

Closing Loopholes: Taxing the Digital Giants

By [Dr. Binoy Kampmark](#)

Global Research, November 05, 2018

Region: [Oceania](#)

Theme: [Global Economy](#), [Law and Justice](#)

*The treasurers of various countries seem to be stumbling over each other in the effort, but taxing the digital behemoths has become something of an obsession, the gold standard for those wishing to add revenue to state coffers. Back in May, when Australia's then treasurer **Scott Morrison** oversaw the purse strings of the country, it was [declared](#) that, "The new economy shouldn't be some sort of tax-free environment." (Low tax environment was not be confused with a no-tax one.) He had his eye on the \$7 billion in [annual](#) Australian sales recorded by Google, eBay, Uber, Linked-In, and Twitter.*

As always, such statements must be seen for all their populist worth. A treasurer keen to secure more revenue but happy to compress the company tax base must be regarded with generous suspicion. Trickle-down economics, with its fanciful notions of job creative punch, still does the rounds in certain government circles, and Morrison, both as treasurer and now as Australian prime minister, is obsessed with the idea of *reducing*, let alone imposing company tax. But the Australian Tax Office has not been left entirely out of pocket: the Multinational Anti-Avoidance Law (MAAL) and Diverted Profits Tax have both done something to draw in some revenue from the likes of Facebook and Google.

What is lacking in approaches to the digital company environment is consensus. At the specialist level, there has been no end of chatter about how to rein in cash from the earnings of the digital world. But action has been tardy, inconsistent and contradictory. The OECD-G20 Base Erosion and Profit Shifting Plan (2015), the product of 12,000 pages of comments, 1400 contributions from interested parties, 23 drafts and working documents and two years of deliberation, is one such imperfect effort.

[According](#) to the OECD,

"Under the inclusive effort framework, over 100 countries and jurisdictions are collaborating to implement the BEPS measures and tackle BEPS."

Their enemy is a phenomenon described as "tax avoidance strategies that exploit gaps and mismatches in the tax rules to artificially shift profits to low or no-tax situations."

The tech giants, however, remain examples of singular slipperiness. The idea of a digital tax, undertaken in the absence of international understanding will, it has been said, be not merely problematic but dangerous. The European Commission, for one, has also considered the prospect of a 3 percent tax on the turnover of digital revenue, estimated to yield some 5 billion euros.

In making the March announcement, the Commission [conceded](#) that the growth of social media companies, digital businesses and "collaborative platforms and online content

providers, has made a great contribution to economic growth in the EU.” The tax regime, however, was obsolete, creakingly incapable of covering “those companies that are global, virtual or have little or no physical presence.” Profits derived from the sale of user-generated data and content fell outside current tax regulations.

A two-pronged approach was suggested: the first, aiming to “reform corporate tax rules so that profits are registered and taxed where businesses have significant interaction with users through digital channels”; the second, a response “to calls from several Member States for an interim tax which covers the main digital activities that currently escape tax altogether in the EU.”

When the plan surfaced, opponents closed ranks. Ministers from Luxembourg and Malta [expressed](#) their displeasure at a meeting of EU ministers in Sofia in April. German finance minister, **Olaf Scholz**, was obviously cognisant of the disagreements and confined his remarks to claiming that digital companies had to pay more tax as part of a “moral question”. His proposed answer, however, remained vague. The pro-taxing grouping was hedging.

Two prongs essentially became one: the interim measure might be implemented in the absence of a global strategy, one featuring a temporary levy on corporate turnover. Companies would merely be charged on their profits but no tax in their absence. (This remains the great loophole of company tax: where there are losses, there can be no tax revenue.)

“The idea,” [claimed](#) economy minister **Ramon Escolano**, “is to introduce it as soon as possible and for it to take effect from 2019 onwards.”

Unilateral tax approaches have been considered the enemy in this debate. Not aligning the system with those of other states might, for instance, stir US anxiety and trigger a trade war. But we live in an age of vibrant, aggressive unilateralism, exemplified by that man of bullied deals, US President Donald J. Trump.

The British Chancellor of the Exchequer, **Philip Hammond**, is one who has gotten impatient with the foot-dragging over an international agreement on how best to cope with tax avoidance on the part of the digital giants. A “narrowly targeted tax”, coming into force in April 2020, is intended to raise more than £400 million a year for the public purse. The Office for Budget Responsibility is [less optimistic](#) even on that projection, suggesting, in all likelihood, that the figure is more likely to be a mere £30 million. This will provide little cheer to the campaign and research group Tax Watch, which has [argued](#) that the digital giants deprive the exchequer of some £1 billion annually.

All taxes are pot-holed matters, fabulously effective on initial inspection, but worn on a closer inspection. Hammond’s digital services tax is aimed at online advertising revenue generated from Twitter, Google and Facebook. Direct sales (the likes of Amazon, in this regard) are not the subject of the measure. As **Martin Vander Weyer** of the conservative *Spectator* [noted](#),

“I doubt it will make a jot of difference to the ragtag rearguard of bricks-and-mortar shopkeepers.”

Nor to the digital tax giants, given the versatile tax avoidance strategies they have proven more than adept at deploying. Tax avoidance remains the forgiven misdemeanour, the dirty dispensation. As if to prove this finest of points, Facebook has appointed a previous Liberal Democrat leader, former deputy-prime minister and [pro-tax](#) figure, the now knighted Nick Clegg, chief of its global policy and communications. Brazenly cunning, but expected.

*

Note to readers: please click the share buttons above. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

Dr. Binoy Kampmark was a Commonwealth Scholar at Selwyn College, Cambridge. He lectures at RMIT University, Melbourne. He is a frequent contributor to Global Research and Asia-Pacific Research. Email: bkampmark@gmail.com

The original source of this article is Global Research
Copyright © [Dr. Binoy Kampmark](#), Global Research, 2018

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Dr. Binoy
Kampmark](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca