



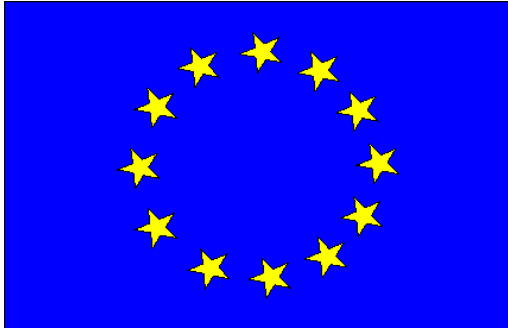
DIGITAL SERVICES TAX

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8 - 9 November 2018

NEW EUROPEAN RULES OF DIGITAL BUSINESS TAXATION



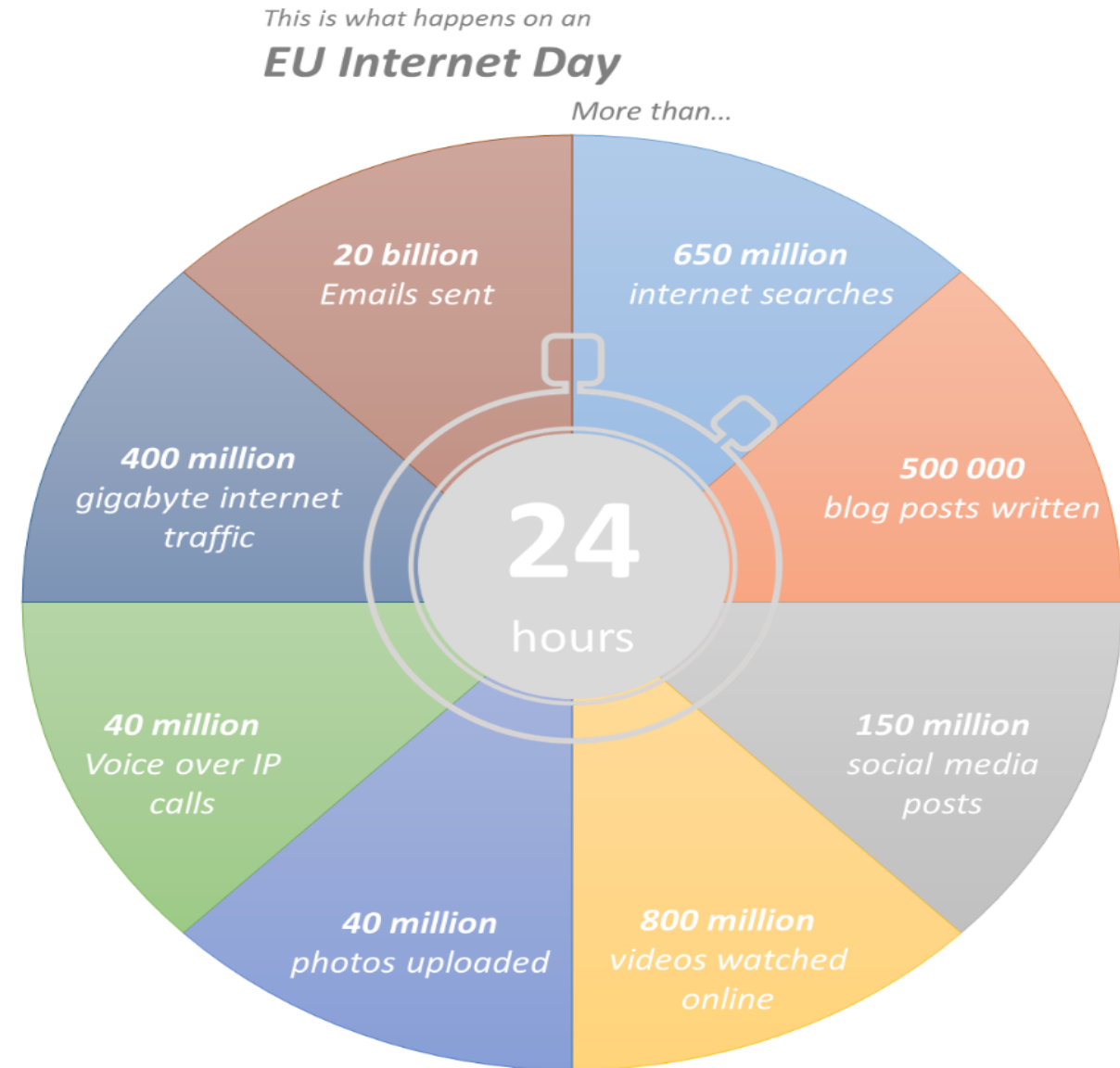
In March 2018, the European Commission presented two legislative proposals: **Council directives (2018/0072)** and **(2018/0073)**.

