

Digital Services Taxes Would Impede Growth and Innovation, New Report Shows

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“Some countries are implementing digital services taxes as a way to circumvent long-standing international rules and grab more corporate taxes for themselves,” said ITIF Senior Fellow Joe Kennedy, author of the report. “These taxes would lead to significant economic distortions, create more complexity in a system already overburdened with it, and result in less overall economic growth and innovation. The United States should forcefully counter these proposals.”

A DST would tax a small percent of the domestic revenues (usually 2 to 3 percent) of large Internet companies that operate in that country. Because these companies often reside outside the countries where they have an established corporate presence, these nations seek a rationale to justify taxes. Their main rationale for the tax is that users create value, and therefore the income from that value should be taxed where the users reside. However, the report explains how user-generated content constitutes consumption, not value creation, and data is not value-added relative to the services used. Any information that users provide is compensated for by the ability to use a website for free. Moreover, other industries that would not be subject to the tax increasingly engage in similar practices.

Moreover, the report shows how taxing profits based on where users reside would violate long-standing international agreements by taxing income more than once and imposing an ad valorem tax that primarily targets imports. Under the current global tax system, income is subject to tax only once, and it is taxed wherever the value of a good or service is created.

Instead of imposing DSTs, the report recommends that the international community work together in a multilateral forum to address concerns and apply consistent rules across industries and business models. In the absence of such an international process, the report recommends that the United States prepare a trade complaint for the World Trade Organization.

“Digital services taxes are an ill-disguised effort to target companies that are thought to be too powerful, too profitable, and too American,” said Kennedy. “Rather than acting unilaterally to grab more foreign corporate tax for themselves, countries should work to help their own companies become stronger exporters.”

Read the report.