

# Consumption Taxation of Digital Services

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# Summary

THIS REPORT COVERS policy discussions on how the digital economy should be taxed from the perspective of consumption taxation. Both the OECD and the EU propose substantial changes regarding the taxation of the digital economy. Briefly, these suggestions concern taxing companies where they conduct significant business, rather than exclusively taxing them where they are physically located.

Within the OECD project Base Erosion Profit Shifting (BEPS), suggestions on changing the landscape concerning which countries have the right to tax profits and turnover from digital services have been put forward and are currently being debated. Within the EU, changes have been instituted within the harmonized EU VAT system with regard to how to tax digital services and distance selling of goods through intermediaries. However, suggestions for introducing a harmonized digital services tax have not been agreed upon by the EU member states, whereas some countries, such as France and Hungary, have introduced a national tax on digital services.

One of the main arguments for introducing the suggested changes relates to the fact that digital business models are said not to pay their fair share of tax. This fairness-based argument is the point of departure for this report. The logic behind the fairness argument in both the OECD and the EU derives from an income tax logic. In this report, I discuss fairness from a consumption tax logic to show that the current understanding of fairness is too narrow, not only from a consumption tax logic, but also from the underlying values of sustainability. However, due to different understandings of the underlying problem, there is a risk of parallel legal developments. Is the current taxation fair or unfair, and from which perspective?

In order to assess the fairness argument, I suggest that further analyzes are carried out with regard to the economic impact of the suggested changes; not only based on an

income tax logic, but also taking other taxes into account, including consumption taxation. Comparing traditional and digital business models is difficult due to the ongoing convergence between different business models. The changed role of intermediaries needs to be further analyzed: which implications will this have on shifts in power between different actors in society? There is also a need to analyze the various risks of parallel legal developments in a single tax system (e.g., the VAT system), between different tax systems (e.g., income tax and consumption tax) as well as between different states depending on the impact of these changes in relation to the allocation of taxing rights.

## About the author

*Pernilla Rendahl* is Professor in Tax Law at the Department of Law at University of Gothenburg.