The ***Digital Services Tax*** proposal (2018/0073) will apply only as an **interim measure**, which covers the main digital activities, until the comprehensive reform has been implemented.

By putting forward the DST proposal the European Commission proposed to implement **the common system of a Digital Services Tax (DST)** on revenues resulting from the provision of some digital services.

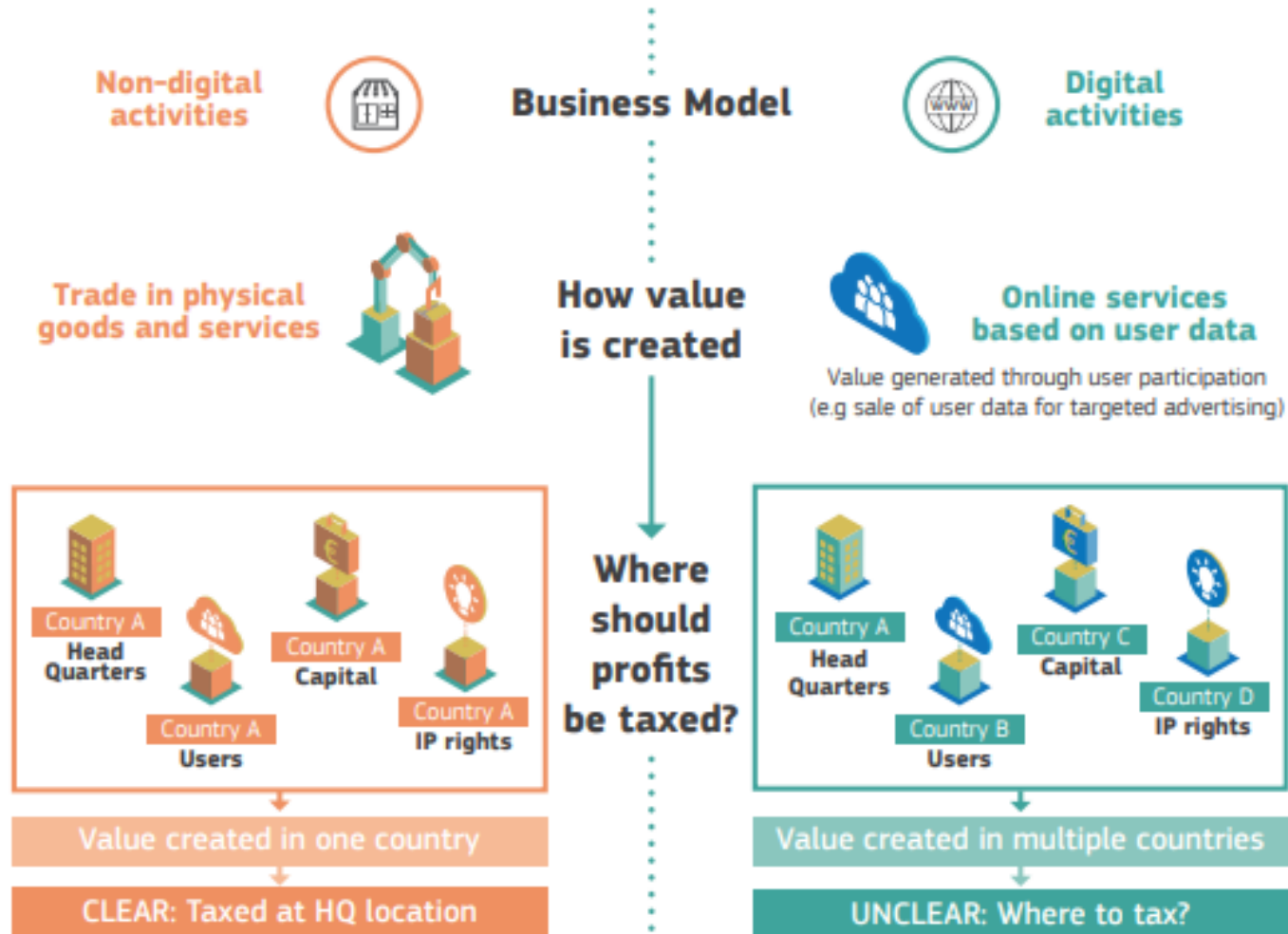
WHY ARE NEW REGULATIONS NEEDED ?

Current tax rules fail to recognise the new ways in which profits are created in the digital world, in particular the role that users play in generating value for digital companies. As a result, there is a disconnect between where value is created and where taxes are paid.



