



ASPECTS OF DIGITALIZATION

Michael Keen

Tenth IMF-Japan High-Level Tax Conference

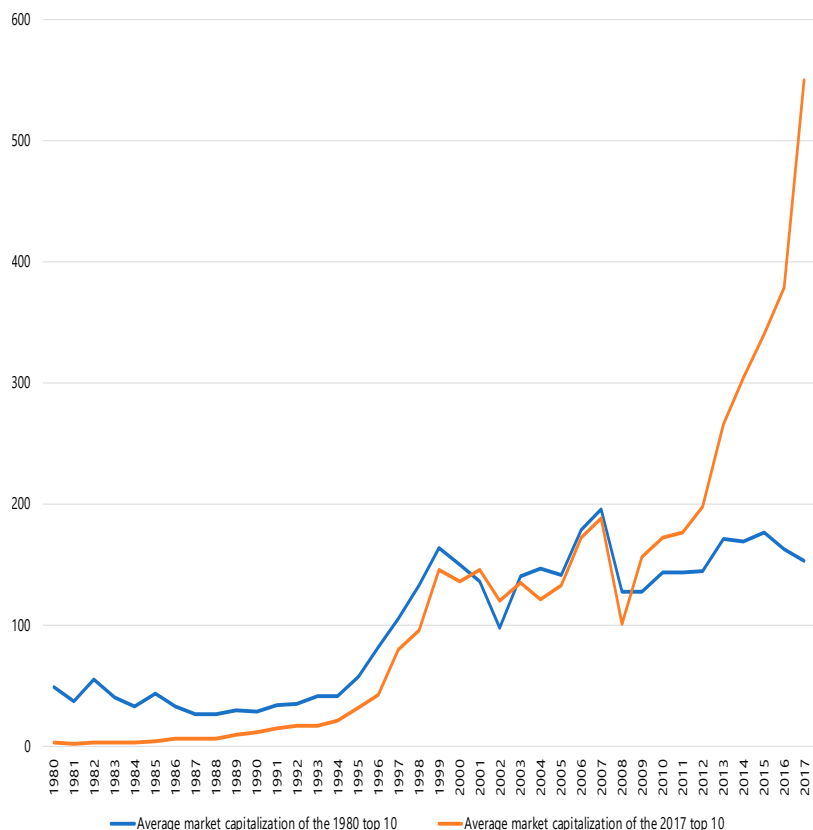
For Asian Countries in Tokyo

April 25, 2019

DIGITALIZATION AND THE INTERNATIONAL TAX DEBATE

Context

Rise and demise of largest 10 companies



The chart shows developments in the market capitalization of the largest 10 companies in 1980 and 2017. The largest in 1980 were: Exxon Mobil, General Electric, Coca-Cola, HP, IBM, Walt Disney, Eastman Kodak, Ford, Intel, and du Pont. The largest in 2017 were: Apple, Alphabet, Microsoft, Amazon, Facebook, Tencent, Berkshire Hathaway, Alibaba, Johnson & Johnson, and JPMorgan Chase.

BEPS Action 1—argued against ring fencing. But....



Report to G20 in 2020 now addressing wider issues

What's new?

- Doing considerable business without nexus
 - But in what way different from exporting?
 - Perhaps more salient, as much B2C?
- User as a “co-contributor to the business offering”
- Heavy use of intangibles?
 - But so too, e.g., are pharmaceuticals
- Less often heard: “Data as oil”
 - Individuals cannot (yet?) charge for information about themselves, but perhaps government can/should

Proposals for the long term

- Widen notion of nexus: “substantial economic presence”
 - e.g. existence of a user base, take up of data...
- How allocate tax base?
 - Split ‘residual profits’ (discussed later) in some way to reflect user contribution
 - How figure out share or residual profit attributable to that?
Some measure of input: number/intensity of users...?
- Involves stepping back from arms-length pricing
- But how decide what’s in and what’s out? The wider the net, the more this looks like destination–based taxation

Actions/proposals for the short term

- European Commission and (in absence consensus) UK:
 - Focus on search engines, social media, intermediation services (P2P)
 - Double threshold (global and in-market)
 - 3 percent on related turnover
- Measures elsewhere:
 - Equalization taxes (withholding on payments for such services)
 - Taxes on access to social media (some in Africa, in Asia?)

