



Taxing the Digital Economy: an evolution or revolution?

11 September 2018



What is happening around the world

Why Ireland faces a fight on the corporate tax front

New charge chips away at the tax package which Ireland offers to foreign investors

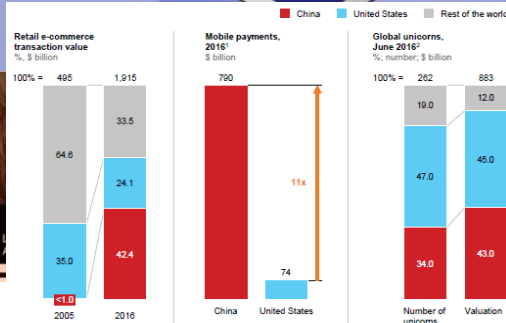
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Cliff Taylor
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IN THE SPOTLIGHT

MCKINSEY GLOBAL INSTITUTE CHINA'S DIGITAL ECONOMY A LEADING GLOBAL FORCE



OECD/G20 Base Erosion and Profit Shifting Project Addressing the Tax Challenges of the Digital Economy



eCommerce in China – the future is already here

How retailers and brands are innovating to succeed in the most dynamic retail market in the world

European Economic and Social Committee

Hearing Taxation of the sharing economy

Tallinn, Estonia

13 September 2017 | 9 a.m. - 1 p.m.

#EESC_ECO #Tax #SharingEconomy

How Spend 136-page fashion special

US trade rift

Brussels prepares counter-measures to tariffs

The European Commission is preparing to unveil its "digital tax" plans next week, heeding calls led by France to add to tension with the EU days before Donald Trump's administration is set to impose a 25 per cent tariff on steel and a

