IMPLICATIONS OF DIGITALIZATION FOR INTERNATIONAL CORPORATE TAX REFORM

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Issues

1. How do we tax a typical (digitalized) multinational company?
2. What are the problems of doing so?
3. What other alternatives are there?
4. Two special digital cases

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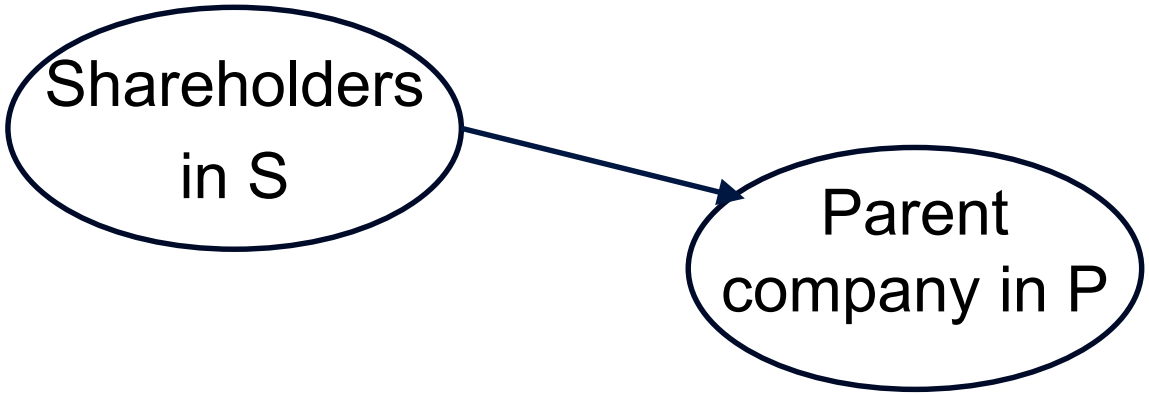
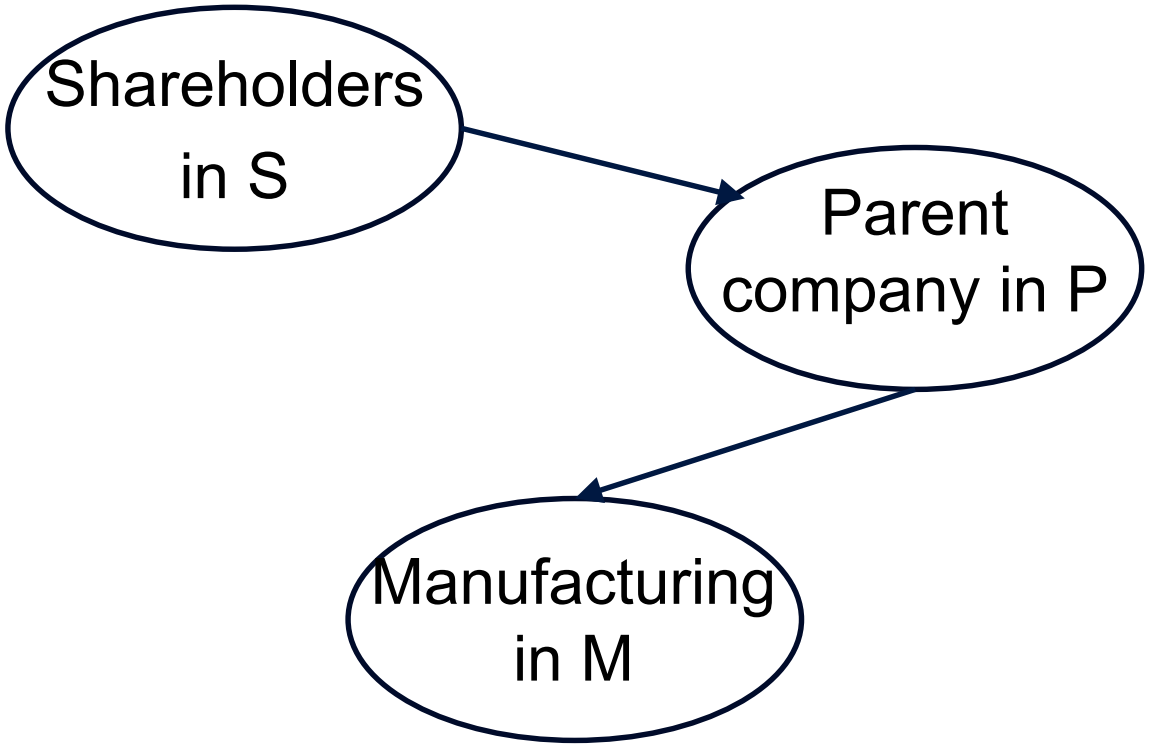
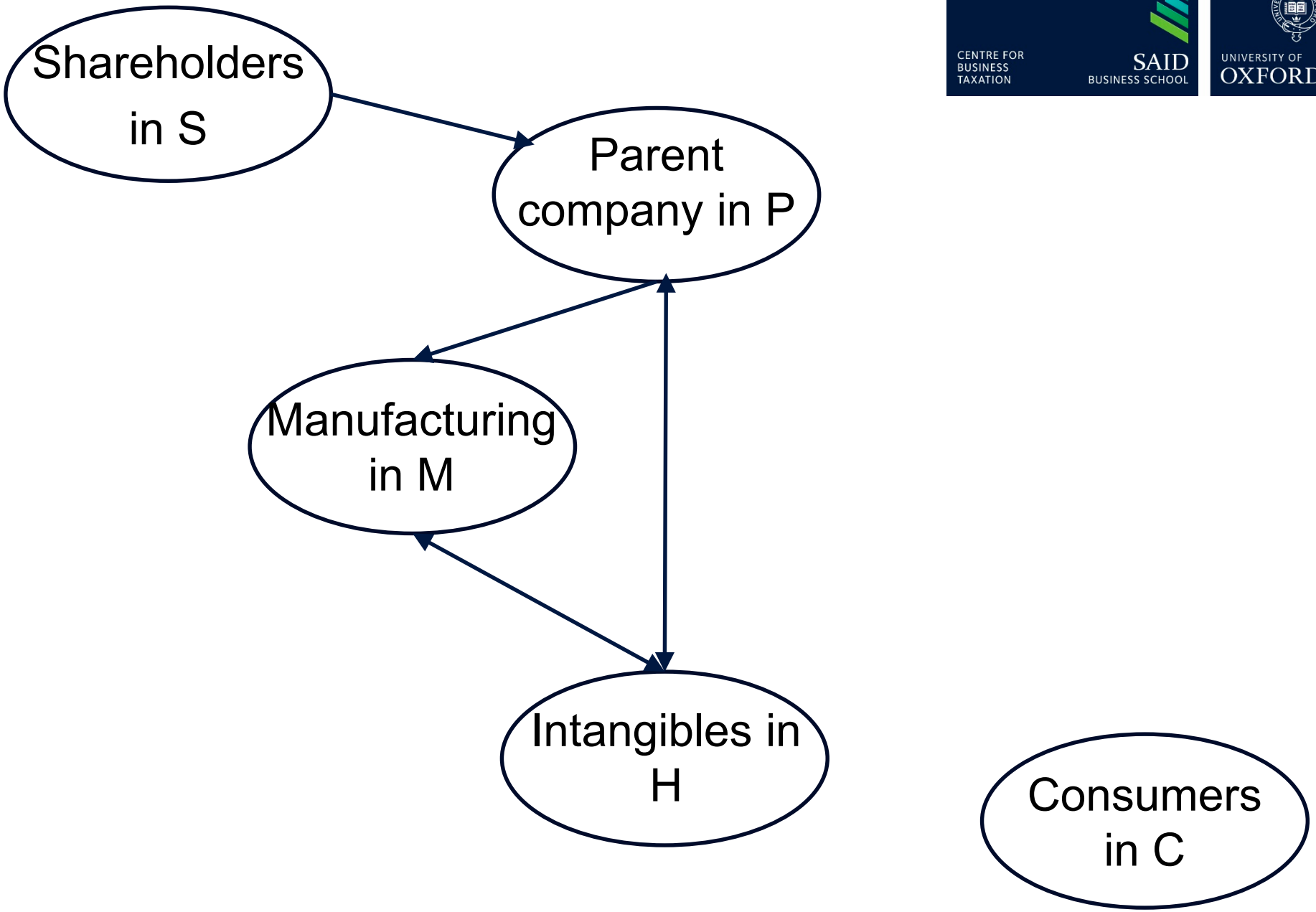
A modern (digitalized) company

