BRADLEY TAX CONSULTING

# Taxation & The Digital Economy

June 2014

**The High level Expert Group on Taxation of the Digital Economy has examined the best ways of taxing the digital economy in the E.U. Its focus was on identifying the key problems with taxing companies involved in the digital economy and presenting a range of possible solutions. Their main conclusions were as follows;**

1. There should not be a special tax regime for digital companies. Rather the general rules should be applied or adapted so that "digital" companies are treated in the same way as others.

2. Currently the VAT implications of a transaction depends on the type of supply, e.g. good or service, and whether the recipient of the good or service is a business or a private consumer. From 1 January 2015 supplies of telecommunications, broadcasting and electronic services will be taxed on the basis of the destination principle ie taxed in the Member State of consumption. The group feels that this principle should be implemented further when accounting for VAT on the supply of ALL goods and services.

3. As part of the introduction of the destination principle for the supply of certain services, a mini one stop shop (MOSS) will be introduced to allow the supplier to register, declare and pay the VAT due on supplies of electronic services supplied to final consumers in other Member States via a web portal in the home Member State. This means that multiple VAT registrations in multiple EU countries is avoided. The Group is of the opinion that a broader one stop shop (OSS) should be considered so as to encompass ALL B2C supplies of goods and services.

4. Where goods are sold to private consumers in E.U. countries there may be a requirement to register for VAT in a number of EU territories under the distance selling rules where sales exceed a certain threshold. This creates a significant compliance burden for businesses. To ease this burden the group recommends that the broader OSS concept should be expanded so that VAT on sales of goods in connection with B2C supplies is accounted for through an E.U. portal or a portal of a specific Member State in certain circumstances.

5. The Group recognises that the increased mobility associated with digital technologies exacerbates challenges faced by current direct tax systems. In particular, there is a perception that some multinational companies are in a position to avoid or circumvent taxation. That is a main motivation for the project on Base Erosion and Profit Shifting (BEPS) which is being conducted under the aegis of the OECD.

   The Group is of the view that the only immediate practical way forward at the global level is via the G20/OECD BEPS project. The Group recommends that priority should be given to three specific areas:

   - **Counter harmful tax practices**
   - **Review transfer pricing rules; and**
   - **Restore the taxable nexus connections.**

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