SOUTH CENTRE

22 June 2023

THE INTERGOVERNMENTAL ORGANISATION OF THE SOUTH

2023 ATI General Assembly: Stepping-up financing for sustainable development

How to tax the digitalised economy – perspectives from developing countries

Abdul Muheet Chowdhary chowdhary@southcentre.int
Senior Programme Officer, South Centre
Member, UN Subcommittee on Wealth Taxes

South Centre Tax Initiative
Taxcooperation@southcentre.int

Solutions – National Measures by South Centre Member States

Equalization Levy

Digital Service Taxes

Significant Economic Presence

Source: South Centre (2020)

Solutions – Equalization Levy

India

- Recommended by OECD in Chapter 7 of 2015 BEPS Action 1 Report
- Interim Measure
- Applies to payments for online advertising
- 6% withholding tax on gross receipts

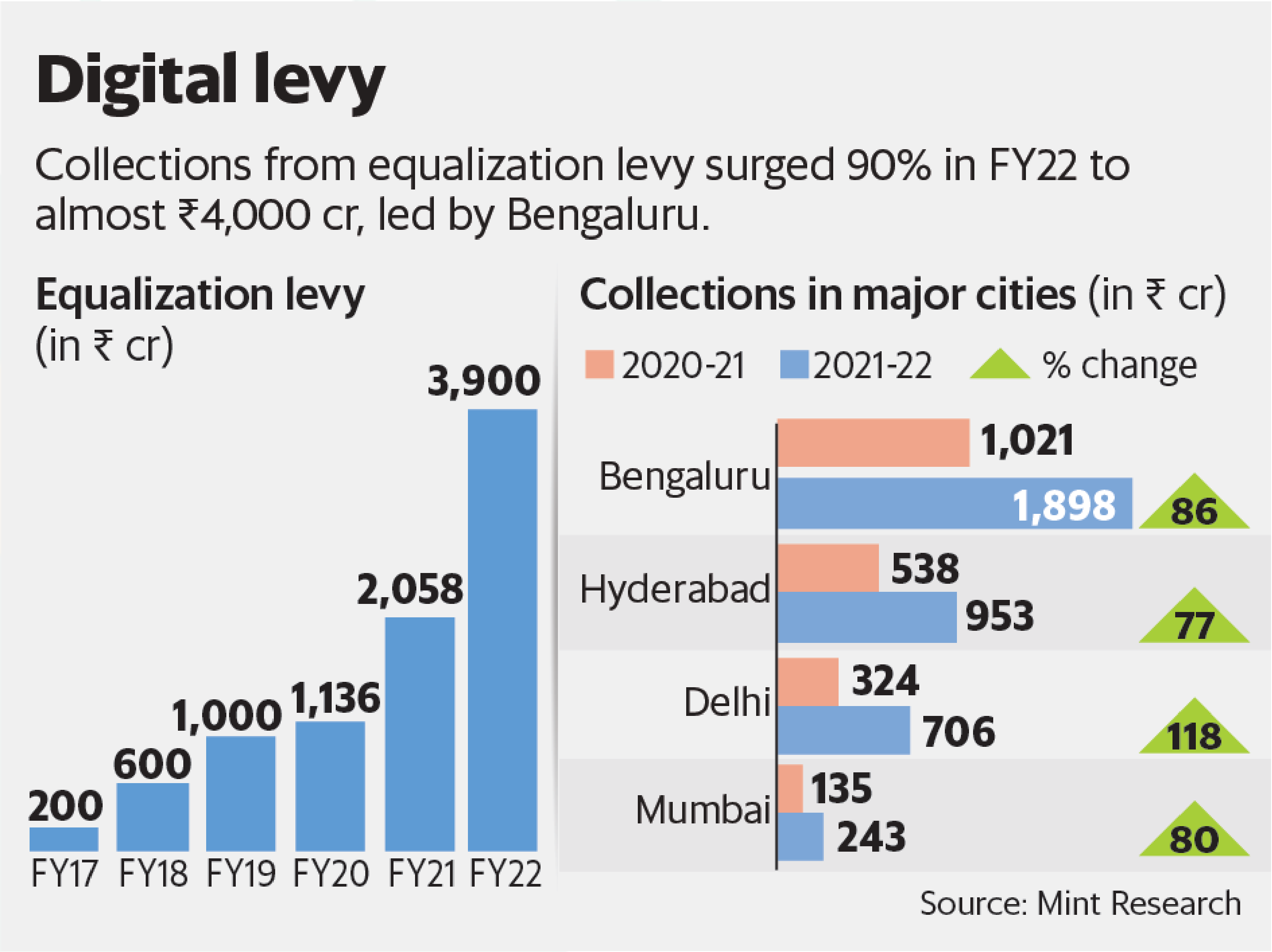
Source: South Centre (2020)

