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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Council Directive laying down rules relating to the corporate taxation of a significant digital presence

Proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services

{COM(2018) 147 final} - {COM(2018) 148 final} - {SWD(2018) 81 final}

Executive Summary Sheet

Impact assessment on a Fair Taxation of the Digital Economy

A. Need for action

Why? What is the problem being addressed?

Corporate taxation aims to tax profits where the value is created, but the current international tax framework was designed for the traditional economy. It is unable to take account of new modes of value creation in the digital economy, which require less physical presence and where user contributions and intangible assets play significant roles. Public budgets and social fairness are affected. In response, an increasing number of Member States are taking unilateral measures which risks fragmenting the Single Market.

What is this initiative expected to achieve?

First, the initiative is expected to protect the integrity and proper functioning of the single market. Second, it intends to ensure that Member States' finances are sustainable and national corporate tax bases are not eroded by digitalisation. Third, it will contribute to preserving social fairness and a level playing field between all businesses.

What is the value added of action at the EU level?

As the problem is about the international allocation of taxing rights, it cannot be comprehensively addressed at Member State level. In addition, EU level action would avoid the fragmentation of the Single Market, new barriers to business or potential loopholes which would result from uncoordinated action by different Member States.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

First, a comprehensive solution is examined. The main options:

- Option 1: Amend the rules for the Common Consolidated Corporate Tax Base proposal (CCCTB);
- Option 2: Directive on digital permanent establishment and profit allocation principles, with adjustments to the CCCTB;
- Option 3 (preferred): Option 2 plus a recommendation to change the rules vis-à-vis third countries.

Second, as a reform of corporate tax rules will take time and in order to avoid the adoption of unilateral measures by Member States, a **interim** solution is also considered. The preferred interim solution is a Directive on a common system of a tax on certain digital activities.

Who supports which option?

Comprehensive solution: 14 out of 21 national tax authorities and 58% of the 446 respondents to the public consultation believe that the comprehensive solution can best address the current problems.

Interim solution: 10 out of 21 national tax authorities and 53% of the public consultation respondents believe that the "tax on revenue from certain digital services" can best address the current problems.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

Comprehensive solution: The solution would improve the perception of fairness for **citizens** by ensuring that large companies with significant digital activities do not escape their taxes in the EU. **Businesses** would benefit from a more level playing field as the revision of the rules would remove distortions of competition. **National tax administrations** would benefit from a positive impact on public finances as the solution will contribute to the long-run sustainability of the corporate tax system.

Interim solution: This would improve the perception of fairness for citizens by ensuring a minimum level of taxation in the EU for companies that rely the most on user contributions and data. By avoiding the fragmentation of the Single Market, it will provide a stable tax framework for businesses active in the EU.

What are the costs of the preferred option (if any, otherwise main ones)?

Comprehensive solution: The measure would increase the regulatory and compliance burden for all **businesses** falling under the scope of the solution. **National tax administrations** would also incur costs for implementing the new system, notably on IT and staff training.

Interim solution: **Large companies** above the thresholds would face additional reporting requirements to compute their tax base in the Member States in which they are active. **National tax administrations** would also incur initial costs to implement the new system, notably in terms of IT and staff training.

How will businesses, SMEs and micro-enterprises be affected?

Comprehensive solution – the measure would restore a level playing field between multinationals and smaller companies that are often less digitised or less active cross-border. This would benefit SMEs and microenterprises. The measure could increase the regulatory and compliance burden, which may have a larger negative impact on cross-border SMEs. *Interim solution* – SMEs would not be affected, as their revenue would not reach the threshold.
Will there be significant impacts on national budgets and administrations?
The comprehensive solution would contribute to the long-run sustainability of the corporate tax system and to a fairer distribution of tax revenues. The interim solution would raise additional revenues for national budgets, although the expected additional revenue from the tax would be rather moderate taking into account the narrow scope and application of thresholds.
Will there be other significant impacts?
The proposal is expected to set out the EU's vision to serve as an example to influence the international discussions.
D. Follow up
When will the policy be reviewed?
The Commission will monitor the implementation of the legal proposal. An evaluation should be carried out five years after implementation.