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Digital Companies and Their Fair Share of Taxes: Myths and Misconceptions

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Brussels, Belgium, 20th February 2018 - Some (large) EU governments are making the case for digital companies to pay “their fair share of tax”. The key underlying assumption is that companies in the digital space are not doing so right now, and that there is a substantial source of untaxed profits that is waiting for the embrace of the taxman. The European Commission is now considering new revenue taxes on those companies that under some definition can be called “digital corporations”. In this paper, we provide a critical assessment of the underlying reasoning of the European Commission and those EU governments that currently are in favour of targeted taxes on digital revenues.

There is indeed a good case to make for fair taxation and that uneven effective tax rates can distort competition and lead to smaller tax revenues. However, those that are calling for higher taxes on one particular group of firms – digital corporations – have yet to present the evidence for why that is motivated by principles of tax fairness. The selective focus on the world’s “top 100 companies by market capitalisation” and the world’s “top 5 e-commerce companies” does not reflect the reality of the international business landscape, and therefore conveys a highly misleading picture about European and international companies’ profit margins and effective corporate tax rates. Moreover, real world financial data show that the average corporate tax rates of many digital companies actually exceed the European Commission’s “hypothetical” estimates for the EU by about 20 to 50 percentage points.

Ideas to slap a targeted tax on digital revenues clash with the EU’s top policy priorities for the digital economy. It is therefore remarkable that such taxes even are considered. A tax on digital revenues would not only stand in opposition to tax efficiency and neutrality; it would also undermine digitalisation, European integration, and the Digital Single Market.

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