Letter to European Ministers of Finance encouraging global solution to put an end to digital services taxes

7 July 2023

Dear Minister Montero, dear Ministers,

We are reaching out to you in anticipation of the forthcoming update on the OECD's "Pillar One" work on a global tax reform. We continue to strongly support a **global solution that brings more fairness and long-term stability to the international tax system and puts an end to discriminatory unilateral tax measures, including digital services taxes ("DSTs"), for all companies**. We urge governments to demonstrate ongoing commitment to finalise and implement a solution that effectively accomplishes these objectives.

As leading homegrown European technology companies, we see directly the need to put an end to DSTs and other similar measures. These measures have created instability in the international tax system and pose **substantial harm to economic growth, investment, innovation and employment**. **European technology companies are disproportionately impacted by DSTs**, impeding their expansion and hindering their ability to effectively compete with their global counterparts.

Revenues play a pivotal role in the growth and scalability for most businesses. **DSTs hit companies at the early stages of growth - particularly ones that are not yet profitable - and those with low margins hardest**. The adverse effects of these measures are felt by many European technology companies. DSTs would deprive these very companies of a vital source of capital, essential for reinvesting in their growth, and consequently weaken their competitiveness both within Europe and globally.

DSTs give rise to **significant legal, technical, political and trade challenges.** We have expressed these concerns before in relation to the EU's similar proposals. We think it is essential to reiterate them to underscore the critical issues at stake:

- DSTs are a blunt policy tool intended to target large and highly profitable companies. However, DSTs tax gross revenues, not profits; they apply regardless of a company's profitability. This has a disproportionate impact on European technology companies, resulting in an unlevel playing field.

- DSTs lead to unrelieved double, and even multi-layer, taxation. This occurs where revenues are already subject to corporate income tax, value-added tax (VAT) and/or other unilateral tax measures in the same or other jurisdictions. DSTs often do not come with methods to prevent double taxation or to offset against other DSTs or other relevant taxes, thereby resulting in multi-layer taxation. Moreover, the fact that DSTs are accounted for as a charge that hits operating income (EBITDA) and margins has a major further and direct impact for technology companies that rely on EBITDA as a key performance indicator.

- DSTs give rise to trade tensions and can trigger retaliatory actions from other countries. These actions may include adverse and arbitrary taxes on the turnover or local operations of foreign businesses in those countries, further impacting the ability of businesses to grow and compete on an equal footing.

- DSTs are at risk of proliferating, multiplying these harmful effects for companies, particularly if there is no agreement on Pillar One or, if there is, it does not effectively achieve the objectives stated above and/or the agreement is not widely implemented. This could lead to a quagmire of uncoordinated measures with different or overlapping scopes, varying rates (some very high) and diverse compliance and systems requirements.

The widespread implementation of DSTs, coupled with possible retaliatory actions, would create significant obstacles for new companies and those with low margins to grow to scale and attract capital investment for emerging technologies, hindering innovation which is a catalyst for future employment and economic growth. Consumer prices could rise as businesses may be forced to pass on these costs. Businesses that cannot do so could suffer serious financial distress.

Pillar One presents an opportunity for a fairer and more stable international tax framework which taxes economic profits, avoids double taxation, increases tax certainty through effective dispute prevention and resolution mechanisms and puts an end to DSTs and other similar measures. We welcome governments' ambition to finalise Pillar One this month and encourage governments to deliver fast but effective, practical and sustainable outcomes.

To create space for, and provide legal and tax certainty until, the implementation of Pillar One, we recommend governments agree to **extend the DST standstill agreement beyond 31 December 2023.** This would prevent the implementation of new DSTs while allowing time for governments to complete their negotiations, domestic discussions and ratification and implementation processes. We encourage all governments currently collecting taxes under existing DSTs to immediately stop collecting those taxes if there is an agreement in July. We also welcome the European Union (EU)'s intention, as outlined in the context of the European Commission's recent own resources proposal, not to consider further taxation measures on the digital sector, as long as Pillar One is in preparation or in place.

In conclusion, we commend governments for the significant progress made thus far and urge them to show strengthened commitment to the ongoing negotiations. We appreciate your consideration of our perspectives. As the Pillar One outcomes take clearer shape, we welcome further engagement with you on your government's and the EU's next steps in order to ensure that Europe remains competitive and enables its tech sector to grow and be globally successful.

Yours sincerely,

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Catawiki, Andy Botha, CFO
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Just Eat Takeaway.com, Brent Wissink, CFO
Schibsted, Kristin Skogen Lund, CEO and President of the EU Tech Alliance
Spotify, Paul Vogel, CFO
Trustpilot, Carolyn Jameson, Chief Trust Officer and Chief Consumer Officer
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