

Debate heats up over how countries tax Big Tech companies

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This photo combo of images shows the Amazon, Google and Facebook logos. An international debate over how countries tax big U.S. technology companies such as Google, Amazon and Facebook is heating up. It's a challenge for the new U.S. Biden Administration, since talks face a mid-year deadline to reach a global deal that all agree on—and defuse trade disputes with France and other countries that are imposing go-it-alone taxes the U.S. sees as discriminatory. (AP Photo, file)

An international debate over how countries tax big U.S. technology companies such as Google, Amazon and Facebook is heating up, presenting a challenge for President Joe Biden's new administration.

A mid-year deadline is on the horizon for talks about a global deal to defuse trade disputes with France and other countries that are imposing go-it-alone digital taxes that the United States views as discriminatory.

France imposed a 3% tax on digital revenue for large tech companies, in effect singling out the U.S. tech giants. The French government has said it would withdraw the tax in favor of an international solution being negotiated under the auspices of the Organization for Economic Cooperation and Development, a Paris-based international organization of 37 advanced economies.

Experts and officials say time is getting short. Manal Corwin, a tax principal at professional services firm KPMG and a former Treasury Department official in the Obama administration, said digital taxes multiplying outside the OECD process "are threatening to trigger a trade war."

U.S. trade officials have called unilateral digital taxes unfair and threatened trade retaliation against French goods, but have held off imposing sanctions.

Finance officials from more than 130 countries convened online Wednesday to resume negotiations over how best to make sure multinational companies don't avoid taxation by shifting their activities and profits among countries. One key question is how to appropriately tax companies such as tech firms that may have no on-the-ground presence in a country but nonetheless do substantial digital business there in the form of online advertising, the sale of user data, search engines, or social media platforms.

The talks are about how to allocate part of a company's revenue to the country where its services are used so the government there can benefit from the taxes. The two-day meeting is to assess where things stand and no final decision is expected.

OECD Secretary-General Angel Gurría said in an opening speech that it was crucial to reach a deal by mid-2021.

"The importance of reaching an agreement is increasing by the day," Gurría said. Over 40 countries are considering or planning unilateral digital taxes, and if they impose them, "there will be this retaliation, we will turn a tax tension into a trade tension, maybe into a trade war...when we need the opposite," he said.

The coronavirus pandemic has only put a sharper edge on the issue of digital taxation. The pandemic has accelerated digitalization through remote work and contactless activities, and in some cases led to strong profits for digital companies; meanwhile, government budgets are strained by added spending and less tax revenue.

Said KPMG's Corwin: "A lot of the countries have said, 'We're holding for the OECD to get to an agreement,' but the combination of the politics on the ground of wanting to impose these taxes, as well as the fiscal demands of the financial fallout of the pandemic, is increasing the pressure for governments to act."

Most participants want an international agreement rather than runaway unilateral measures, she said, "but the politics and the fiscal demands are creating an inability to wait much longer than June."

There is no agreement in several key areas. One open question is whether technology companies should be singled out, since digital technologies are spreading throughout the economy? Under U.S.

pressure, the talks expanded to potentially include other kinds of consumer-facing businesses that also reap profits across borders, such as luxury brands.

Barbara Angus, global tax policy leader for professional services firm EY, said the question of exactly whom the new digital tax applies to was "the single biggest political issue to be resolved" in the talks.

"If you bring in other consumer-facing businesses, the U.S. as a big market would gain taxing revenue from some of those foreign consumer-facing businesses that serve the U.S. market while potentially losing some tax rights over U.S.-headquartered digital businesses," she said.

Karan Bhatia, Google's vice president for government affairs and public policy, said in a [blog post](#) that the need to update the international tax system "isn't limited to the technology sector. Almost all multinational companies use data, computers and internet connectivity to power their products and services."

Bhatia said Google "strongly supported" the OECD's work and opposed "discriminatory unilateral taxes."

Facebook's Mark Zuckerberg has said the company wants the OECD process to succeed "so that we have a stable and reliable system going forward." Amazon said in a statement that "we continue to strongly and consistently support and contribute to the OECD's work" and called for a broad international agreement that would limit "distortive unilateral measures."

Separately, the [OECD talks](#) also aim to establish that multinationals pay at least a minimum amount of tax. That part of the talks appears less controversial.

The digital tax might turn over taxing rights on up to \$100 billion on profit to market countries, leading to a modest increase in tax revenues, according to OECD estimates. Taken together, the digital tax and the global minimum tax could increase global tax revenues by \$60 billion-\$100 billion, or a 4% increase. Both are part of ongoing [international efforts to reduce incentives for big companies to shift profits](#) to low-tax countries.

New U.S. Treasury Secretary Janet Yellen, asked about the talks during her Senate confirmation hearings, did not stake out a detailed position on the key undecided issues. She said the Biden administration was "committed to the multilateral effort" through the OECD and to "stop the race to the bottom on corporate taxation."

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