Wei Cui: slides for IMF panel, April 13, 2021

Understanding differences among so-called “digital services taxes” is critical because:

1. Some simply extend broad-based consumption taxes (e.g. VAT) to imported services. These should not be delegitimized or overridden by “multilateral” efforts.
2. Some are intentionally designed as neither income nor consumption taxes. They are new tax instruments and should be evaluated as such (i.e. not as ill-conceived income or consumption taxes).
3. Some DST countries (e.g. the UK) wish to coordinate on DSTs; it is important to identify what to coordinate on.
4. Some other new tax instruments are explicitly designed as a form of income taxation (e.g. proposed UN Model Article 12B): they need to be evaluated in terms of evolving income tax norms.

Incidence of DSTs

- Depends on which form of “DST” is at issue!

- The DST championed by European countries, the EU, and the UK is no more problematic, and may be less problematic, in terms of economic incidence than traditional income taxes.

	Traditional view	Mainstream economic theory	Current media/professional coverage
VAT and other broad-based consumption taxes	"passed onto consumers"	Depends on market structure, may be borne partially by supplier, even entirely if marginal cost is zero.	"passed onto consumers"
Corporate income tax (including withholding tax)	Borne by investors/lenders/licensors, "double taxation"	Tax on normal return: borne by local immobile factors Tax on location-specific rent: borne by foreign investor "Mobile rent:" ?	"Double taxation" (ignores economic incidence)
Import tariffs	"passed onto consumers"	Optimal tariff borne partially by foreign suppliers	?
Resource royalties	?	Borne partially by investors, though possibly also by consumers and local immobile factors	?
DST	N/A	Analogizable to above, especially to tariffs and resource rent taxes.	Entirely borne by investors ("double taxation", tax must be creditable) **and** entirely borne by consumers ("passed onto consumers")