EACA POSITION PAPER on the EU digital levy

Accompanying the submission to the public consultation

30 March 2021

EACA, the European Association of Communications Agencies, welcomes the opportunity to submit comments on the European Commission's plans to introduce an EU-wide digital levy. EACA represents communications agencies across Europe. Our members are active both at national and global levels; their activities take place online and offline. They are incorporated or have a physical presence in the European Union. Their services are subject to national tax. We strongly agree that each company needs to contribute its "fair share to society" – this is what our members have been doing ever since they are in business.

Agencies, like many other European businesses that pay taxes at Member State-level, have been hit hard by the Covid-19 crisis. They struggle with significant uncertainties at economic, political, operational and cash flow-level. It cannot be the Commission's or any Member State's aim to put further strain on them with an additional tax intended to "support the EU's borrowing and repayment capacity". Unfortunately, some Member States have pressed ahead and introduced national digital services taxes (DSTs). Intending to target specific providers of digital services, they have ultimately hit European businesses at large.

We understand that the EU digital levy will be introduced no matter whether there is an agreement on a global tax reform at OECD level or not. We believe that diverging from international discussions and redirecting efforts into developing an EU-level digital levy signals lack of confidence and commitment of the European Commission and the EU, in general, to the OECD process. It could also encourage more Member States to start looking into national DSTs for the same reasons.

The introduction of national DSTs proves the lack of concept behind national schemes that took the first attempt at an EU-level tax as a blueprint. There is a consistent lack of clearly defining who exactly is targeted by the digital services tax. Experience with national digital taxes in the UK, Austria, Turkey and now in France and Spain and likely in Italy, have shown that digital service providers who were supposed to shoulder the tax have simply passed it on along the supply chain, making services costlier for everyone while (still) avoiding their fair burden of the tax. Agencies have also witnessed an alarming degree of indifference by national politicians who seem content as long as the tax is paid by someone.

In view of the above, we urge the Commission to pursue and fully support the global approach at OECD level and not to diverge from international discussions by investing time and resources into an EU digital levy proposal and risking credibility at international level.

With regards to public consultation on an EU digital levy, we would like to highlight the following:

- We strongly support a global solution instead of a temporary or additional EU digital levy and believe that this should also be the focus and objective of the European Commission.
- We are calling on to the European Commission to conduct a new and complete impact assessment of such a levy on European businesses, especially in light of extra burdens arising from the Covid-19 pandemic, and based on evidence that national DSTs imposed on online platforms have been passed on in their entirety to business users, thereby increasing prices for the entire value chain. In addition to looking at the impact on price, the impact assessment should investigate which types of media are likely to benefit from a potential advertising spending shift.
- We believe that it is part of sound legislative practice to be clear who this proposed tax is aimed at, i.e. who is meant to carry the cost in order to avoid the redistribution of the tax burden. It is clear to us from

Avenue Louise 120
1050 Brussels, Belgium
+32 2 740 07 10
+32 2 740 07 17
info@eaca.eu
www.eaca.eu

the questions in the public consultation (Question 33) that the European Commission is not certain whether it wants to tax "digital activities" or "digital companies" or "digital services".

- In the context of question 33, we would like to make a clear distinction between subscription-based services and other services. With subscription-based services, there is a direct transaction between a service provider and a user. So it possible – and this is what is traditionally done – to tax this transaction directly. This is just one example of where an EU digital levy risks opening the door to double or even triple taxation.
- We strongly encourage the European Commission to engage directly with companies that are part of the digital advertising industry to have a full understanding of the digital ecosystem and supply chains, and of where value is generated in the supply chain. We believe that it is particularly important to understand what the parties at the end or the beginning of the supply chain do versus those in the middle.

Without a global, consensus-driven and consensus-based solution, the risk of further uncoordinated, unilateral action will involuntarily increase. This would exacerbate trade tensions, likely prompt retaliatory measures and strain business relationships as prices increase along the supply chain when the tax is passed along. Now, more than ever, we need a unified approach.

The EACA Secretariat and its corporate members, communications agencies across Europe, remain at your disposal for any additional questions or clarifications regarding the digital advertising ecosystem and the different parties along the value chain

Please contact:

Nina Elzer
Senior Public Affairs Manager
EACA – European Association of Communications Agencies
nina.elzer@eaca.eu.