nexus** - absence of physical presence.

What to tax?

- Need to adapt the criteria for **profit allocation** - data and users contribute central input to the digital business models.

Significant Digital Presence

Digital interface required



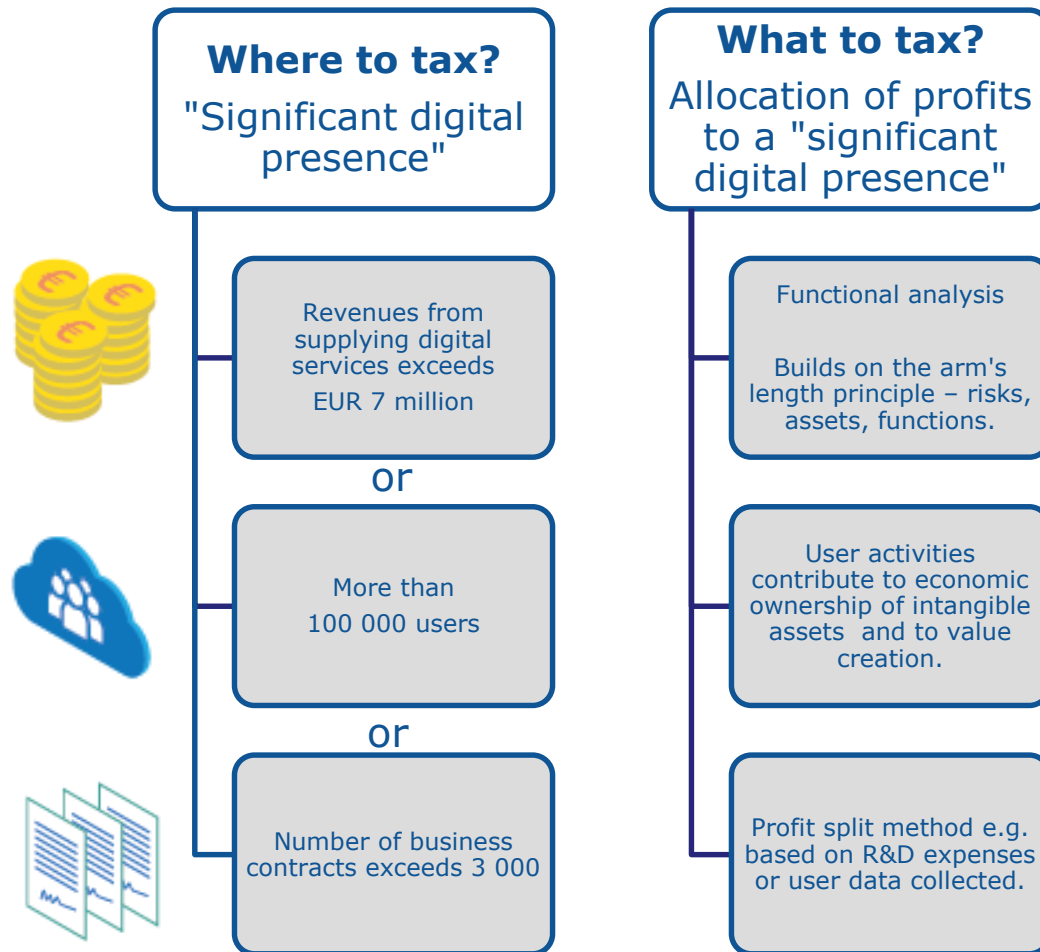
Digital interface

Accessible by users

Through which digital services are provided



Significant digital presence



Significant digital presence

- No new tax.
- Within existing corporate tax systems of MSs.
- Applies to entities in a MS or in a 3rd country (where no DTC).
- Solution must ultimately be global.