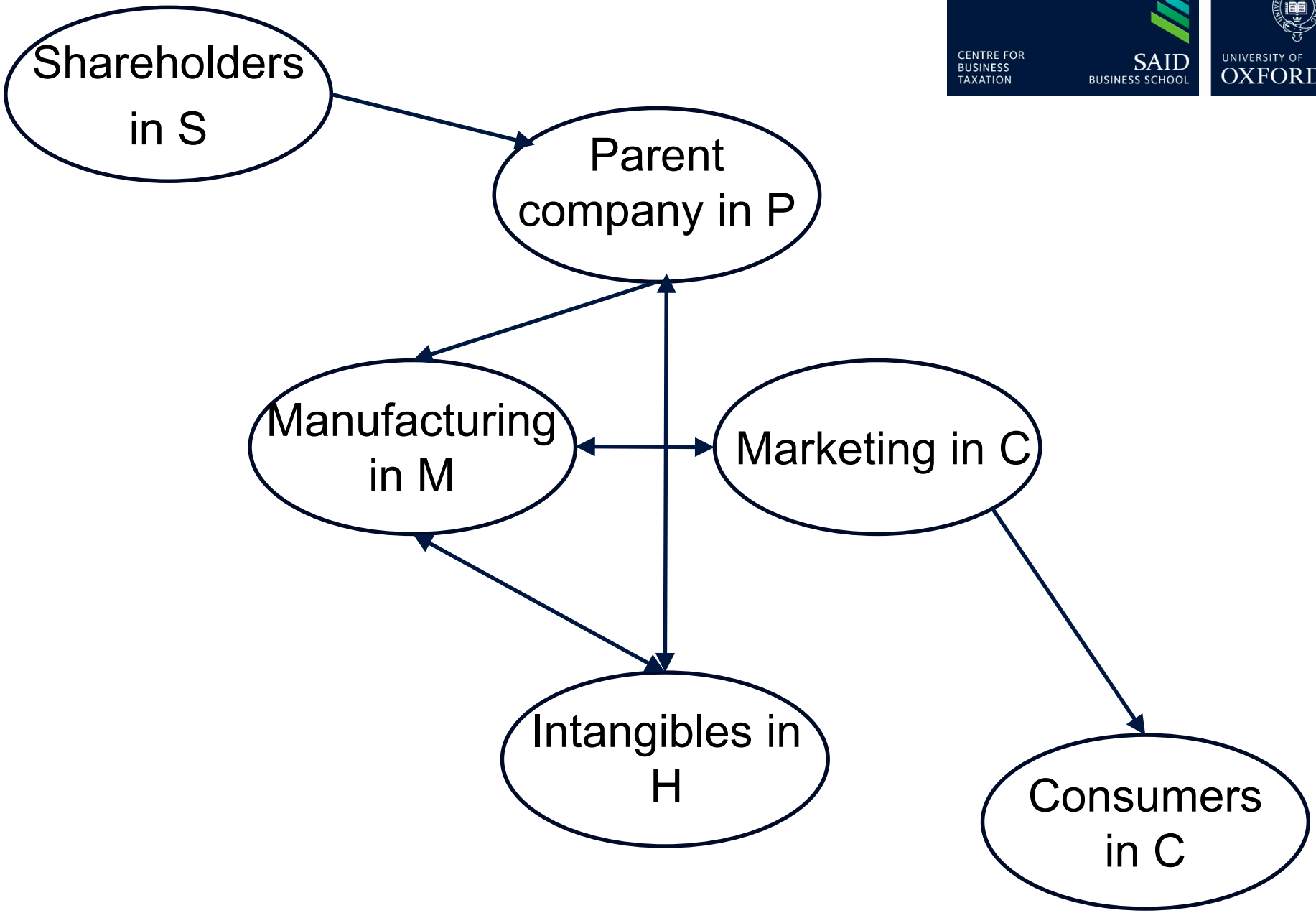


Consumers in C



Consumers in C


Shareholders in S
Parent company in P
Manufacturing in M
Intangibles in H
Consumers in C


