

# The Impact of Digitalisation on Personal Income Taxes

RITA DE LA FERIA

Professor of Tax Law, University of Leeds

(research co-authored with Dr Giorgia Maffini, PwC, London)

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# SUMMARY

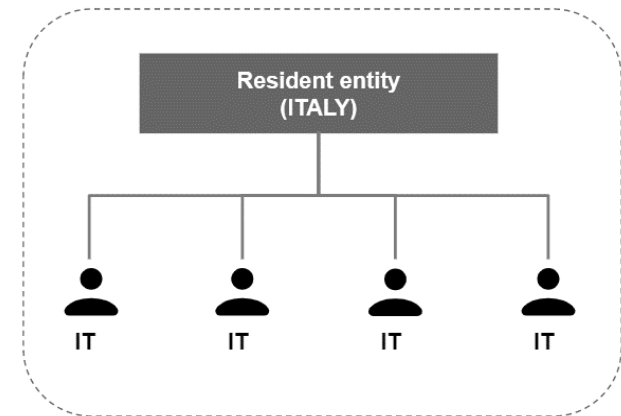


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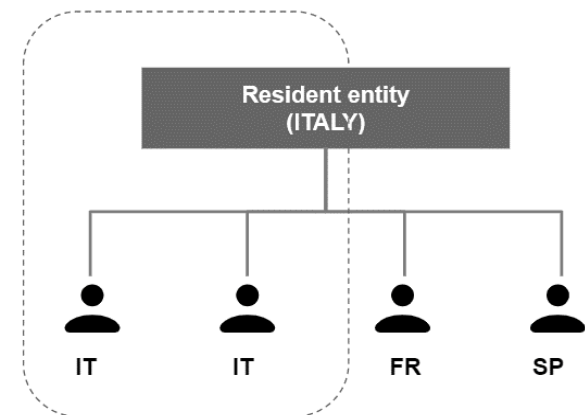
*This paper considers the potential impact upon personal income taxes (PIT) of the acceleration of digitalisation and remote working due to the COVID-19 pandemic. The societal changes brought about by the digitalisation of the economy affect all areas of the tax system. Until now, however, most attention has centred on corporate income taxes (CIT), and to a lesser extent VAT. What has been comparatively neglected is how the spread of remote working – and particularly inter-jurisdictional remote working – has the potential to trigger very significant challenges to PIT systems. In this paper we argue that some remote working is set to continue post-pandemic, and that some of it is likely to be inter-jurisdictional. These mobile workers are likely to be at the top of the income distribution, and thus even assuming a small number of mobile workers revenues losses can be significant. In the UK we estimate that the overall revenue loss – i.e. combined PIT and SSCs revenues – could amount to between £6.5 billion and £32.5 billion. This new mobility of workers at the top of the income distribution is also likely to have distributional impact, as well as significant spillovers in other taxes, in particular for CIT and for consumption taxes. These challenges are particularly problematic for PIT systems -like that in the UK- which are heavily reliant on PITs as total percentage of revenue, as well as on a relatively small number of high-income – and now potentially mobile - taxpayers. We conclude that the challenges of adapting our tax systems to a digital economy are far from over; indeed, they have just started.*

- The impact of digitalisation on mobility of workers was not only predictable – but predicted
- Inter-jurisdictional remote working already happening pre-pandemic, but limited to small % of population (ultra-rich, high-end scientists)
- Dramatic acceleration of the process of dissociation between work location and residence as a result of the pandemic

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## Job vacancies in one EU MNE

### Key points:

1. Remote working will continue, and some of it likely to be inter-jurisdictional
2. New mobile workers are at top of the income distribution

