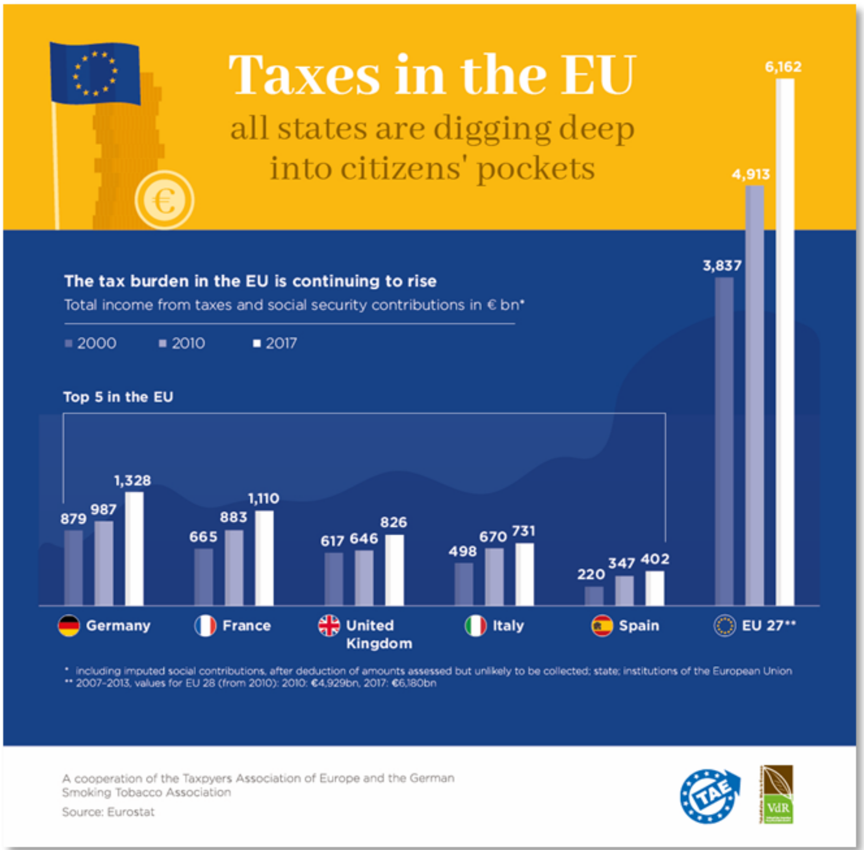
“Digital Change and Taxation

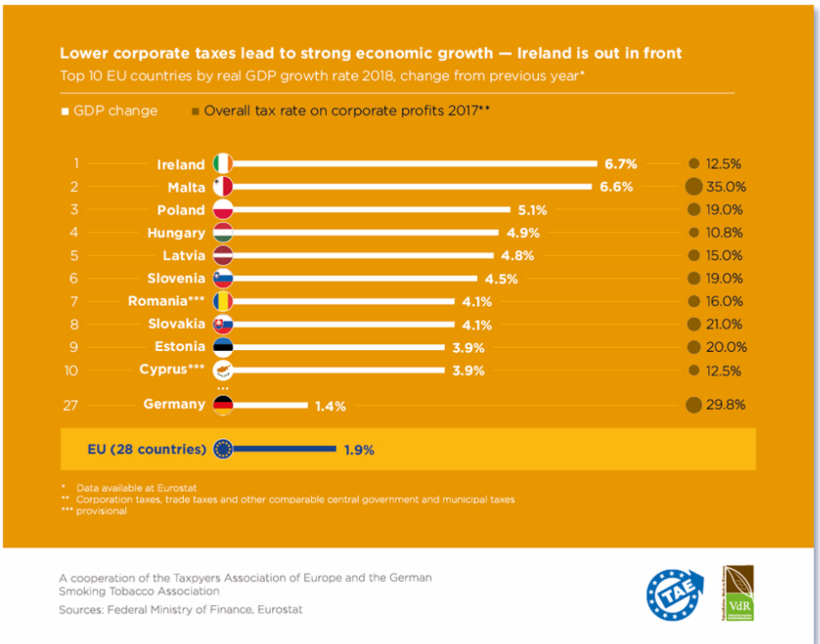
- Demands from the Viewpoint of Taxpayers”

Tax Burden



Taxes an Economic Growth

Interestingly, it is exactly those countries with the lowest tax rates that have the highest economic growth.