Shareholders in S
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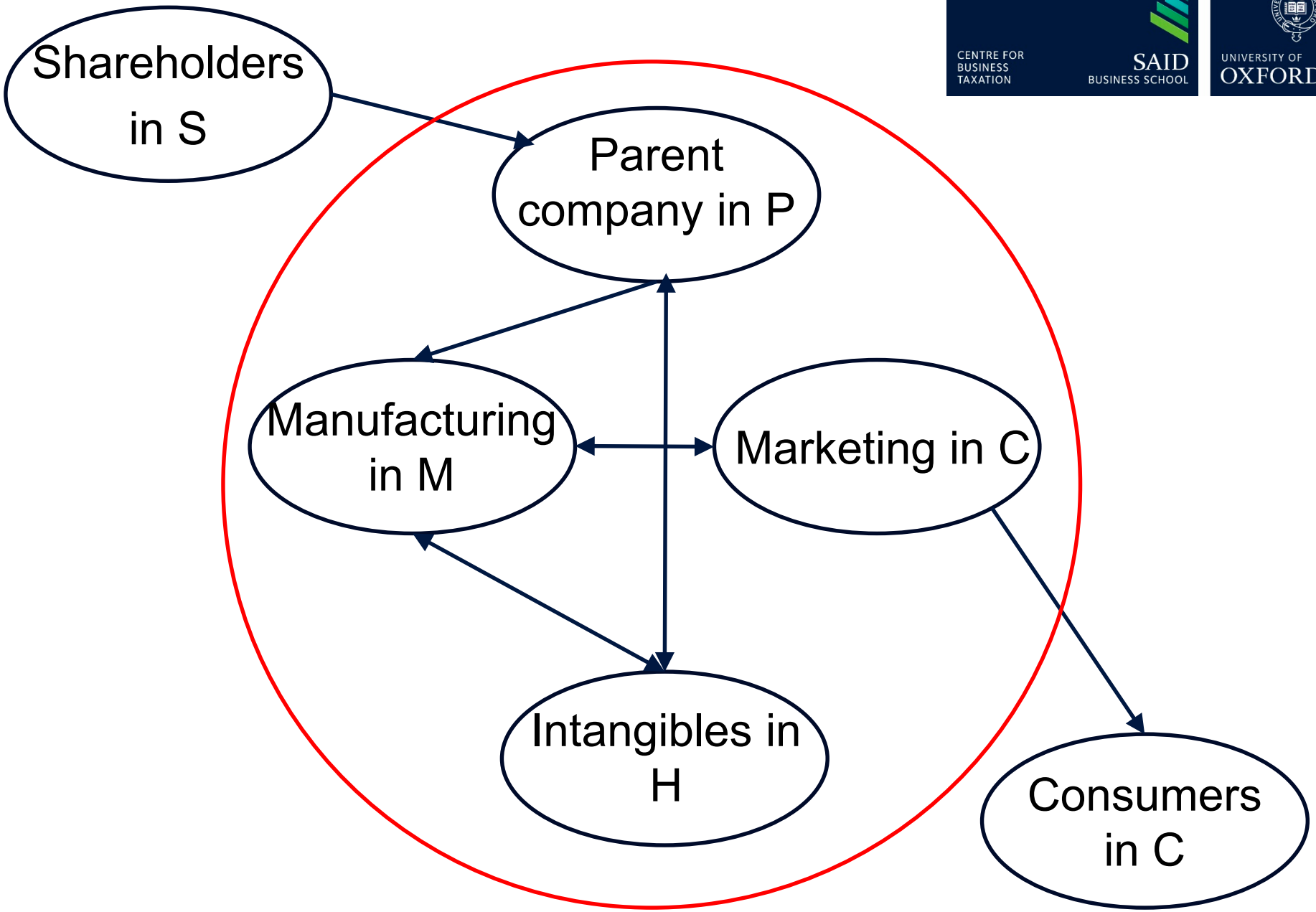
Consumers in C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Some problematic tax conventions

- Ease of moving ownership of intangibles
- Deduction for royalty (and interest) payments
- Definition of permanent establishment (PE)
  - If we want some tax to be allocated to market country

Consequences

- Base erosion and profit shifting (BEPS)
- Distortion to location of real activity
- Competition between governments
- High costs of compliance and administration