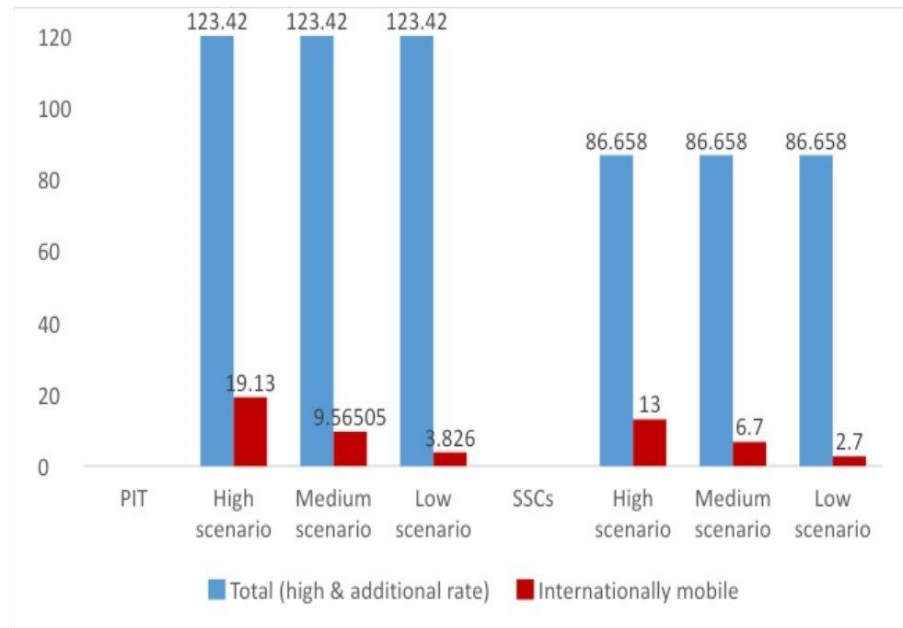
Clicking on the job offer:  
Location: San Francisco,  
Huston, New York City  
**Remote (North America  
only)**

**No territorial constrains:**  
(generally limited to the  
same region:  
EU(27), North America)

Job	Location
Sales executive	Milan 
Sales executive	Madrid 
Sales executive	San Francisco 
Sales executive	Remote
Sales executive	Remote

3. Even assuming a small number of new mobile workers revenues losses can be significant - in UK, between £6 and 32bn
4. Distributional effects (decrease in progressivity), and tax spillover effects- primarily in CIT and VAT - also likely

Figure 13: Mobile Taxpayers' Scenarios (tax revenues, £ bn)<sup>46</sup>



# POTENTIAL REVENUE LOSSES



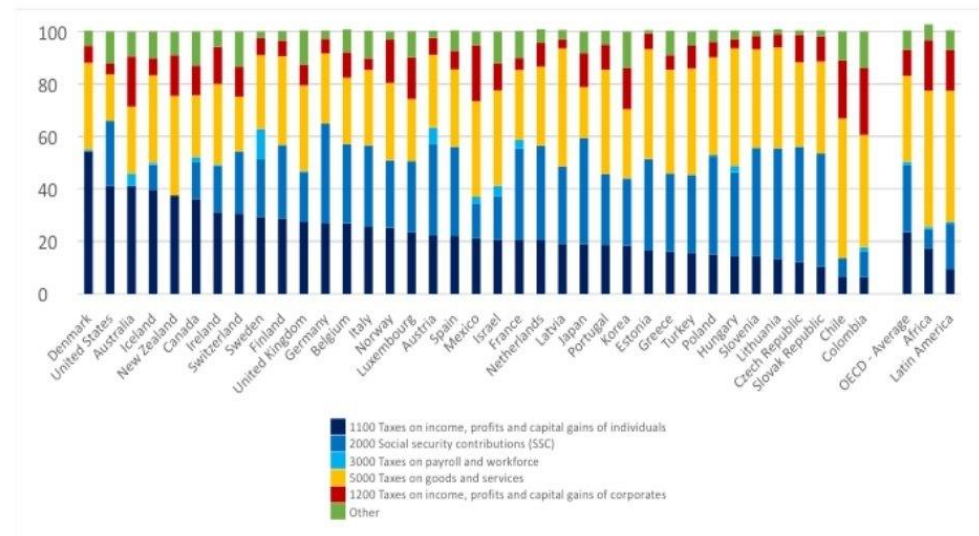
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5. The impact of these labour changes likely to be more significant in countries that

a) rely heavily on PITs as % of total revenue

b) rely heavily on a small number of high-income - and now potentially mobile - taxpayers

Figure 3: Revenue Composition (% total revenue), OECD countries, 2018<sup>10</sup>





- Early evidence of increased tax competition (e.g. France, Greece)

- Likely reactions, based on CIT experience:

- a) tightening of employment rules, new anti-avoidance rules

- b) new preferential tax regimes, increased tax competition, race-to-the-bottom

# KEY TAKE-AWAYS



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- Magnitude of the phenomenon not yet known, but worrying early signs
- Potential for much wider economic and societal ramifications than the challenges to CIT
- Risk of de-stabilisation of the PIT system in near future is very significant
- Early action / coordination can limit the damage

High economic-social stakes

Tax competition

Refocussing attention



THANK YOU

**Email:**  
[r.delaferia@leeds.ac.uk](mailto:r.delaferia@leeds.ac.uk)  
**Twitter:** @delaFeriaR

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