Concerns

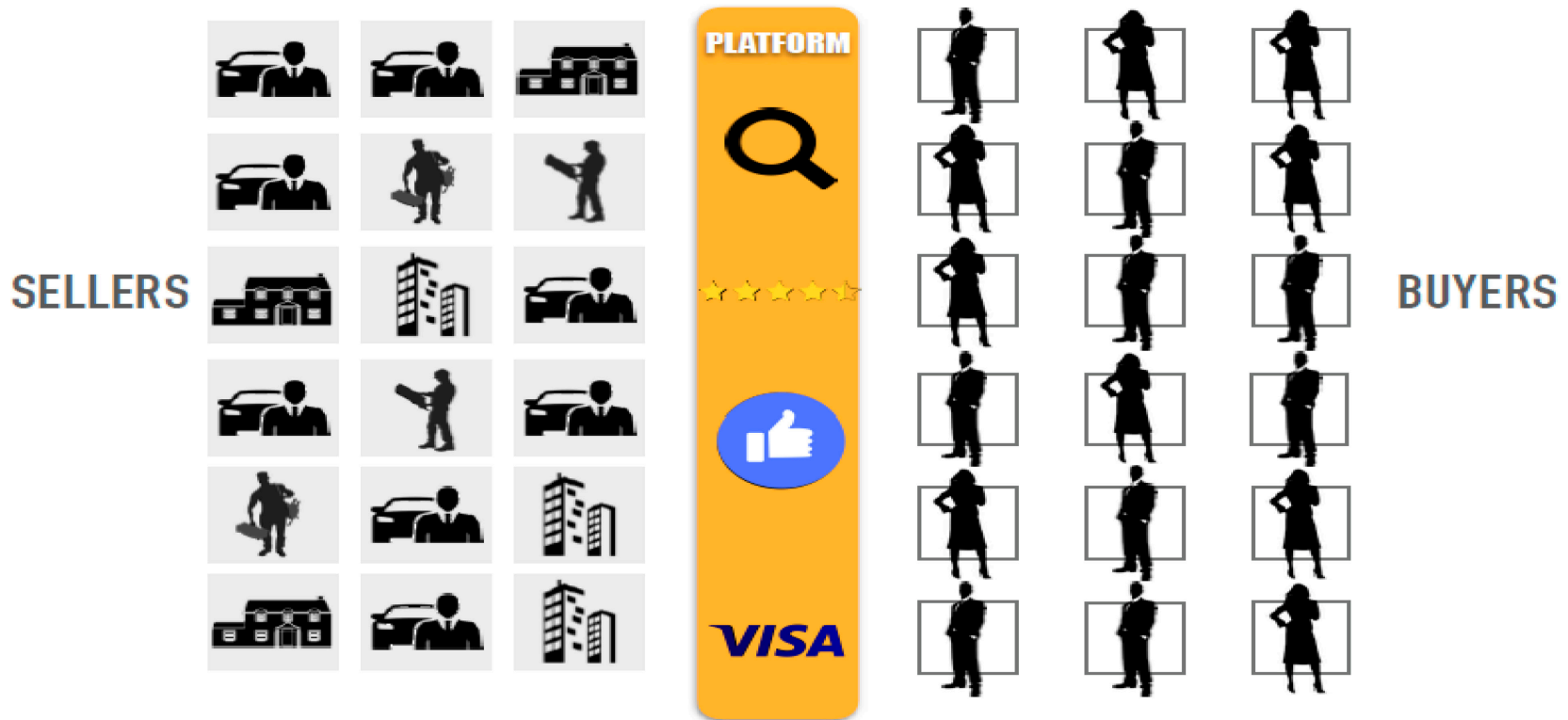
- U.S. sees European proposal as discriminatory
- Incidence:
 - Analysis is complex (especially in two sided markets with one served without charge)

Are these taxes

- An efficient charge on rents?
- A sharp disincentive to innovation
- Departures from consensus
- Emblematic of wider difficulties

