Procedure file

Basic information

INI - Own-initiative procedure	2021/2010(INI)	Procedure completed
Digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax Subject 3.30.06 Information and communication technologies, digital technologies 3.45.04 Company taxation		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		28/10/2020
		epp SCHWAB Andreas	28/10/2020
		renew europe. HLAVÁČEK Martin	
		Shadow rapporteur	
		S&D FUGLSANG Niels	
		CARÊME Damien	
		DONATO Francesca	
		ECR JAKI Patryk	
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets (Associated committee)		04/02/2021
		epp FERNANDES José Manuel	04/02/2021
		renew europe. HAYER Valérie	

Key events

11/02/2021	Committee referral announced in Parliament		
	Referral to associated committees		

11/02/2021	announced in Parliament		
23/03/2021	Vote in committee		
30/03/2021	Committee report tabled for plenary	A9-0103/2021	Summary
28/04/2021	Results of vote in Parliament		
28/04/2021	Debate in Parliament		
29/04/2021	Decision by Parliament	T9-0147/2021	Summary
29/04/2021	End of procedure in Parliament		

Technical information

Procedure reference	2021/2010(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 57; Rules of Procedure EP 54
Other legal basis	Rules of Procedure EP 159
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/05158

Documentation gateway

Committee draft report		PE663.362	26/01/2021	EP	
Amendments tabled in committee		PE681.055	26/02/2021	EP	
Committee opinion	BUDG	PE663.396	17/03/2021	EP	
Committee report tabled for plenary, single reading		A9-0103/2021	30/03/2021	EP	Summary
Text adopted by Parliament, single reading		T9-0147/2021	29/04/2021	EP	Summary
Commission response to text adopted in plenary		SP(2021)567	27/09/2021	EC	

Digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Andreas SCHWAB (EPP, DE) and Martin HLAVACEK (Renew, CZ) on digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax.

Challenges arising from the digitalisation of the economy

The report highlighted that current international corporate tax rules are based on principles which were developed in the early 20th century and that taxing rights are mainly based on the physical presence of companies. These rights are no longer suited to an increasingly globalised and digitalised economy, thus enabling numerous harmful tax practices that undermine public finances and fair competition.

A fairer allocation

On average, digital businesses face an effective tax rate of only 9.5 %, as opposed to 23.2 % for traditional business models. Given that the demand for digitalised services has exploded due to the obligation to operate many tasks remotely in the COVID-19 context, providers of such digitalised services have been placed in a more favourable position than traditional businesses, especially SMEs.

In this regard, Members call for new and fairer allocation of taxing rights for highly digitalised multinationals and a revision of the traditional concept of permanent establishment, as it fails to cover the digitalised economy. They stressed that users of online platforms and consumers

of digital services are now central elements in value creation by highly digitalised businesses, and that they cannot be shifted outside a jurisdiction in the same way as capital and labour and should therefore be taken into account when defining a new tax nexus to provide an effective remedy against aggressive tax planning and tax avoidance.

According to Members, new solutions to taxing the digital economy should preferably tax profits, not revenues. There is a need to tax multinational corporations on the basis of a fair and effective formula for the allocation of taxing rights between countries according to the report.

A global multilateral agreement

Members called for an international agreement aiming for a fair and effective tax system. They welcomed the efforts in the G20/OECD Inclusive Framework (IF) to reach a global consensus on a multilateral reform of the international tax system to address the challenges of continued profit shifting and the digitalised economy. However, they regretted the fact that the deadline for an agreement, fixed for the end of 2020, was missed.

Negotiations within the IF need to be finalised as quickly as possible till mid-2021 in order to create a consensus among the 137 participating states for having a fair share of taxing the digital economy (pillar 1) and to agree on a global minimum tax that would address the remaining issues of base erosion and profit shifting (BEPS) (pillar 2).

The report called on the Commission and the Council to intensify the dialogue with the new US administration on digital tax policy with the aim of finding a common approach in the framework of the G20/OECD IF negotiations before June 2021.

A call for immediate EU action

It is regrettable that the failure of the G20/OECD Inclusive Framework (IF) to find a solution in October 2020 has prolonged the under-taxation of the digitalised economy.

The COVID-19 pandemic has largely benefited digitalised businesses, mostly those that were able to scale up their operations, while many other businesses, notably SMEs, have suffered, and that it has accelerated the transition to a digitalised economy, thereby further emphasising the need to find multilateral solutions to reform the current tax system in order to ensure that the digitalised economy makes a fair contribution.

Members stressed that tax challenges stemming from the digitalised economy are a global issue and that an agreement at the level of the G20/OECD states is urgently needed to make international coordination possible. They considered that an ambitious and harmonised international solution is preferable to a patchwork of national or regional digital taxes bearing potential risks and is significantly more likely to find unanimous support in the Council.