Fintech In China: Hitting The Moving Target

INSIGHTS

Fair Taxation for the Digital Economy

Fair Taxation for the Digital Economy

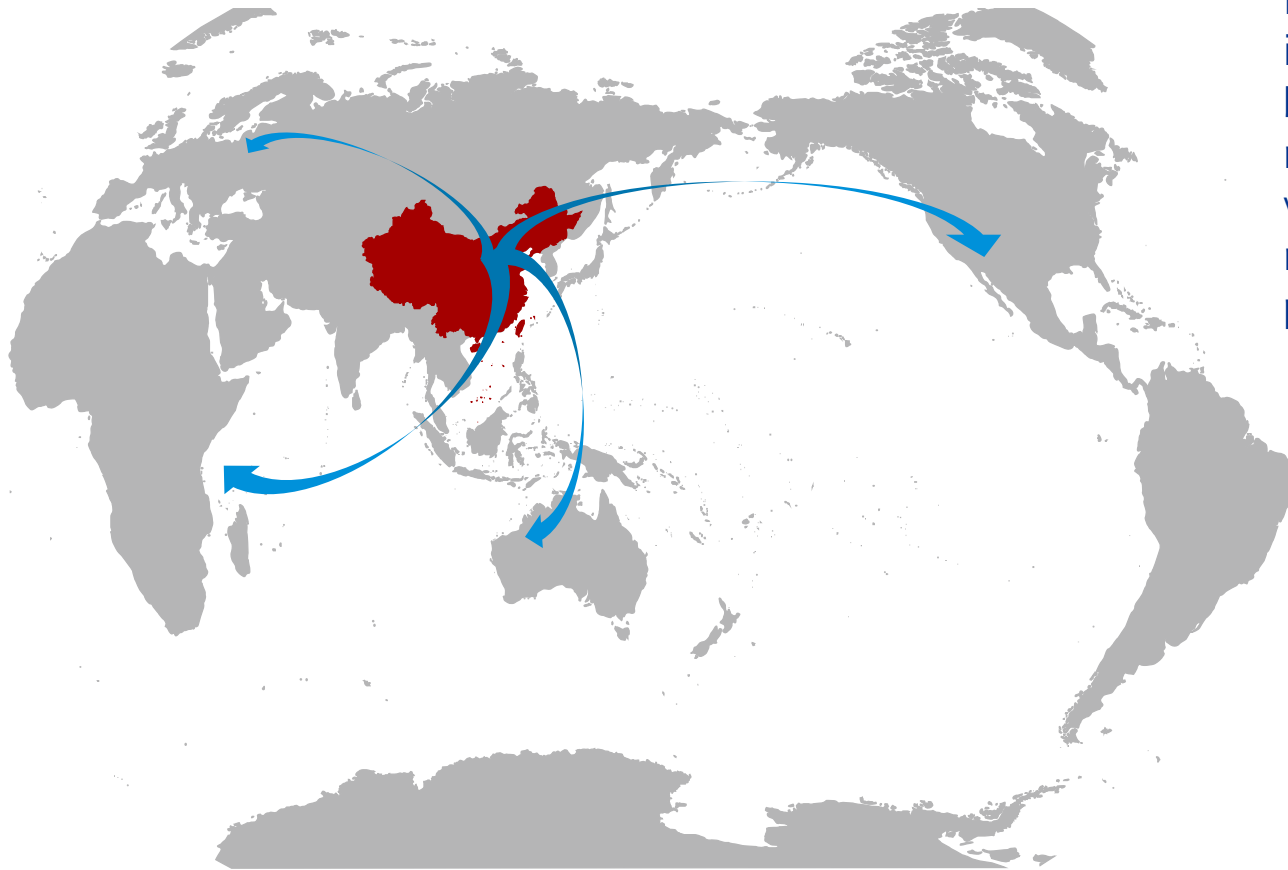
The 2018 Interim Report

- 8 Chapters, in particular:
 - In-depth analysis of business models and value creation
 - Stock-taking exercise on BEPS implementation and impact
 - Long-term solution
 - Interim measures
 - Special feature
 - Next steps

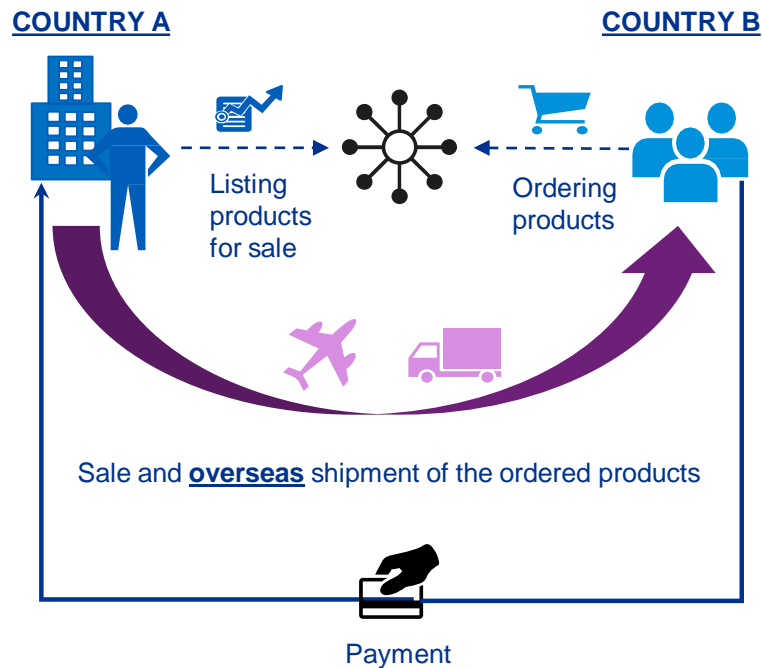


The fundamental issue for Tax

Digitalization makes it increasingly possible for businesses to reach markets in jurisdictions in which they have no or relatively little physical presence



Example 1: e-commerce platforms



Situation

- Online platform where sellers (businesses and individuals) can list their products for sale
- Users of the platform can order and buy the listed products
- The payment and invoicing is facilitated by the platform