WHY ARE NEW REGULATIONS NEEDED?

Digital/Traditional: how profits are made and where they are taxed



WHY ARE NEW REGULATIONS NEEDED?

In the digital economy, value is often created from a combination of algorithms, user data, sales functions and knowledge.



A user, liking a page, contributes to value creation by sharing his/her preferences on a social media forum. This data will later be used and monetised for targeted advertising.

Source: europa.eu/rapid/press-release_MEMO-18-2141_en.htm

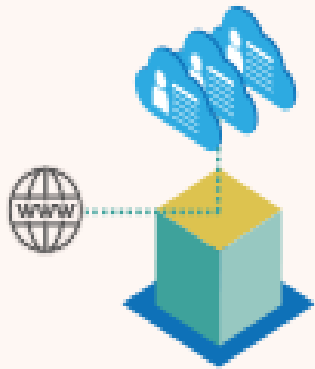


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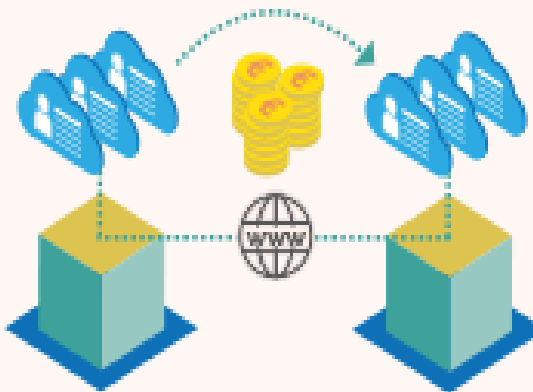
The services falling within the scope of DST are those where the participation of a user in a digital activity constitutes an essential input for the business carrying out that activity and which enable that business to obtain revenues therefrom.

DIGITAL SERVICES

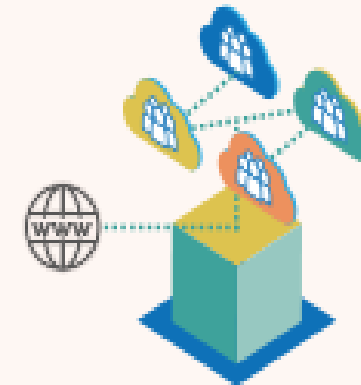
DST will apply to revenues created from activities where users play a major role in value creation and which are the hardest to capture within current tax rules.



**Online placement
of advertising**



**Sale of collected
user data**



**Digital platforms that
facilitate interactions
between users**

PLACE OF TAXATION

The taxable revenues are treated as obtained in a Member State if users with respect to such services are located in that Member State in that tax period.



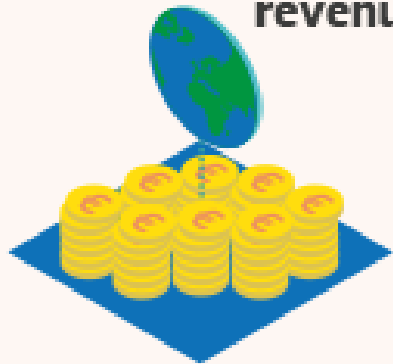
The Member State of the place where a user's device has been used would be identified using the (IP) address of the user's device or, if more accurate, other means of geolocation.

The fact that a taxable person may be resident for corporate income tax purposes in a Member State has no impact in determining the Member State of identification for the purposes of the DST

A taxable person with DST liability in several Member States will be able to make use of the Operational Support Systems (OSS) in his Member State of identification in respect of all his DST obligations.

Thresholds for DST application:

Total annual worldwide
revenue above



750 M€

Total annual revenue from
digital activities in the EU above



50 M€

Source: ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en



On March 16, 2018, the OECD published its interim report regarding taxation of the digital economy under the title “**Tax Challenges Arising from Digitalisation**”.

As regards interim measures, the Report

- clarifies that there is no consensus on the need for, or the benefit of, such interim measures,
- provides some guidance for jurisdictions that are considering immediate action,
- touches upon the impact of digitalization on tax policy and tax administration, in particular the use of new technologies such as blockchain and cryptocurrencies.

QUESTIONS AND CONCERNS



- Unilateral action at EU level.
 - The potential lack of consensus (whether the proposal will be approved by all EU Member States, which requires unanimity).
 - Adequate threshold levels ?
-
- The DST is a tax on revenues. Therefore, the DST must be paid even if the company is making a loss.
 - High and low margin companies pay the same level of DST.
 - DST will not be offset against corporate income tax in the home country as a foreign tax credit.
 - The possibility to deduct the DST as an tax expense.



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Thank You for your attention!