The numbers show that high taxes weaken the economy dramatically. The economic performance is literally strangulated. Proportionally, even the countries with low, simple flat-tax-systems have higher tax revenue.

Digital Tax

Together with the OECD, the EU is starting a new attempt at creating a separate tax for digital services. This plan is reasoned with the explanation that existing tax systems are to be made fit for the digital age, and that large digital service providers supposedly pay close to no business tax.

It is alleged that major digital corporations like Google, Amazon, Facebook and Apple (GAFA) as well as the internet giant Alibaba (China) pay no or almost no taxes. By introducing a digital tax (DT), supposedly the digital big players are to finally be forced to pay taxes and render their fair tax contribution, so the argument of the advocates of tax fairness. For this, the assessment basis for corporate entities will have to be harmonised in order to create transparency of tax structuring. And, in order to ensure the payment of taxes and duties, EU-wide minimum taxes in business taxation and a EU digital tax will have to be introduced. This is the only way to get the giants to pay taxes. And so on and so forth....

A trusting outside observant should not object to that, right? But so he/she should! For the facts tell a different story!

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%**
Ifo	**20.9%**	**26.7**

Because the EU Commission invokes as purely hypothetical calculation from a ZEW study (2017) when alleging a difference in taxation. In this calculation, a fictitious investment project with an assumed return before tax and a hypothetical structure of capital goods was examined. Then a hypothetical tax burden was calculated for this project. But this has nothing to do with reality. Digital enterprises have expenses and fairly distinct margins. They pay taxes and duties, directly through business taxation (see above) and indirectly through the creation of jobs liable for income tax (see below).

The tax law of a country applies to digital enterprises just as much as to analogue businesses. Profits are taxed. But the actual situation of the business is also considered. Thus, in most countries losses that are incurred in particular during the development phase can be calculated as loss carried forward against surpluses of the following years. Whether a business therefore pays direct taxes depends on the lawful tax conditions and its economic success.

Digital enterprises have disproportional growth. That is undisputable. But what is forgotten in the discussion about taxes is the fact that this growth also has direct effects on the number of employees, and that digitalisation has created many new jobs. The GAFA alone have directly enabled more 1 million people to make a living. When looking at other corporations that also offer and sell digital goods and services, but are not yet in the focus, e.g. Microsoft or Nike, one quickly realises the dimensions of what all of this is really about. Because in principle, every enterprise that sells via the internet is also a digital enterprise. All people employed there pay their normal taxes and duties. Therefore, there is much more at issue when discussing tougher taxation of digital enterprises.

Development of Employees from 2007 until 2018

	amazon		f	Google	Microsoft	
2007	17,000	21,600	16,805	16,805	78,565	34,300*)
2011	56,200	60,400	32,467	32,467	90,412	38,000
2015	230,800	110,000	61,814	61,814	117,354	62,600
2016	341,400	116,000	72,053	72,053	114,074	70,700
2017	566,000	123,000	80,110	80,110	124,000	74,400
2018	647,500	132,000	98,771	98,771	131,000	73,100

Sources: https://de.statista.com and https://www.statista.com
*) only figures for the year 2009 available
A summary from the Taxpayers Association of Europe (TAE), February 2019
Logos and pictures are original to the brand web sites

Those alleging that GAFA and other big players do not pay taxes are either not well informed or are lying!

The often used deficit of transparency in tax structuring also does not bite.

Actually, in Europe today there are already more transparency and tougher rules when it comes to the taxation of enterprises. No legal tax structuring remains concealed, for if it is systematic and suitable for legal tax reduction, it has to be reported. This even goes as far as tax consultants having to report potential tax-saving schemes by law.

