

# Amazon taxation becomes sticking point in talks on global levies

April 21 2021, by Isabel Gottlieb, Saleha Mohsin, Alessandra Migliaccio and Hamza Ali, Bloomberg News

---



Credit: Unsplash/CC0 Public Domain

A U.S.-driven effort to reach a global accord on taxing big tech companies' overseas profits is getting bogged down over ensnaring one

firm in particular: Amazon.com Inc.

A Treasury Department proposal, which was distributed to other governments earlier this month and has been seen by Bloomberg, would subject about 100 of the largest and most profitable companies to greater taxation in countries where the firms' users and consumers are located, as opposed to the countries where they're headquartered.

The idea is that the new rules would apply to any large companies that exceed certain numbers, yet to be determined, for their annual revenue and [profit margin](#). Before Treasury Secretary Janet Yellen this month jump-started efforts that the Trump administration had opposed, the talks focused on digital and "consumer-facing" businesses—definitions countries had struggled to reach agreement on.

The global talks, led by the Organization for Economic Cooperation and Development, are trying to address many countries' concerns that tech giants—and other multinationals—aren't being properly taxed under the current system of rules. The OECD effort seeks to replace the [digital services](#) taxes a growing number of countries are enacting to capture more revenue from companies like Google, Facebook and Amazon.

But Amazon's unusual status as a low-margin tech giant is emerging as a sticking point in negotiations. Seattle-based Amazon recently reported a global operating margin across its businesses of 5.5%; that compares with Facebook's margin of 45.5% and 27.5% at Google parent Alphabet Inc.

The U.S. proposal called for including only "the largest and most profitable" multinational corporations. It didn't call for specific numbers, but both revenue and profitability thresholds would have to be set high to capture just 100 companies.

Two Italian government officials, speaking on condition of anonymity, said Amazon should be covered and there's no reason why a global tax accord can't capture companies with narrow profit margins but high revenue. Italy, the euro area's third-biggest economy, has imposed a 3% tax on companies with overall revenue above 750 million euros (\$903 million) and revenue from digital services in Italy above 5.5 million euros.

A European Commission spokesperson said Tuesday that while the U.S. proposal offers a "promising opportunity" for progress toward a deal, "we should not forget what the initial policy rationale was: a fairer taxation of the digital economy. It is essential that any proposal on the table also addresses this challenge." A French finance ministry official said they are still examining the U.S. proposal to determine if it would cover all digital multinationals.

The U.S., however, has long opposed an agreement that singles out a particular slice of the economy, such as rules that only affect digital companies, and the new Treasury proposal is intended to make the plan's scope more quantitative and objective.

U.S. officials are aware that other finance ministries are trying to get low-margin companies captured within the profitability threshold, according to people familiar with the matter, who said Amazon is the target of these discussions. The U.S. continues to oppose efforts to target any single company or sector, said the people, who asked not to be identified.

The U.S. Treasury and Paris-based OECD declined to comment. Amazon didn't respond to a request for comment.

## **Not 'discriminatory'**

"We've made it very clear to our European counterparts that we will not support a tax that is discriminatory towards American companies," Wally Adeyemo, the deputy Treasury secretary, said earlier this month on CNBC.

No matter how successful an accord might otherwise be in reshaping tax collection and satisfying calls for multinational firms to pay their fair share to governments, failing to apply it to Amazon—led by the world's richest person, and a regular target for progressive U.S. lawmakers like Bernie Sanders and Elizabeth Warren over its low tax bill—would risk [public opposition](#) to ratification in the U.S. along with European nations.

"Ultimately, it must catch Amazon, otherwise it will be deemed a failure," and countries might unilaterally introduce their own measures, said Tommaso Faccio, an official at the Independent Commission for the Reform of International Corporate Taxation, a group advocating for overhauling global taxes.

Negotiators are considering the U.S. pitch as nearly 140 countries work to find consensus on both the profit reallocation plan and a global minimum tax, and present it to a group of 20 finance ministers in early July. President Joe Biden recently proposed raising the U.S. minimum tax so the country can collect more revenue from multinational firms and help pay for a \$2.25 trillion infrastructure and jobs package.

## **Business lines**

Amazon CEO Jeff Bezos has consistently set low profit targets, preferring to invest in the business, which also reduces the company's tax obligations. Amazon had 2020 sales of \$386 billion, more than Facebook and Google combined, yet it paid less than either company in income taxes. Amazon's retail business, which includes warehouses around the country and delivery services, costs more to operate than digital

advertising businesses run by Google and Facebook.

One method under consideration for including Amazon in the rules would be to allow taxation on specific lines of business, rather than just companies as a whole, according to the people familiar with the matter. For example, if the rules considered the lucrative Amazon Web Services business—with an operating margin of 28%—separately from the company's lower-margin retail arm, countries could still see some of the company's profits reallocated.

While the U.S. isn't completely opposed to targeting business lines, it prefers any such practice to be limited, the people said.

In public consultations on previous iterations of the OECD plan, companies have argued that business-line segmentation will become overly complex.

Or, negotiators could also find a different way of setting the revenue and profitability thresholds that does capture the [company](#), Faccio said. That would also risk making the rules more convoluted, after the U.S. proposal sought to simplify what had become an overly complicated determination of which companies would be covered.

"The administration clearly saw the need to inject momentum," and decided to limit the proposal's scope in an attempt to get an overall agreement by July, said Alex Cobham, chief executive at the Tax Justice Network. "But the politics will look less smart if the most high-profile companies in terms of public concern about tax abuse turn out to be excluded.

2021 Bloomberg L.P.

Distributed by Tribune Content Agency, LLC

Citation: Amazon taxation becomes sticking point in talks on global levies (2021, April 21)  
retrieved 16 April 2024 from  
<https://techxplore.com/news/2021-04-amazon-taxation-global-levies.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.