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Fundamental reform

Fundamental reform

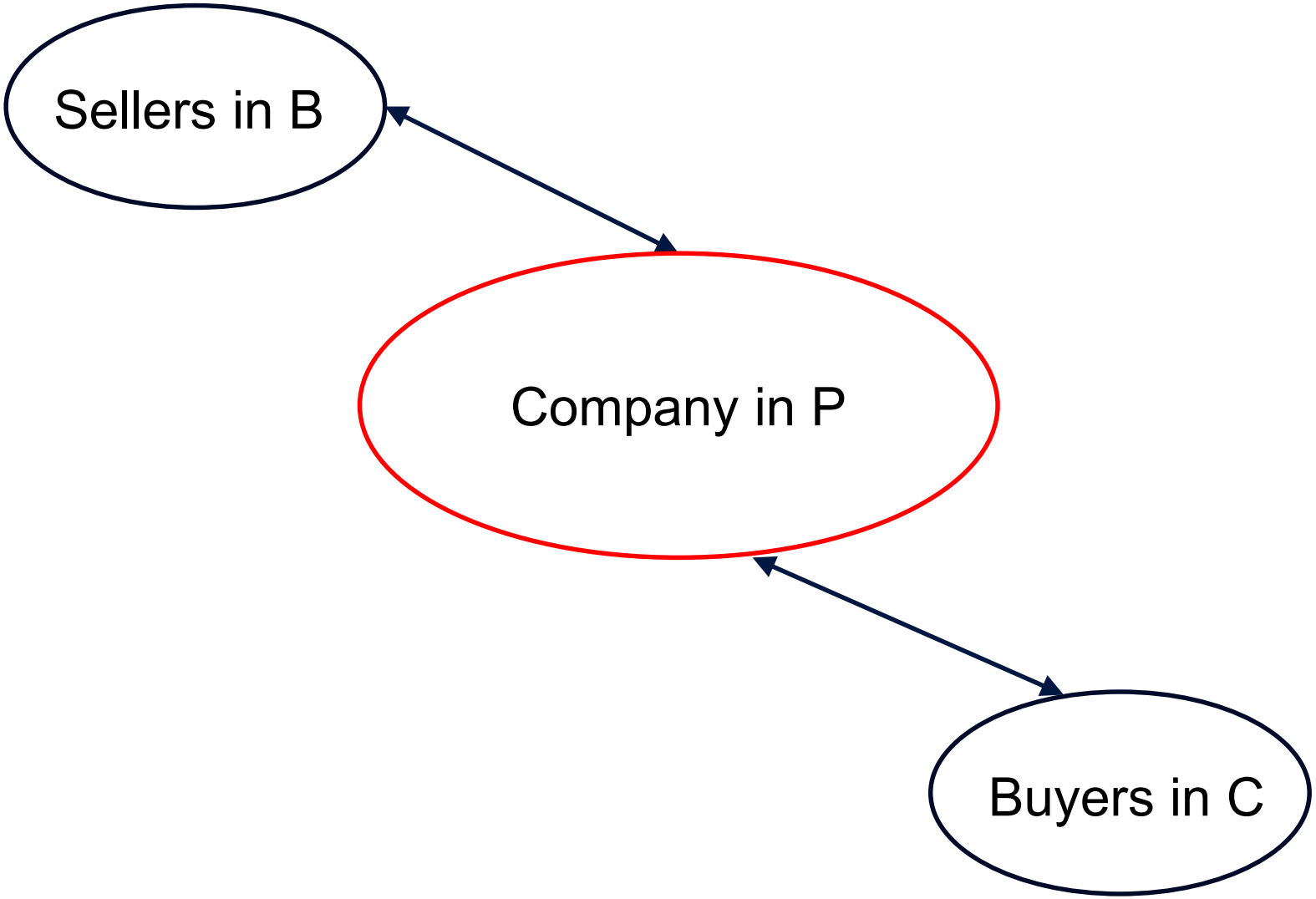
- Focus on location of less mobile factors: people
  - Shareholders
    - Pass through treatment across countries?
  - Consumers
    - Nexus for sales to consumers?
- In each case, digitalization creates problems, but may ultimately also make them easier to solve