Tax issues

- Currently low value goods are not subject to **VAT/GST** on importation in many countries
- Similar low value thresholds for **customs duties** may apply
- No **tax on profits** paid in the overseas countries where the users of the platform are located, as the platform has no physical presence in those countries

Example 1: e-commerce platforms - VAT/GST

Issue

- Low value imports of goods are (were) not subject to VAT/GST in many jurisdictions



Non resident seller



Local customer

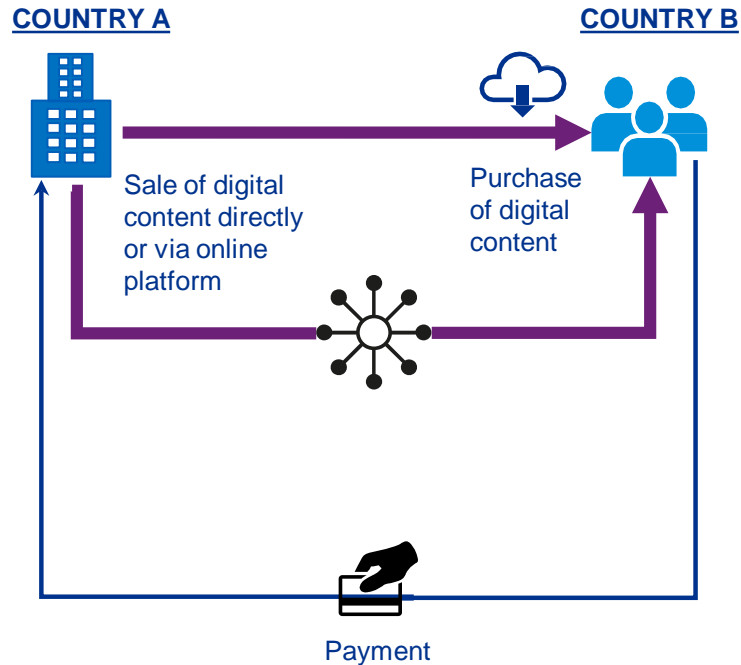
Main problems tax authorities are concerned about

- False customs declarations by sellers to stay below low value import thresholds
- Sellers are not paying VAT/GST (and not registering for VAT/GST) in the customer's country
- Platforms are not doing enough to ensure that sellers are compliant with tax obligations

Reaction from tax authorities

- Increasing obligations for platforms to ensure VAT/GST collection occurs
- Exclusion of non-compliant sellers (many EU countries)
- Joint and several liability for VAT/GST imposed on platforms
- Primary liability for VAT/GST imposed on platforms

Example 2: digital services



Situation

- Remote sellers of digital content, such as e-books, videos, apps, online games and music
- Online sale directly to overseas consumers (individuals – B2C) around the world, or via a third party platform
- Online payment for digital content. Where sold via third party platform, the payments may be facilitated by the platform too

Tax issues

- Digital content providers and online platforms pay no **tax on profits** in many countries where the overseas users of the platform are located (and where they have no physical presence)
- No **VAT/GST** is currently being paid on importation of services in many countries (where the seller has no physical presence)

