European Commission - Press release

Taxation: Commission sets out path towards fair taxation of the Digital Economy

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The European Commission is today launching a new EU agenda to ensure that the digital economy is taxed in a fair and growth-friendly way. The Communication adopted by the Commission sets out the challenges Member States currently face when it comes to acting on this pressing issue and outlines possible solutions to be explored.

The aim is to ensure a coherent EU approach to taxing the digital economy that supports the Commission's key priorities of completing the Digital Single Market and ensuring the fair and effective taxation of all companies. Today's Communication paves the way for a legislative proposal on EU rules for the taxation of profits in the digital economy, as confirmed by President **Juncker** in the 2017 State of the Union. Those rules could be set out as early as spring 2018. Today's paper should also feed into international work in this area, notably in the G20 and the OECD.

Andrus **Ansip**, Vice-President for the Digital Single Market said: *"Modern taxation rules are essential to leverage the full potential of the EU's Digital Single Market and to encourage innovation and growth. This means having a modern and sustainable tax framework which provides legal certainty, growth-friendly incentives and a level playing field for all businesses. The EU continues to push for a comprehensive revision of global tax rules to meet the new realities."*

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue said: *"There is broad agreement that the growing digitalisation of the economy creates huge economic opportunities. At the same time, our tax systems should evolve to capture new business models while being fair, efficient and future-proof. It's also a question of sustainability of our tax revenues as traditional tax sources come under strain. Not least, it's about maintaining the integrity of the Single Market and avoiding fragmentation by finding common solutions to global challenges."*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs added: *"The goal of this Commission has always been to ensure that companies pay their fair share of tax where they generate profits. Digital firms make vast profits from their millions of users, even if they do not have a physical presence in the EU. We now want to create a level playing field so that all companies active in the EU can compete fairly, irrespective of whether they are operating via the cloud or from brick and mortar premises."*

The current tax framework does not fit with modern realities. The tax rules in place today were designed for the traditional economy and cannot capture activities which are increasingly based on intangible assets and data. As a result, the effective tax rate of digital companies in the EU is estimated to be half that of traditional companies – and often much less. At the same time, patchwork unilateral measures by Member States to address the problem threaten to create new obstacles and loopholes in the Single Market.

The first focus should be on pushing for a **fundamental reform of international tax rules**, which would ensure a better link between how value is created and where it is taxed. Member States should converge on a **strong and ambitious EU position**, so we can push for meaningful outcomes in the OECD report to the G20 on this issue next spring. The Digital Summit in Tallinn will be a good occasion for Member States to define this position at the highest political level.

In the absence of adequate global progress, the EU should implement its own solutions to taxing the profits of digital economy companies. Today's Communication outlines the Commission's long term strategy, as well as some of the short term solutions that have been discussed at EU and international level so far. The Common Consolidated Corporate Tax Base (CCCTB) in particular offers a good basis to address the key challenges and provide a sustainable, robust and fair framework for taxing all large businesses in the future. As this proposal is currently being discussed by Member States, digital taxation could easily be included in the scope of the final agreed rules. However, short term 'quick fixes' such as a targeted turnover tax and an EU-wide advertising tax will also be assessed (see MEMO).

Next steps

As announced at the informal ECOFIN of September, the Estonian Presidency will continue working on these issues with a view to having clear and ambitious Council conclusions by the end of the year. These conclusions should act as the EU contribution to international discussions on digital taxation, and lay the basis for future work in the Single Market.

In the meantime, the Commission will continue to analyse the policy options and consult with relevant stakeholders and industry representatives on this important and pressing issue.

The Commission looks forward to the OECD's report to the G20 in spring 2018, which should set out appropriate and meaningful solutions to taxing the digital economy at the international level and which can be integrated into the upcoming Commission proposal for binding rules in the EU's Single Market. If this is not the case, the Commission will in any case be ready to present an original legislative proposal to ensure a fair, effective and competitive tax framework for the Digital Single Market.

For More Information:

Q&A (MEMO/17/3341)

DG TAXUD webpage on digital taxation

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