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THE DIRECTOR GENERAL

Mr. Valdis Dombrovskis
Vice-President
Euro & Social Dialogue
European Commission
Rue de La Loi 200
BE-1049
Brussels
Belgium

1 December 2017

Dear Vice-President,

The on-going digitalisation of our society has the potential to transform our everyday-lives, significantly improve our standards of living, reduce costs and create many jobs. Ensuring that more European companies can generate the technical know-how, attract skilled employees, and build their businesses to become global leaders must be a priority for the EU. Removing the remaining barriers of the Digital Single Market could add over €400 billion to the European economy.

Completing the Digital Single Market is therefore both a priority and a matter of urgency for business, and we welcome the Commission's commitment to this in its recent communication, 'A Fair and Efficient Tax System in the European Union for the Digital Single Market'. We also believe that developing an efficient tax framework that is embedded in a competitive business environment to support the take-up and innovation of digital technologies for the whole economy and society is essential.

It is particularly important that governments and businesses work together to ensure that the international tax system remains fit for purpose as the global economy and technology evolve. In particular, it is important to guarantee non-discrimination in taxing different business models. Our members continue to be actively engaged in the development of the global corporate tax system through the OECD's BEPS (Base Erosion and Profit Shifting) Project.

We believe that initiatives regarding digital taxation must both respect member states' competences to set their own tax policies, and be developed on the basis of global taxation principles. We believe it is essential that any proposals in this area are agreed internationally through the OECD, to be possibly implemented in a common and coordinated manner at a European and global level. This will ensure European companies' competitiveness and guarantee a global level playing field.

We welcome the Commission's public consultation on this topic, to which we will respond in detail in due course. However, we wanted to write at an early stage to state our concerns with a number of the potential measures identified in the Commission's recent communication which would appear to contradict the spirit of international tax co-operation in this area, and, particularly if pursued unilaterally by the EU, could risk reducing our ability to build world leading companies on our continent.

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We are for example concerned by the proposal to develop an 'equalisation tax on turnover' whereby companies would be taxed on their income rather than profits. As a number of commentators have noted, implementing this proposal would mean a violation of the long-standing international principle of taxing corporate profits. Moreover, such a tax risks undermining the growth prospects for businesses, especially start-ups, given the experience of many large companies with a digital focus to have developed a significant turnover before reaching profitability. In addition, such a tax may be passed on to consumers, including European businesses, across many sectors, making access to digital goods and services more expensive. Therefore, any effective solution must be carefully evaluated in this regard.

Whilst we recognise the Commission's desire to act quickly in this area, particularly to build public trust in the tax system, the example of VAT, where a temporary system remains in place 24 years after inception, serves as a reminder of the ease with which temporary 'quick-fixes' can become more permanent. In addition, as properly underlined by the Commission itself in the aforementioned communication, any proposals must be further examined as to ensure compatibility with the fundamental freedoms and EU law in general. The European Council, through the Estonian Presidency for example, also warned in a recent paper that such 'quick-fixes', including a withholding tax, 'may not be a reliable solution'. On the specific turnover tax, the Estonian Presidency suggested 'the most likely outcome of such an approach would be under-, over-, or non-taxation'.

As we have previously noted, the Commission's proposed Common Consolidated Corporate Tax base (CCCTB) has both advantages and disadvantages. Notwithstanding this, the Commission may also wish to consider if its proposals for a CCCTB could better respond to increasing digitalisation in line with the recent communication, for example if the proposal were to take greater account of intangible investment through the proposed formula for apportionment of tax revenue.

We hope the Commission will take these considerations in hand when developing any more detailed proposals in this area and we remain at your disposal if we can be of further assistance.

I am sending a similar letter to Commissioner Moscovici.

Yours sincerely,

Markus J. Beyrer