Solutions – Equalization Levy 2.0

India

- Scope later expanded to apply to payments to E-commerce operators from selling or facilitating sale of goods or services
- Broad scope including Uber, Amazon, Adobe, Zoom, etc.
- 2% withholding tax on gross receipts
- Incurred wrath of US which threatened trade sanctions
- India-US agreed to a deal where equilisation levy would be withdrawn after US implemented Amount A (which appears most unlikely)

Solutions – Equalization Levy 2.0



SOUTH CENTRE

Solutions – Equalization Levy 2.0

Revenue Collected by India

- FY 22 INR 3,900 crore = $472 million

Solutions – Digital Service Tax

Digital Service Taxes

- Functions as Equalisation Levy
- Applies as withholding tax on each transaction
- Countries define list of digital services, and usually ask banks or financial intermediaries to withhold taxes
- Easy to implement, but is tax on gross basis and not profits
- May result in over-taxation & can be passed on to consumers

Solutions – Digital Services Taxes by some South Centre Members

Country	Rate (%)	Applicable Tax Base
Latin America and Caribbean		
Argentina	5-15	Bets made through a digital platform in or from Argentina
Colombia	3	Online ads, intermediation platforms, streaming, etc
Africa		
Sierra Leone	1.5	Turnover of all digital and electronic transactions
Tanzania	2	Turnover of non-resident digital service providers
Uganda	5	Online ads, digital content, cloud computing
Asia		
Pakistan	10	Online ads, facility for online sale of goods and services, etc

Source: KPMG (2023)

Solutions – Significant Economic Presence by South Centre Members

Nigeria

- **Creates Nexus Rule**
- Gross turnover or income of more than NGN 25 million ($64,601) from four types of digital activities
- providing streaming or downloading services of digital content, such as movies, music, games, and e-books to persons in Nigeria;
- transmitting data collected on Nigerian user activities on a digital interface, such as websites or apps;
- providing goods and services directly or indirectly through a digital platform; or
- providing intermediary services via a digital platform, website, or app linking suppliers to customers in the Nigerian market
- Subject to tax under Nigerian CIT regime of 30%, with 6% of turnover used as a proxy
- 20% deemed profit X 30% rate = 6% on turnover

Source: KPMG (2023)

SOUTH CENTRE

Solutions – Significant Economic Presence by South Centre Members

Colombia

- Gross income of USD$275,000 and sale of goods or services reach over 300,000 customers/users in either the current or the previous fiscal year.
- Taxable at 10% withholding rate under Colombian CIT

Source: KPMG (2023)

Solutions – OECD – Amount A of Pillar One

Key Characteristics:

Multilateral – Country will have to sign a Convention – first time in history of international taxation that taxing rights allocated multilaterally

Applies only to super-rich and profitable companies (EUR 20 billion annual turnover, 10% profit margin)

Taxes MNEs on global profits

Allocates 25% of residual profits to market jurisdictions

Residual Profits = profits exceeding 10% of revenue

Country agreeing to it cannot tax any out of scope digital companies

Re-allocation of taxing rights so will only work if US, EU and other countries where MNEs are headquartered agree to give up their taxing rights (which seems unlikely)

Source: South Centre (2022)

SOUTH CENTRE

Solutions – United Nations – Article 12B of UN Model Tax Convention

Key Characteristics:

Article 12B taxes Income From Automated Digital Services

ADS defined as services with ‘minimal human involvement’