DEALING WITH P2P BUSINESSES

P2P: Changing firm structure



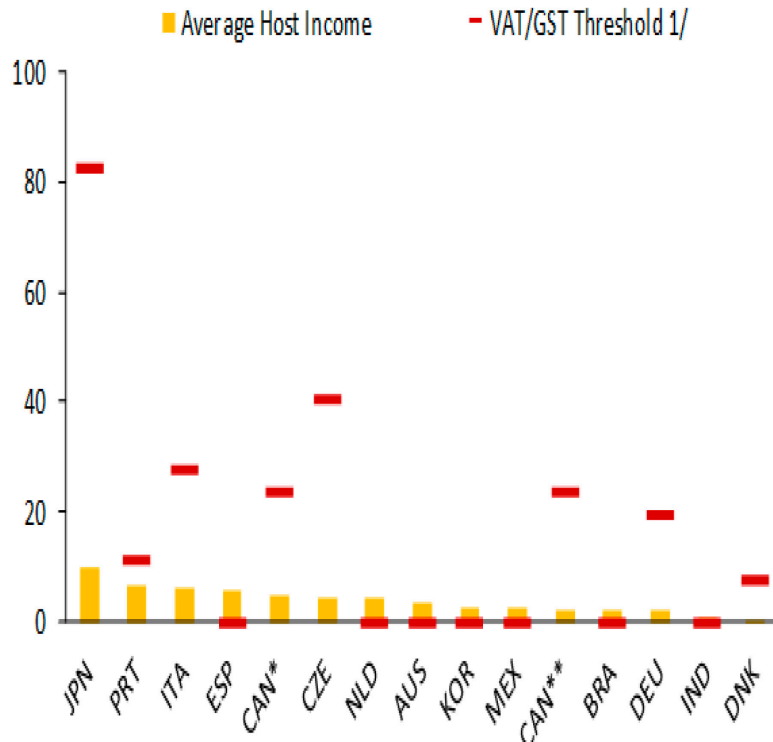
 **Rakuten**

GO  **JEK**


tokopedia

Key Features

Average Host Income from Airbnb Inc. by Country vs. Indirect Tax Thresholds



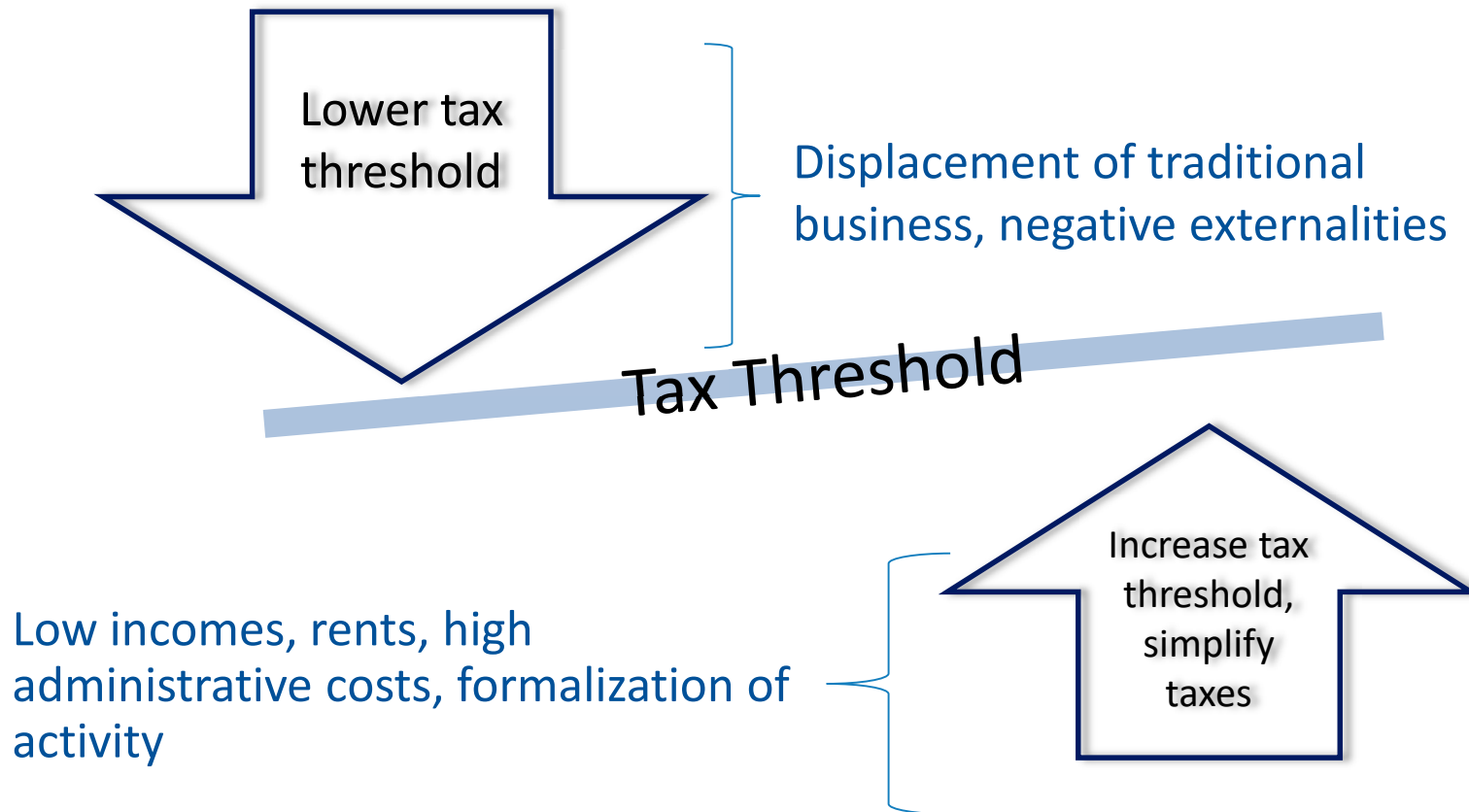
Sources: Airbnb Inc. and International Bureau of Fiscal Documentation.

Note: (*) Vancouver; (**) Montreal. Data for each country can be either a national average or for a major city.

1/ VAT = Value-added tax; GST = goods and services tax.

- Virtual (two-sided) marketplaces, drastically reducing transactions costs of doing business
- Reducing minimum efficient scale
- P2P activity tends to be casual/flexible/part-time/irregular, so associated with low(er) incomes
- Platforms themselves typically multinational

Revisiting Familiar Trade-offs



Implications for policy and administration?

- Growing number of small businesses may require rethinking thresholds for direct and indirect taxes
- Cooperation with platform to provide transaction information or act as withholding agent can help with revenue administration
 - Need to negotiate access to data—businesses reluctant to share data on consumers (complicated by recent data privacy laws)
- In two-sided markets, incidence can be complex