[Digital Taxation: Commission proposes new measures to ensure that all companies pay fair tax in the EU]

The European Commission has today proposed new rules to ensure that digital business activities are taxed in a fair and growth-friendly way in the EU. The measures would make the EU a global leader in designing tax laws fit for the modern economy and the digital age.

The recent boom in digital businesses, such as social media companies, collaborative platforms and online content providers, has made a great contribution to economic growth in the EU. But current tax rules were not designed to cater for those companies that are global, virtual or have little or no physical presence. The change has been dramatic: 9 of the world's top 20 companies by market capitalisation are now digital, compared to 1 in 20 ten years ago. The challenge is to make the most of this trend, while ensuring that digital companies also contribute their fair share of tax. If not, there is a real risk to Member State public revenues: digital companies currently have an average effective tax rate half that of the traditional economy in the EU.

Today's proposals come as Member States seek permanent and lasting solutions to ensure a fair share of tax revenues from online activities, [as urgently called for by EU leaders in October 2017]. Profits made through lucrative activities, such as selling user-generated data and content, are not captured by today's tax rules. Member States are now starting to seek fast, unilateral solutions to tax digital activities, which creates a legal minefield and tax uncertainty for business. A coordinated approach is the only way to ensure that the digital economy is taxed in a fair, growth-friendly and sustainable way.

Two distinct legislative proposals proposed by the Commission today will lead to a fairer taxation of digital activities in the EU:

- The first initiative aims to **reform corporate tax rules** so that profits are registered and taxed where businesses have significant interaction with users through digital channels. This forms the Commission's preferred long-term solution.
- The second proposal responds to calls from several Member States for an **interim tax** which covers the main digital activities that currently escape tax altogether in the EU.

This package sets out a coherent EU approach to a digital taxation system which supports the Digital Single Market and which will feed into international discussions aiming to fix the issue at the global level.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue said: *"Digitalisation brings countless benefits and opportunities. But it also* *requires adjustments to our traditional rules and systems. We would prefer rules agreed at the global level, including at the OECD. But the amount of profits currently going untaxed is unacceptable. We need to urgently bring our tax rules into the 21st century by putting in place a new comprehensive and future-proof solution."*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs added: *"The digital economy is a major opportunity for Europe and Europe is a huge source of revenues for digital firms. But this win-win situation raises legal and fiscal concerns. Our pre-Internet rules do not allow our Member States to tax digital companies operating in Europe when they have little or no physical presence here. This represents an ever-bigger black hole for Member States, because the tax base is being eroded. That's why we're bringing forward a new legal standard as well an interim tax for digital activities."*

Proposal 1: A common reform of the EU's corporate tax rules for digital activities

This proposal would enable Member States to tax **profits** that are generated in their territory, even if a company does not have a *physical* presence there. The new rules would ensure that online businesses contribute to public finances at the same level as traditional 'brick-and-mortar' companies.

A digital platform will be deemed to have a taxable 'digital presence' or a virtual permanent establishment in a Member State if it fulfils **one** of the following criteria:

– It exceeds a threshold of €7 million in annual revenues in a Member State

– It has more than 100,000 users in a Member State in a taxable year

– Over 3000 business contracts for digital services are created between the company and business users in a taxable year.

The new rules will also change **how profits are allocated to Member States** in a way which better reflects how companies can create value online: for example, depending on where the user is based at the time of consumption.

Ultimately, the new system secures a real link between where digital profits are made and where they are taxed. The measure could eventually be integrated into the scope of the Common Consolidated Corporate Tax Base (CCCTB) – the Commission's already proposed initiative for allocating profits of large multinational groups in a way which better reflects where the value is created.

Proposal 2: An interim tax on certain revenue from digital activities

This interim tax ensures that those activities which are currently not effectively taxed would begin to generate immediate revenues for Member States. It would also help to avoid unilateral measures to tax digital activities in certain Member States which could lead to a patchwork of national responses which would be damaging for our Single Market.

Unlike the common EU reform of the underlying tax rules, this indirect tax would apply to **revenues** created from certain digital activities which escape the current tax framework entirely. This system will apply only as an interim measure, until the comprehensive reform has been implemented and has inbuilt mechanisms to alleviate the possibility of double taxation.

The tax will apply to revenues created from activities where users play a major role in value creation and which are the hardest to capture with current tax rules, such as those revenues:

– created from selling online advertising space

– created from digital intermediary activities which allow users to interact with other users and which can facilitate the sale of goods and services between them

– created from the sale of data generated from user-provided information.

Tax revenues would be collected by the Member States where the users are located, and will only apply to companies with total annual worldwide revenues of €750 million and EU revenues of €50 million. This will help to ensure that smaller start-ups and scale-up businesses remain unburdened. An estimated €5 billion in revenues a year could be generated for Member States if the tax is applied at a rate of 3%.

Next Steps

The legislative proposals will be submitted to the Council for adoption and to the European Parliament for consultation. The EU will also continue to actively contribute to the global discussions on digital taxation within the G20/OECD, and push for ambitious international solutions.

For more information

MEMO on digital taxation

DG TAXUD webpage on digital taxation

Factsheet on today’s proposals

VIDEO: Do digital activities need to be taxed?