Example 2: digital services - tax measures

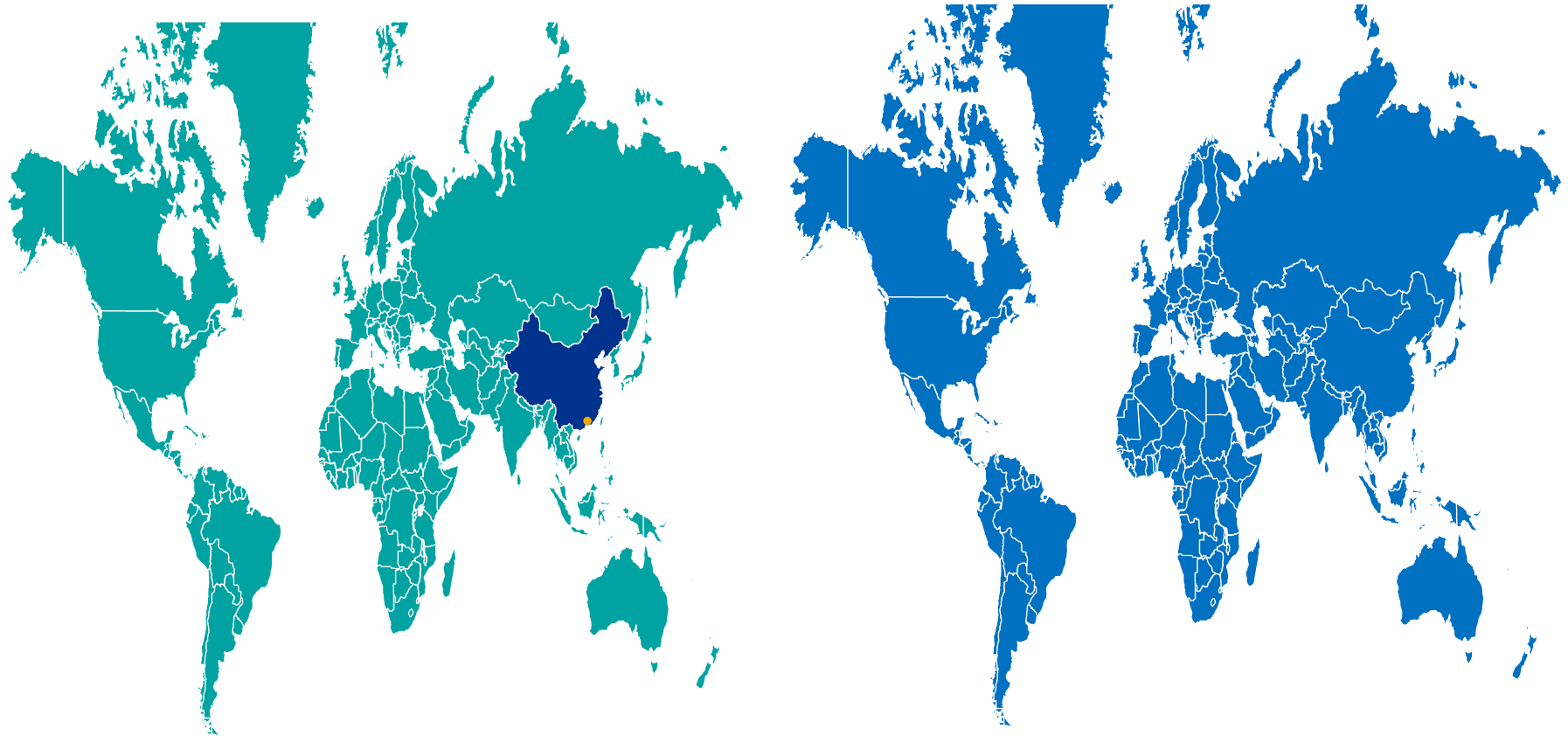
Direct taxes Examples

- **Virtual** Permanent Establishments (moving from the traditional concept of physical PEs)
- Revenue based taxes, often referred to as **Digital Service Taxes** e.g.
 - EU Digital Services Tax proposal
 - Equalization levy India
 - Withholding tax Taiwan for electronic services

Indirect taxes Examples

- Require non-resident sellers of digital services to register and account for VAT/GST where the buyers (individuals) are located
- Making platforms liable for the collection of VAT/GST (e.g. Australia, EU)
- Customers withholding VAT/GST or assessed (e.g. China, Vietnam)
- Split payment methods (e.g. Romania)

Challenges for you



■ Tax jurisdictions where you are established

■ Tax jurisdictions where you (may) have tax obligations

Tax developments China



2016: VAT, customs and consumption tax collection by logistics service provider acting as withholding agent



