

## **Global cooperation is key to address tax challenges from digitalization**

The Nordic countries belong to the leading countries in digitalization. Digitalization has hastened the development of our economies and enabled new business models to develop. It is essential to ensure that all companies including digital companies have a growth-friendly environment also in the future. Well-designed and fair taxation is one key factor in achieving this.

Digitalization has led to discussions in the EU and on a global level on how the existing tax rules work in relation to the new business models. For us, it is important to ensure that everyone pays their taxes, digital companies as well as all others. The Nordic countries are generally at the forefront of the global fight against tax avoidance, and have actively participated in the work done within the EU and in the OECD to combat base erosion and profit shifting (BEPS). And we remain ready to do more on this issue. We note that the recent US tax reform with its GILTI provision should precisely address issues of tax avoidance by US digital companies, by ensuring a minimum taxation of 13 per cent on profits from foreign sales, which previously could often go untaxed for a long time. This is an important contribution to securing a level playing field between US and European companies.

In March 2018 the EU Commission made two proposals for directives introducing special tax rules for the digital economy. We welcome and support the active EU engagement in the discussion on counteracting base erosion and profit shifting in light of digitalization, but note that the two proposals are mainly about changing the current rules for allocating taxable income between countries, for the digital economy, rather than fighting tax avoidance. The proposals partly shift taxing rights to the country of the consumer or the digital user, based on the premise that these contribute to value creation in the digital economy.

This deviates from internationally established principles. Traditionally, exporting firms do not pay taxes in their export destination simply because they have consumers there. The proposal for a digital services tax means that basically all value creation is deemed to take place at the location of the consumer. Furthermore, a digital services tax deviates from fundamental principles of income taxation by applying the tax on gross income, i.e. without regard to whether the taxpayer is making a profit or not.

Such substantial changes to the current international principles need to be discussed and agreed internationally. If we in the EU unilaterally apply a digital services tax on gross income, including to non-EU firms, the tax will be difficult to enforce and there is a substantial risk that it will complicate international cooperation in the tax area. Furthermore, it seems unlikely that third countries would quietly accept isolated EU actions in this area without introducing corresponding measures for taxing companies of EU Member States. In the end, we would risk moving to a general destination-based allocation of taxing rights, which is not in the interest of the EU.

We believe there are no reasons to deviate from internationally established principles regarding the allocation of taxing rights for the digital economy. The digital economy as well as the traditional economy should be taxed where value is created. Therefore, there should be a thorough analysis whether and to what extent, users in some specific digital business models contribute by creating value for the business and whether this should be somehow reflected in taxation.

This analysis needs to reach a certain international consensus to be effective, and so a substantial part of it must again be done in the OECD. The Nordic countries will continue to participate actively and constructively in such work, and we would support an acceleration of the OECD discussions on this

topic, so that we can find a consensus-based solution rapidly. In these discussions, we must also keep in mind the crucial part innovation and research and development play in creating value for businesses and growth and welfare in general. A system based on where the users are located must not reduce the incentives for states to provide a favourable climate for business.

Digitalization is changing the world swiftly and in the future it is bound to affect also the businesses we now see as traditional ones. Our aim is to guarantee that all businesses – new and old, more or less digital, national and international – are taxed in a similar efficient and fair matter, based on where value is created, so that the Nordic countries and the rest of the EU remain competitive in an increasingly interconnected and digital world.

The OECD BEPS project has in the recent years delivered significant results in the fight against tax avoidance, showing that global cooperation on tax matters is not only desirable, but also possible. Crucial BEPS initiatives are now being implemented in both EU and the US helping to counter tax avoidance by for instance the digital giants. We are convinced that global cooperation needs to be given a real chance to succeed also when it comes to digital taxation.

Ms. Magdalena Andersson, Minister for Finance, Sweden

Mr. Kristian Jensen, Minister for Finance, Denmark

Mr. Petteri Orpo, Minister of Finance, Finland