The report insisted therefore, that regardless of the progress of the negotiations in the G20/OECD IF, the EU should have a fall-back position and stand ready to roll out its own proposal for taxing the digital economy by the end of 2021.

A digital levy as a new EU own resource

Parliament has restated its commitment to the introduction of an EU digital levy as an own resource with large majorities in a series of reports and resolutions. The revenues of the EU digital levy would be intrinsically linked to the open borders of the single market and the digital union and would therefore constitute a highly suitable and genuine basis for an EU own resource.

The report maintains that the revenue of the EU digital levy will be part of a basket of new own resources whose proceeds will at least be sufficient to cover, through the EU budget, the future repayment costs (principal and interest) arising from the Recovery Instruments grants component, expected to be around EUR 15 billion per year on average and a maximum of EUR 29.25 billion per year from 2028 until 2058, while avoiding a reduction in expenditure for EU programmes.

Lastly, the European Council is urged to endorse a resolute leadership role for the EU in the worldwide endeavour towards fairer taxation by taking swift and determined steps towards introducing a digital levy as an own resource in the course of 2021.

Digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax

The European Parliament adopted by 549 votes to 70, with 75 abstentions, a resolution on digital taxation: OECD negotiations, tax residency of digital companies and a possible European Digital Tax.

Challenges arising from the digitalisation of the economy

The resolution highlighted that current international corporate tax rules are based on principles which were developed in the early 20th century and that taxing rights are mainly based on the physical presence of companies. These rights are no longer suited to an increasingly globalised and digitalised economy, thus enabling numerous harmful tax practices that undermine public finances and fair competition.

Parliament has repeatedly called for a reform of the international corporate tax system in order to combat tax evasion, tax avoidance and the challenges of taxing the digital economy.

A fairer allocation

On average, digital businesses face an effective tax rate of only 9.5 %, as opposed to 23.2 % for traditional business models. Given that the demand for digitalised services has exploded due to the obligation to operate many tasks remotely in the COVID-19 context, providers of such digitalised services have been placed in a more favourable position than traditional businesses, especially SMEs.

Stressing the need to address the under-taxation of the digitalised economy, Members called for a new and fairer distribution of taxing rights for highly digitalised multinationals and a review of the traditional concept of permanent establishment.

Parliament recalled in this respect its position on the Common Consolidated Corporate Tax Base (CCCTB) aimed at creating a virtual permanent establishment, taking into account where value is created and based on the value and profits generated by users of online

platforms. These should be taken into account when defining a new tax nexus to provide an effective remedy against aggressive tax planning and tax evasion.

According to Members, new solutions for taxing the digital economy should preferably tax profits, not revenues.

A global multilateral agreement

Parliament called for an international agreement aiming for a fair and effective tax system. They welcomed the efforts in the G20/OECD Inclusive Framework (IF) to reach a global consensus on a multilateral reform of the international tax system to address the challenges of continued profit shifting and the digitalised economy.

Regretting, however, that the original deadline of the end of 2020 for the conclusion of the international agreement was not met, Parliament called for an early agreement by mid-2021.

Members welcomed the new momentum given to the negotiations by the US administration's recent proposals on a strong incentive for nations to join a global agreement that implements minimum tax rules worldwide. These proposals include an increase in the minimum tax on global intangible low-taxed income (GILTI) to 21 %.

Parliament called on the Commission and the Council to intensify the dialogue with the new US administration on digital tax policy with the aim of finding a common approach in the framework of the G20/OECD IF negotiations before June 2021.

A call for immediate EU action

Members considered that the tax challenges stemming from the digitalised economy are a global issue and that an agreement at the level of the G20/OECD states is urgently needed to make international coordination possible. An ambitious and harmonised international solution is preferable to a patchwork of national or regional digital taxes bearing potential risks and is significantly more likely to find unanimous support in the Council.

The resolution insisted therefore, that regardless of the progress of the negotiations in the G20/OECD IF, the EU should have a fall-back position and stand ready to roll out its own proposal for taxing the digital economy by the end of 2021.

A digital levy as a new EU own resource

Parliament welcomed the Interinstitutional Agreement of 16 December 2020 (IIA) between Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, including a roadmap towards the introduction of new own resources.

Members recalled the Commission's legally binding commitment to present a legislative proposal for a European digital levy as an own resource by June 2021. They also recalled the commitment by Parliament, the Council and the Commission to follow the steps set out in the roadmap for its introduction by 1 January 2023.

Parliament affirmed that the revenue from the EU digital levy will be part of a basket of new own resources whose proceeds will at least be sufficient to cover, through the EU budget, the future repayment costs (principal and interest) arising from the Recovery Instruments grants component.