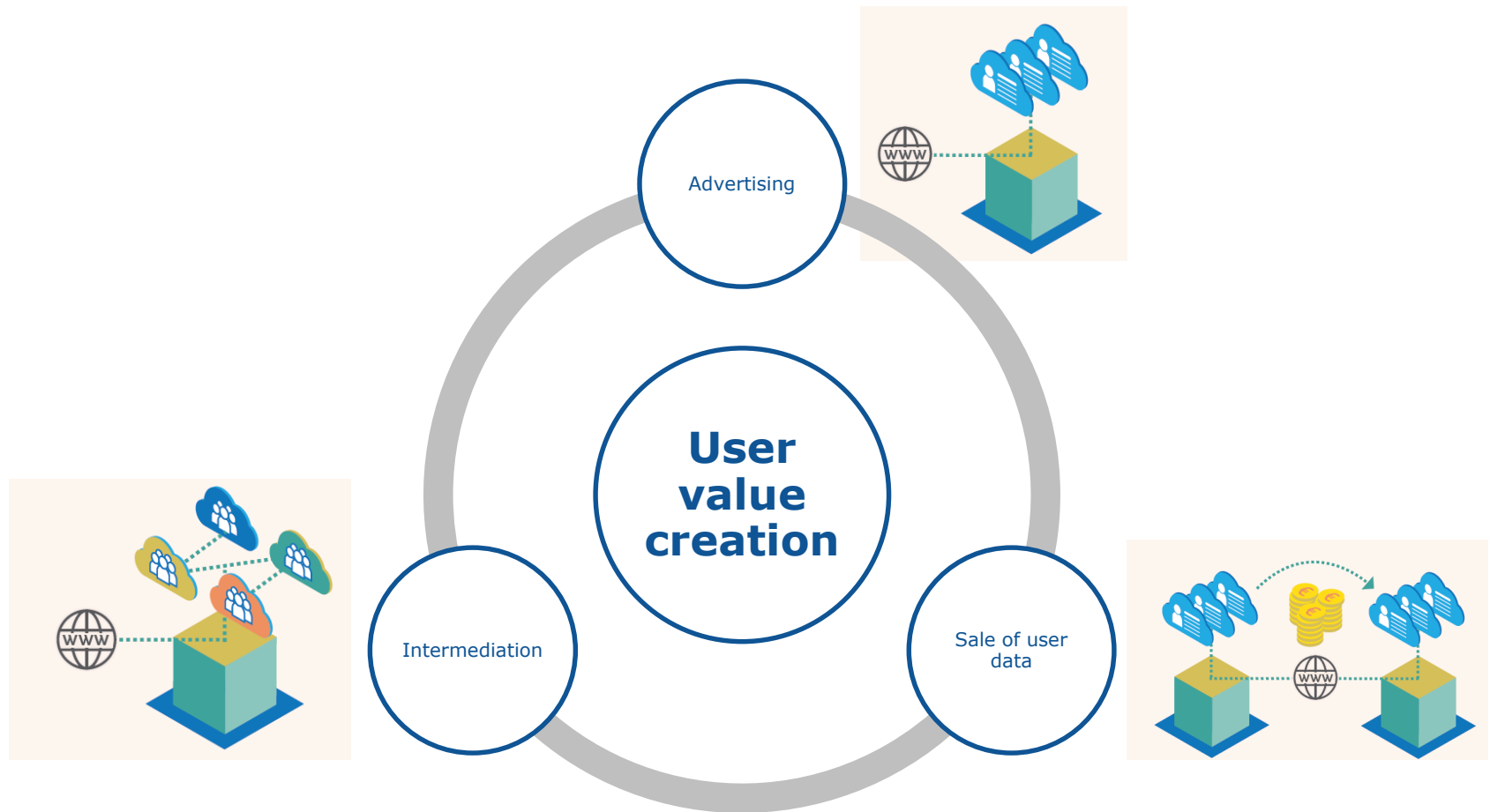
Interim measure

Why do we need an interim measure?

- Agreeing a comprehensive solution at global level is complex.
- In the meanwhile risk of erosion of tax bases.
- Trend towards diverse unilateral interim solutions → uncoordinated approach and **risk of fragmentation** of the Single Market ("patchwork" of 28 interim solutions).
- **Harmonised interim solution - Digital Services Tax (DST):**
 - Protect integrity of the Single Market.
 - Ensure level playing field within the Union.
 - Avoid erosion of national tax bases.

