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Answer given by Mr Moscovici
on behalf of the European Commission
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Figures provided in the impact assessment[1] accompanying the Commission proposals on the fair taxation of the digital economy are a computation taken from the Leibniz Centre for European Economic Research (ZEW) report. ZEW et al. (2017)[2] finds that a cross-border digital business model is subject to an effective average tax rate of only 9.5%. This compares to a rate of 23.2% for a cross-border traditional business. To a certain extent, the lower tax levels reflect that modern tax policy recognises the importance of Research & Development and digitalisation for future growth. However, beneficial regimes targeting very mobile assets also indicate that countries compete fiercely on this very mobile segment. Through aggressive tax planning companies can achieve effective average tax rate levels of zero.

The Molinari Economic Institute (MEI) study, which claims that digital companies pay as much tax as others, relies on financial reporting to calculate effective tax rates of digital companies. However, financial reporting is not the same as tax reporting, and the latter is not publicly available. The financial accounts of a company follow the relevant accounting rules which do not necessarily coincide with actual tax payments and can include provisions for future tax liabilities. Also, there is generally no geographical breakdown for taxes in the financial reports, while one of the main weaknesses in the current tax system is the misallocation of tax base. This is why the Commission's proposal for a significant digital presence[3] addresses the allocation of taxing rights and one of the reasons why the Commission has proposed to oblige large companies to publish country-by-country tax information.

[1] SWD (2018) 81 final/2.
[2] ZEW, University of Mannheim and Pwc (2017), 'Steuerliche Standordattraktivitaet digitaler Geschaeftsmodelle'.
[3] COM(2018) 174 final.