



**8 March 2018**

SIF's position on taxing the digitalised economy

## **Taxing the digitalised economy without hindering it**

The current rules on the taxation of companies operating internationally no longer correspond to the realities of the modern, increasingly digitalised economy. Nowadays, business activity in a jurisdiction no longer requires a physical presence in the form of a permanent establishment which justifies liability for tax. It is sufficient to have a digital presence, which is difficult or even impossible to assess and therefore may not sufficiently be taxed. Consequently, the Organisation for Economic Co-operation and Development (OECD) is currently preparing proposals as to how corporate taxation can be adapted to the new developments. The principle of levying taxes where added value is generated should not be undermined in the process.

As an important location for companies operating internationally, Switzerland also has an interest in tax rules that allow for and promote fair competition.

In recent months, the State Secretariat for International Finance (SIF) has been working intensively on the taxation of the digitalised economy and has performed an analysis. This forms the basis for Switzerland's position within the OECD:

- The taxation rules must be thoroughly reviewed. Digitisation has changed business models. Some jurisdictions have responded and already introduced unilateral measures.
- For the taxation of the digitalised economy, it is necessary to favour multilateral approaches which tax profits in the jurisdiction where added value is generated and which do not cause double or over-taxation.
- Measures outside the scope of double taxation agreements are to be avoided. These include, for example, an excise tax on digital transactions, which can lead to over- and double taxation.
- If a country wishes to introduce short-term measures – because an international consensus on long-term and definitive solutions is a long way off, for instance – they must be designed in a manner that is as targeted and as narrow as possible, be applied to both domestic and foreign companies and be limited in time (sunset clause), in order to reduce double taxation and over-taxation and minimise the negative effects on the digitalised economy, especially start-ups and SMEs. An example of such a targeted measure would be an excise tax that is limited to the digital advertising of large companies with an annual consolidated turnover exceeding EUR 750 million and that contains a sunset clause.
- Long-term measures are to be found within the framework of the existing international tax rules and the existing OECD Task Force on the Digital Economy. Binding standards are generally to be preferred over recommendations or overviews.