Instead of provisional regulations it should be ensured within the settings of the G20 and the OECD that the digital economy fully fulfils its normal tax obligations.

If the thought of tax fairness applies, it must really be about making sure that taxes are paid, that no taxes are evaded, and that the tax competition is not circumvented.

Where those taxes are then paid really does not matter from the standpoint of tax fairness!

A critical look at the situation therefore raises the question why the digital tax initiative relates to American and Chinese enterprises in particular? Is it maybe the worry of the EU states to not get enough of the tax pie?

The Taxpayers Association stands for fair tax competition, a fact that we cannot mention enough. Everybody has to pay his/her fair share of taxes and duties. For what is not paid by some has to be paid by the others. But what is now looming for the digital enterprises has absolutely nothing to do with fair taxation!

Impact of the planned digital tax Example Germany			
Revenue	**1,000**	**1,000**	**1,000**
Digital tax (3 % of the revenue)	30	30	30
Return on sales	**5 %**	**10 %**	**15 %**
Profit (revenue x return on sales)	**50**	**100**	**150**
Profit minus digital tax*	20	70	120
Profit tax rate	30 %	30 %	30 %
Profit tax	6	21	36
Total taxes	**36**	**51**	**66**
Total tax burden (total taxes/ profit)	**72%**	**51%**	**44%**
Source: Welling (2018); Calculation and Account. DSi The digital is supposed to count as chargeable operating expense and therefore reduces the income taxable profit (corporate tax and und trade tax)*			

The planned 3% digital tax on gross revenue threatens to inevitable become an arbitrary multiple burden on affected businesses. How high it turns out depends on the respective return on sales of the particular enterprise.

Examples of calculation (see above): If the return on sales of a company amounts to 10 percent, the digital tax would put a 30 percent burden on the profits. Added to that are the usual taxes on earnings, namely income tax or corporate and trade tax. In Germany this results in a total burden of in this case 50 percent! If the return on sales is lower, e.g. 3 percent, this leads to total tax burden of 72 percent!

A taxation of revenue, not the actually achieved profits, without consideration of losses or write-offs, is an attack of the basic principles of market economy and taxation according to the “ability-to-pay” principle.

Tax avoidance by multinational corporations is a real problem, but it is not limited to the digital economy. In an increasingly global economy in which almost all enterprises do digital business, it is a legitimate question, how this can be imaged in the existing tax systems. From the viewpoint of the Taxpayers Association, it would be more reasonable to link taxation more closely to added value. A new definition of what a permanent business establishment is would then be necessary in order to clearly assign profits (not revenues!). An example to be named here would be the allocation of trade tax yields according to business establishments in Germany.

How should a digital tax be structured? Globally, EU-wide or national-individualistically? Is a tax that is only tied to revenue even fair? How can an unequal taxation of digital and non-digital enterprises be prevented in a digital tax-system? How can it be ensured that the currently principles like the principle of equivalence, the insurance principle, the principle of efficiency, the “ability-to-pay” principle, and the neutrality of taxation rulings continue to be in effect? A digital tax as it is currently conceived by the European Commission does not meet these requirements towards a modern tax system that is fair for all!

Also, what are the consequences of such a corporate tax reform for small and midsized enterprises (SME)? They cannot simply lower their cost or increase their prices on the market in order to stay competitive after such a tax reform.

In light of the EU stimulus package presented by Ursula von der Leyen and other programmes like the “Green Deal” etc. that stipulate higher EU expenditures, loans and liabilities amounting to trillions, the discussion of introducing a EU digital tax becomes of special significance.

The EU Commission wants the introduction of additional separate income for the EU. The digital tax is specifically named in this context. But this is not what it is there for. The discussion of a digital tax must not be about the EU taking in revenue!

It is therefore of existential importance that we now enter into the discussion and rise to speak. It is key that the digital tax is discussed objectively and not motivated by ideology.

With every discussion and every tax reform proposal an impact assessment is also mandatory. For in the end it is the taxpayers that have to foot the bill!

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