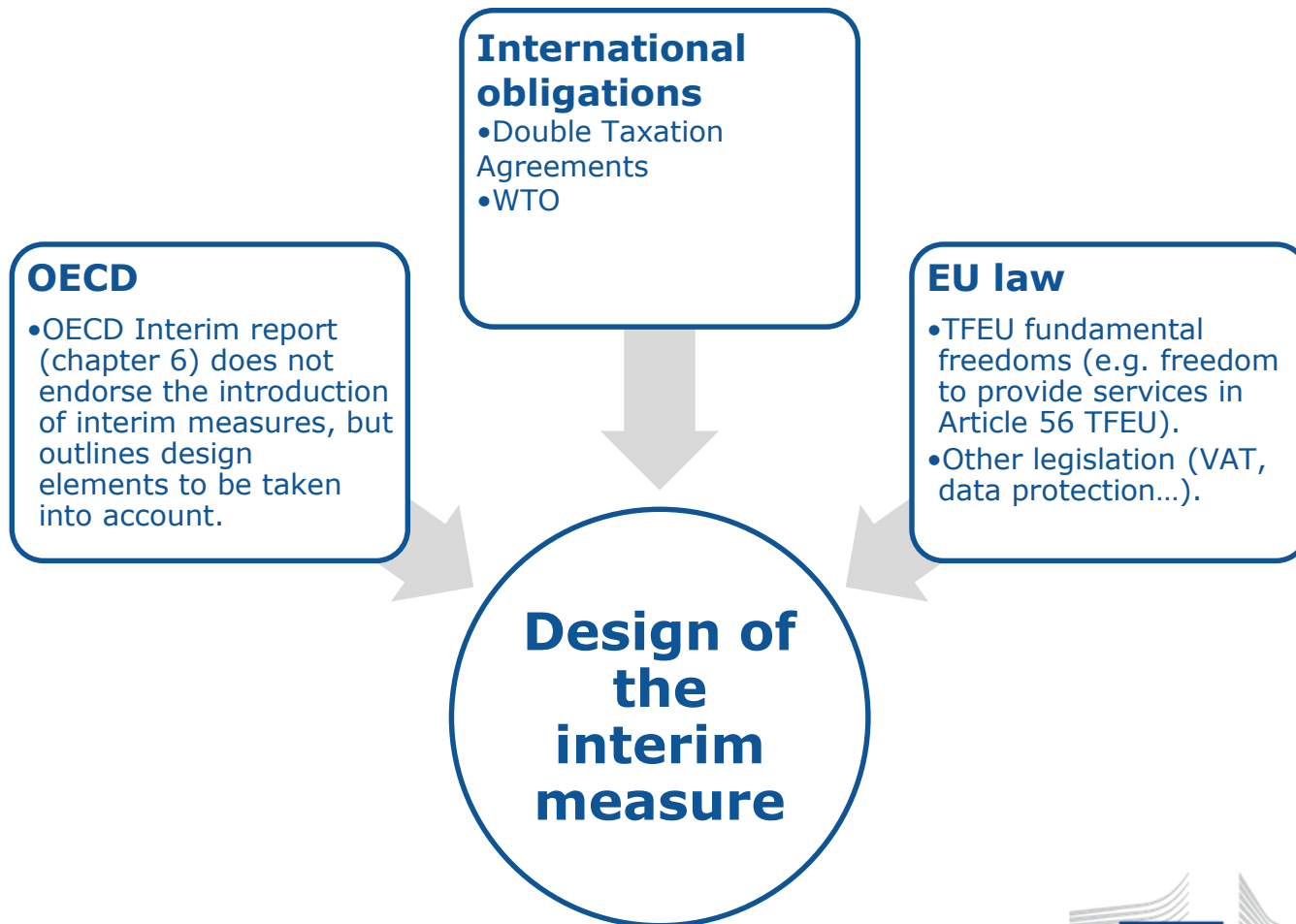
Digital Services Tax

Activities with the highest user participation



Digital Services Tax into perspective

DST is compliant with:



Digital Services Tax

- Revenues as a proxy for value creation.
- Tax rate - 3% of gross revenues.
- Thresholds (cumulative) – **protect SMEs and start-ups**:
 - € 750 M total annual worldwide revenue; and
 - € 50 M total annual revenue from digital activities in the Union.
- Place of taxation - where users are located - revenues allocated proportionally.
- Reporting obligations - possibility to fulfil through One-Stop-Shop mechanism (VAT-inspired).