Putting a Stop to EU Digital Tax Plans

It is time to unmask politicians and question reports - also ones by the media!

Here is what makes us at the Tax Payers Association of Europe (TAE) so angry: Under the smokescreen of fiscal justice (fair taxation) it is really all about milking the tax payers and nothing else!

Who doesn't want the big "bad" corporations like Google, Amazon and Facebook to finally pay more taxes and render their fair share thereof. For this to happen only the consolidated common tax base for corporate entities (CCCTB) would have to be harmonised and EU-wide minimum taxes for companies and an EU digital tax be introduced. This is the only way to get to the giants, and so on and so forth. A good person cannot object to that, right?

The reality is that transparency and stricter rules already exist today.

This profane manipulation of citizens by the EU Commission and political decision makers becomes especially apparent in the example of suggested taxation of digital enterprises.

Here the Commission quotes completely out of context and thus wrongly (!) from a study by Christoph Spengel of the University of Mannheim: *The tax burden of digital enterprises lies on average at only 9 percent while non-digital enterprises pay 21 percent taxes on average.*

This requires action, doesn't it? No, it doesn't and shouldn't! Because the reality is quite different. Current results of a study by the **ifo-Institute** regarding digital taxation clearly shows: **The digital enterprises pay around 20.9 percent and the non-digital ones 26.7 percent taxes.** Similar numbers have been concluded by the **European Centre for International Political Economy (ECIPE)**. In this the average tax burden according to audited annual reports by listed companies and the tax payments identified therein has been examined. For the time period between 2012 and 2016 it turned out that the average **applicable tax rate for traditional enterprises lies at 27.7 percent.** The applicable tax rate of large**, internationally renowned digital enterprises** does barely deviate from this and, very importantly, lies **on average at 26.8 percent**. The claim by the EU Commission that there is a grave, politically unwanted difference in taxation between digital business and conventional business can very easily and empirically verifiably be refuted!

Comparison of the Average Taxation of Large Enterprises		
	Digital Enterprises	**Non-Digital Enterprises**
Claim by the EU Commission	9.5%	23.2%
ECIPE	**26.8%**	**27.7%**
CES/ifo	**20.9%**	**26.7**

Well, it sounds good. And what is an even worse, opinion maker are using the numbers by the Commission in an altogether undifferentiated fashion in order to push the actual interest: Tax harmonisation and collection of more taxes where ever it is possible, regardless of the consequences for the economy and growth. And again and again there is the suggestion of a separate "good" or "fair" EU tax, currently in the form of an EU tax on plastic waste. One has to be all for that, right? Saving the world through taxes! As if there weren't a different solution for that.

But back to digital tax. Already the reasoning for the directives proposed by the EU Commission is feeble. The fight against "aggressive" tax planning and the closing of international tax loopholes are emphasised as important aims. So far the iron goal. But it is completely and likely purposefully blocked out that in recent years the EU countries have already passed a number of defence measures in order to ensure fair taxation. For example the anti-misuse directives ATAD I and II make provisions for the introduction of interest barriers, fighting hybrid designs, as well as tightening the rules regarding added-back taxation and taxable disjunction of assets. Moreover, an automatic exchange of information for cross-border preliminary tax assessments and a fiscal country-by-country reporting, which is supposed to deliver leads to the fiscal authorities about unlawful transfers of profits, were established.

It gets really drastic when looking at the fact that the planned EU digital tax is not supposed to be attached to profit but revenue. Come again? Taxation completely independent from success? Such a taxation of gross revenue - without any regard to business expenses - blatantly violates the principle of taxation according to economic capacity and should therefore already be rejected on the grounds of fairness.

The planned 3 percent tax on gross revenue threatens to inevitably lead to arbitrary multiple burdens, depending on the respective profit margin of the affected enterprise. If, for example, the profit margin of an enterprise amounts to 10 percent, this equals a burden on the profit of 30 percent due to digital tax. Added to this are the usual profit taxes like income tax or corporate and business tax. This results in a high overall burden in Germany of in this case more than 50 percent!

Impact of Tax Burden of the Planned Digital Tax Example: Germany			
Revenue	**1,000**	**1,000**	**1,000**
Digital Tax (3 % of revenue)	30	30	30
Profit Margin	**5 %**	**10 %**	**15 %**
Profit (Revenue x Profit Margin)	**50**	**100**	**150**
Profit minus Digital Tax	20	70	120
Profit Tax Rate	30 %	30 %	30 %
Profit Tax	6	21	36
Total Tax	**36**	**51**	**66**
Total Tax Burden (Total Tax / Profit)	**72%**	**51%**	**44%**
Source: Welling (2018); Calculation and presentation DSi; *Assumption: The digital tax should count as business expense and therefore lower the taxable earnings)*			

Also, the EU digital tax carries the threat of higher bureaucracy costs. The differentiation made by the EU Commission between digital and non-digital enterprises is out of touch with reality. The distinction between taxable digital revenue and the other non-taxable revenue is arbitrary, administratively time-consuming and therefore also prone to dispute. A separate taxation of enterprises from the digital industry is not productive; it would be connected to high costs of bureaucracy and high legal and planning insecurity for enterprises.

Under differentiated consideration it should be clear to anyone: Digitalisation spreads through all industry sectors and cannot be limited to digital enterprises, as the EU Commission portraits it. For also normal larger enterprises pass the thresholds quickly after which the digital tax becomes due, hence worldwide total revenue of more than 750 million Euro per year of which 50 million are allotted to the EU. Why is this to be assumed? Also large traditional enterprises have to adapt their business models to the digital challenges by increasingly establishing and enlarging online platforms in order to improve and secure marketing their products. Additional burdens can hardly be limited to the digital industry but will often also impact traditional (industrial) enterprises.

It is likely that the “big players” of the internet industry due to their market power will be able to pass the digital tax on to other market participants. In the end it will strike the ones that were not intended to be hit: Workers and consumers in the form of lower wage increases or higher prices.

Bottom line: If one delves just a little bit deeper into the EU digital tax and does not wear ideological glasses there can only be one conclusion: This proposal by the EU Commission is to be rejected!

We at the Taxpayers Association will do everything in our power to prevent the EU digital tax. We are strictly against this European rush job. It would be more sensible, appropriate and keeping with the times to start working on an overhaul of the international taxation rules within the framework of the OECD instead of doing a European solo run again.

It is to be hoped that one country does not participate in the tax insanity and the digital tax returns to where it belongs: In the dust bin of rejected tax cartel ideas of the EU Commission.

If at one point - against better knowledge - there is a harmonisation of direct taxes in Europe, then everybody must also know that from that day on we will also have permanent EU financial compensation because taxes are an important location and thus compensation factor. No enterprise will then voluntarily move to Eastern Europe or to a European island if it will find the same framework conditions at the same tax rate in Berlin, Paris, Rome or Madrid.

Instead of permanently coming up with new ideas for the “happiness of the friends of tax increase” the EU Commission should finally get working on reforming the institutions.

More Europe where it is necessary and less Europe where it is possible!

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