Two special digital cases

Platform for two-sided markets

Free usage

Platform for two-sided markets



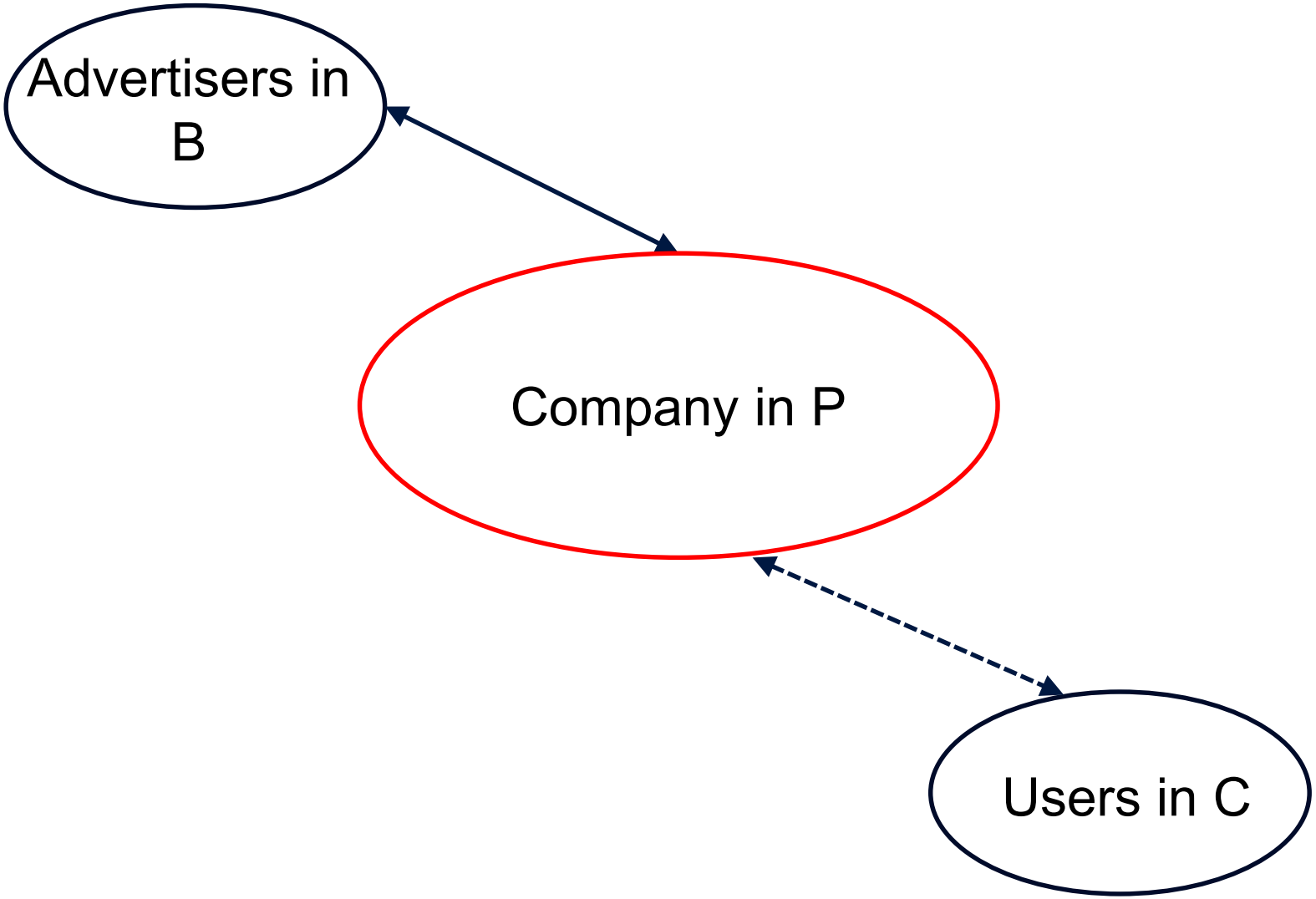
Platform for two-sided markets

No specific new issues under existing structure

If allocation tax to <u>location of consumers</u>

- No new issues if both sellers and buyers make payment – both are consumers
- What if only one group pay for the platform – should all taxing rights be allocated to the country of the other group?

Free usage



Free usage

Who is the consumer?

- The advertiser or the user?

Two possible models

1. Users barter use of service for information
2. No information collected

Some conclusions

- Existing system has arbitrary divisions that cannot cope with increasing digitalization
  - Leading to real economic distortions, profit shifting and tax competition
- Systems based on more immobile factors would be based on location of shareholders or consumers
  - Both face difficulties in implementation that could (eventually) be helped by digitalization
- Case for special allocation in case of free usage / information gathering is not strong