

ETAF Conference on how to tax the digital economy: searching for common solutions

On 23 May 2018, over 100 participants from the EU institutions and multiple Member States joined the Conference on “fair taxation in a digitalized world” hosted by the European Tax Adviser Federation (ETAF) in Brussels.

Main subject of the Conference were the Commission proposals on taxing the digital economy of 21 March 2018. As a keynote, the ETAF Conference was an ideal setting for Director General at DG TAXUD, *Stephen Quest*, to explain the background and the purpose of the Commission proposals.

In his welcoming address, the ETAF President *Philippe Arraou* highlighted that the taxation of the digital economy is one of the favorite topics of ETAF since its very first day, “when we provided Commissioner Moscovici with a position paper on the taxation of the digital economy at our launching conference”, he said. Furthermore, President *Arraou* welcomed the Commission proposals as a basis for discussion and further developments.

Following the welcoming address, Mr *Quest* referred to the digitalisation of the economy as a fundamental aspect of the growth of the EU. “We are aware that IT technologies generate 25% of the total R&D investments within the EU”, *Quest* said. He stressed that the European Commission was keen on supporting this trend of growth. According to him, the impressive growth of the digital economy compared to the traditional industry was even more significant when looking at the market capitalisation of the business engaged in the digital economy, in comparison to the traditional brick-and-mortar activities.

However, *Quest* highlighted that one of the pillars of the work of the European institutions was to ensure fairness within the EU. “These positive developments of the digital economy have exposed the outdated nature of the international tax framework”, *Quest* stated, clarifying that the proposals were driven by the willingness of the EU finance ministers, expressed in December 2017. Finally, he clarified that the comprehensive solution aims at tackling two fundamental problems connected with digital activities: “where to tax” and “what to tax”. With regard to the interim tax, *Quest* spelled out that a tax on the revenues from certain digitalised services represents a common solution to avoid the fragmentation of the EU market.

In the first panel under the title “taxation of the digital economy – the way forward”, *Maria Elena Scoppio* (Head of Unit at DG TAXUD), *Dr Eva Oertel* (Bavarian Ministry of Finance), *Paweł Gruza* (Undersecretary of State, Polish Ministry of Finance), *Guillaume Drano*, (Permanent Representation of France to the EU) and *Umberto Zanini* (Italian Dottore Commercialista representing ETAF) offered a very interesting discussion about the right way of taxing the digital economy. Mr *Drano*, favoured the “wise, reasonable and proportionate” proposals issued by the European Commission. The position of Mr *Gruza* was also in favour

of the proposals, though he called on being realistic, taking into account the wider game of EU-US relations. Mrs. *Scoppio* underlined that the EU wanted to be at the forefront in the process of taxing the digital economy. The comprehensive solution was a blueprint to be used also by the OECD level to tackle the issue at global level. She insisted that it is not supposed to be a GAFAs tax, but to tax new digital activities, not certain digital companies. Regarding the interim tax, Mrs *Scoppio* explained that it has been designed to be easily applicable by every Member State. Dr *Oertel* was rather critical of the proposals. Instead of a tax on revenues, she spoke rather in favour of a VAT based solution, because this allows to tax transactions without demonstrating the profits. She also highlighted that tax administration should trust each other more; the exchange of information between tax administration was still insufficient in her view. Mr *Zanini* welcomed the proposals, commenting that tax advisers are well aware that time has come to tackle the issue of taxing the digital economy. He added that a clear definition of users, data and information should be the basis of the proposal at hand.

The second panel, composed of MEPs *Luděk Niedermayer* (EPP Group), *Eva Joly* (Greens Group) and *Ana Gomes* (S&D Group) and by *Volker Kaiser* (Vice-President of BStBK) discussed on “TAX3 and the role of tax professionals in fair taxation”.

The debate was opened by MEP *Joly* who stressed that the tax scandals brought up the scale of the “industry of international tax avoidance” and that regulatory loopholes are created on purpose to facilitate this type of tax avoidance and tax evasion. She underlined that the solution is CCCTB both for solving the problem of international tax avoidance by multinationals and to introduce the notion of virtual permanent establishment that can tackle the issue of the taxation of the digital economy. MEP *Niedermayer* on the other hand said he did not believe that national governments created loopholes in their tax regulation on purpose. He stressed that tax regulation was very complex in most of the member states and even more complex at international level. He also pointed out that his willingness to act on fair taxation was not driven by the scandals, but on the need to act in order to avoid that the growing internationalisation of businesses could cause a restriction of the market for SMEs due to the higher compliance costs that these entities should bear. MEP *Gomes* welcomed the proposals of the European Commission on taxing the digital economy, because in her view, internet giants had to be properly taxed. She agreed with the other MEPs that CCCTB could help to solve the issue of the tax avoidance by multinational companies. Mr *Kaiser* in replying to MEP *Joly* highlighted that 98% of tax advisers were not engaged in supporting multinational in their tax planning schemes. With regard to the CCCTB, he pointed out that it is a huge project, but it was hard to believe that national tax authorities would sacrifice some of their autonomy.

Overall, the ETAF event offered an excellent outlook on the various positions of governments, MEPs and professionals on the Commission’s proposals on taxing the digital economy. It allowed ETAF to clarify its positions and emphasize the importance of deontology and ethics that are the common ground of the members of ETAF.