

Short Statement – FISC Committee – Brexit – Cooperation or competition, Digital Services Tax and the OECD

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Thank you for inviting me to address you. As an ex MEP it's always a pleasure to be back in the European parliament, even if it is only virtually.

Firstly, I would just like to outline that the British Chamber of Commerce in the EU and Belgium doesn't just represent British businesses. Many of our member companies are European or global companies and we want to see not only as close economic cooperation as possible between the UK and the EU, but we also want to see both the EU and UK economies succeed in the future.

In terms of the direct subject of this hearing, businesses will obey and comply with whatever rules are put in place with regards to taxation. Main interest for businesses is that the rules governing tax are clear, simple and transparent. Our members and businesses in general don't set the rules, that's the job of legislators. So not everything I say here should be taken as the view of the chamber, some will go beyond that, partly because of my previous role and partly because this session is by its title partly speculative.

Digital Services Tax

- UK has a Digital Services Tax at 2% of revenue of search engines, social media services and online marketplaces derived from UK users. – in place April 2020.
- UK will keep that tax until there is a global solution – most likely through OECD agreement.
- OECD – Pillar 1 (who has taxing rights) Pillar 2 – minimum effective tax rate
- UK will be an ally to the EU in those OECD negotiations – in particular in trying to persuade the Americans, who have been the big hold outs on this.
- Hopeful of an agreement in the mid 2021 – and hope that Biden will move the US view.
- So the UK and the EU should be closely aligned on this, similar policy aims – I don't see significant divergence here.

Corporate Income Tax

- 2 elements – the tax regime/rate and coordination/anti-avoidance cooperation.

Coordination/anti-avoidance

In the UK/EU TCA

- Agreement on open and fair competition – the level playing field
- Also a good governance clause, which includes minimum standards on tax transparency and base erosion and profit sharing (BEPS).
- UK agreed to continue the EU standard on country by country reporting.
- Also a political declaration on tackling harmful tax practices and an annual dialogue with the EU
- So the commitment from the UK to stay close on these issues is there.
- The UK is subject to the EU code of conduct – like all other third countries and will meet all OECD/EU requirements on tax transparency.

But the key is although the UK is committed to all these issues, its not committing to take the EU standards.

That doesn't mean that the UK will move away from EU standards, but it has the freedom to do so.

Whatever happens, it will stay within the global standards as has already been demonstrated with its commitment to the OECD and particularly the BEPS standards.

So I don't think the EU should worry about the UK going rogue on this – no sign that they will lower standards. But it may well not stick only to EU standards.

Corporation Tax

- UK corporation tax rate in the middle of EU ones – 19%. Ireland 12%, Hungary 9% - UK never been an outlier
- UK needs to raise revenue, so possibility UK raises corporation tax. – very unlikely to cut any tax at the moment.
- On subsidies – or State Aid – the UK is likely to develop its own regime, but this will be within the TCA guidelines.
- Freeports- area for trade, not an area for tax avoidance – the UK is likely to want to retain revenue from them. They will be compliant with the EU. EU MS have 20 freeports.
- Key question here is not just what the UK does – its also what the EU does. If it makes continuing moves towards standardising tax rates, or gives substantial new state aids, for example under the Recovery Plan for Europe – or deciding to subsidise European champions – this will also have an impact on the level of cooperation that exists.

So overall the UK and EU are likely to have similar interests in this area, and I see significant scope for cooperation in international fora on transparency, anti tax avoidance and on the digital services tax.

However, they will both be competing for international business, so its natural that there will be an element of competition on some elements of the tax policy. This will be dictated by future decisions on both sides, but it is clear that the UK can be much more nimble on this policy now, than it was within the EU.