Considering revised permanent establishment concepts

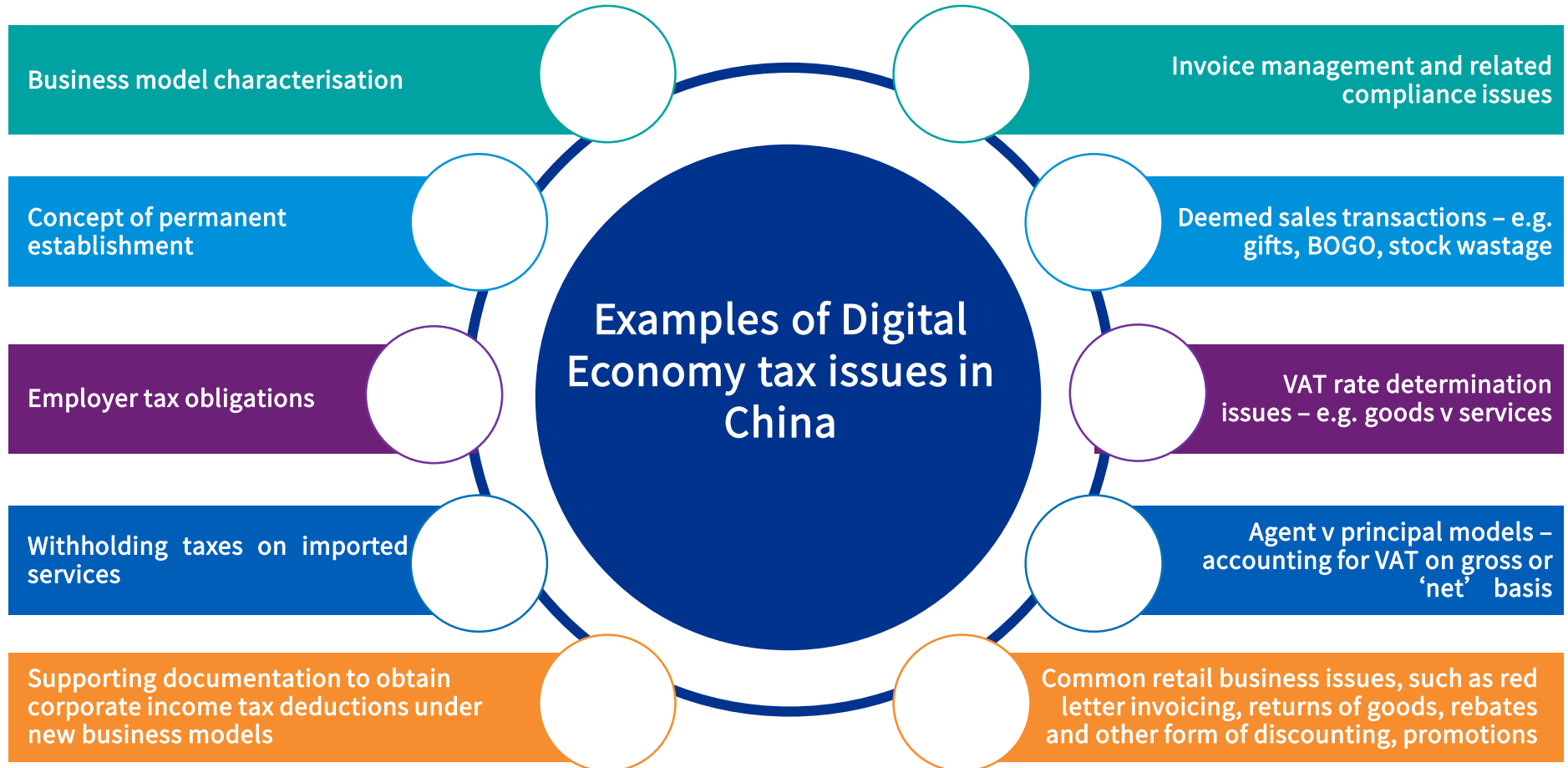


Considering Point of Sale tax collection ensuring that VAT is remitted directly to the tax authorities upon making online purchases

Examples of tax issues China

Direct taxes

Indirect taxes



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