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European internet 'digital services' tax supporters looking to give US a buy-in

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A campaign of pressure from the White House has Europe's advocates of a "digital services" tax that targets U.S. companies such as Facebook and Amazon backing down for the time being as they look for alternative means to enact the tax, a global approach that would give the United States a buy-in.

The administration is giving it a listen. Treasury Secretary Steven Mnuchin told Congress in March that while the administration remains opposed to the taxes, it was nevertheless in talks with other members of the Organization for Economic Cooperation and Development, an intergovernmental organization that includes Europe and North America. "We have been working around the clock at the OECD to see if we can come up with a proposal that is acceptable to us, to Congress, and the business community," Mnuchin said.

Several European countries, including France, Italy, and the United Kingdom, have pushed for a tax on internet-based companies that would cover revenue generated from residents of the respective countries. Such a tax would mean that if a person orders something through Amazon from an internet address based in France, then France would get to tax the purchase. The tax is intended to make it difficult for tech companies to shift profits to the European Union's low-tax jurisdictions, such as Ireland. The EU had planned to use individual nations implementing the taxes as a basis for a continent-wide version.

William Reinsch, the Scholl chair in international business for the Center for Strategic and International Studies, said the EU still wants the tax but is now thinking globally rather than unilaterally. Going through the OECD gives the U.S. a seat at the table, allowing a possible compromise to emerge. "With an OECD agreement, everybody would be on the same page — no race to the bottom," Reinsch said.

The Trump administration has been adamantly opposed to such taxes, saying they unfairly target U.S. companies. It has threatened tariffs to scuttle the idea before it becomes the standard in the EU. "We want to tax American companies. That's important. It's not for somebody else to tax them," the president told reporters in January.

The U.S. threatened France with tariffs of up to 100% on \$2.4 billion worth of goods, such as certain cheeses, wines, handbags, and soaps, in retaliation for its proposed 3% tax, which it

adopted late last year. French President Emmanuel Macron postponed implementing the tax until next year to reach a deal with the U.S.

U.K. Prime Minister Boris Johnson's administration announced in March that it would be willing to discuss its proposed 2% tax in upcoming trade talks with the U.S., backing away from an earlier position that the tax wasn't negotiable following White House tariff threats. "We note comments regarding digital taxation and will consider this as part of our policy development," the British government said in its mandate for the U.S. talks. The U.K. isn't part of the EU anymore, but it remains a significant part of the European economy.

A top U.S. trade association official said the U.K. announcement followed a serious pressure campaign from the White House. The effort was "very consistent and direct. Key players have been clear that forward U.K. movement on a unilateral DST is unacceptable and will present challenges in trade negotiations."

This doesn't mean the tax's advocates are backing down, said Inu Manak, a trade policy expert for the free-market Cato Institute. "I think they are likely trying to find a way to keep the tax and just apply it in a way that is nondiscriminatory. The talks at the OECD should yield some insight into what that may look like," she said.

Silicon Valley is OK with that idea, at least in theory. The Information Technology Industry Council, the top U.S. tech company trade association, has called for a multilateral response to the issue and said that future U.S.-U.K. trade talks could lay the groundwork for such an approach. "As the U.S. and U.K. initiate formal trade negotiations, both countries have a unique opportunity to establish a new global benchmark for a modern, comprehensive trade agreement," the trade group said.

The European countries made the political mistake of acting unilaterally, noted Bryan Riley, a trade expert for the National Taxpayers Union. That forced the U.S. to react because the concern that U.S. companies could be targeted was justified. Putting the issue on the table in trade talks gives all sides a way out. "It's too soon to tell, but including digital services taxes in the U.K. and possibly EU trade negotiations is a good first step," he said.