Eg – Online advertising, search engines, intermediation platform services, etc

Bilateral – To be negotiated between countries who have a tax treaty

No threshold; even a single transaction taxable if it qualifies as ADS

Two options –

- Gross Method: Fixed rate on local turnover (eg 3-4%)
- Net Method: Methodology for calculating Net Profits which are then taxed at domestic rate

Source: South Centre (2021)

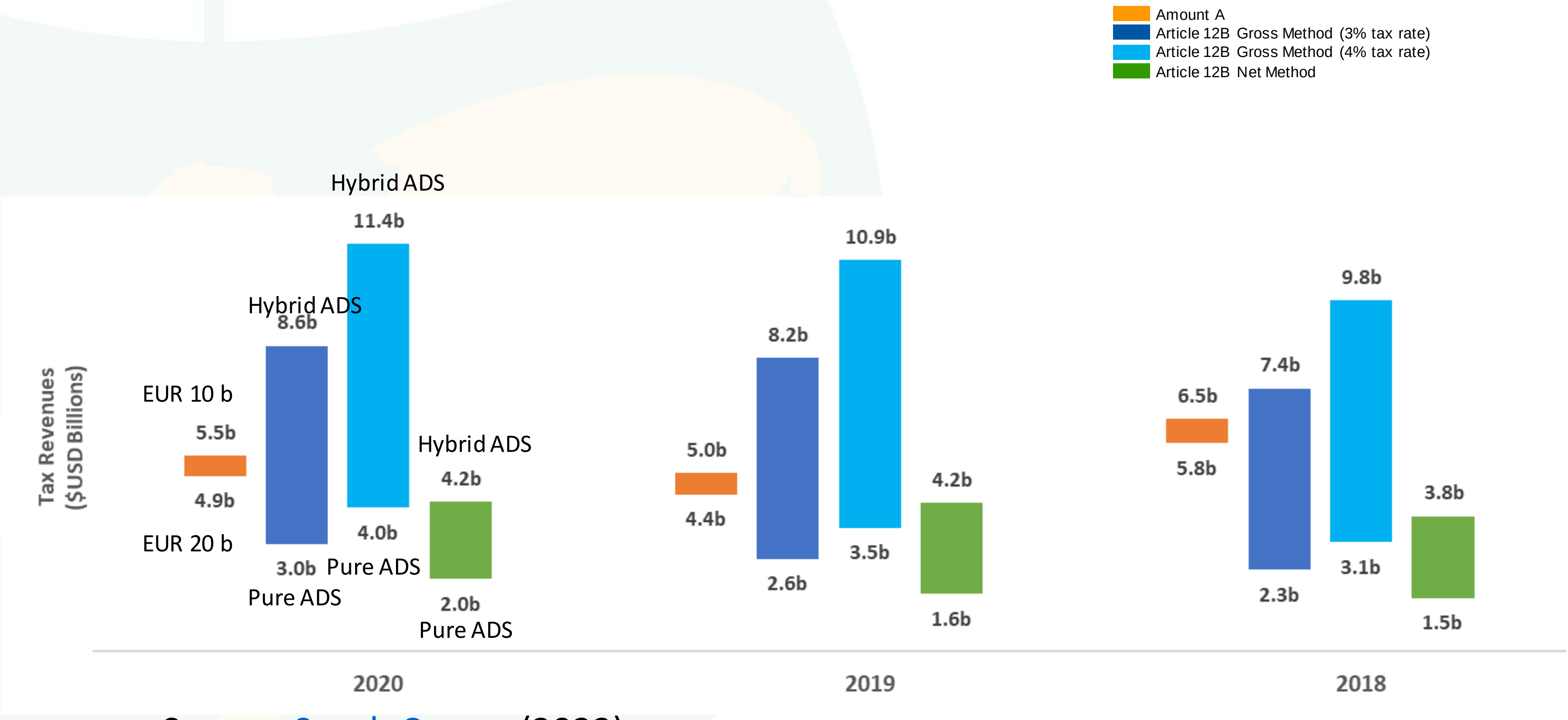
SOUTH CENTRE

Who Will Redistribute Amount A? (Sales Threshold at 20B Euro; USD billion)

#	Country	Number of In-Scope MNEs	2020 Total Sales	2020 Total PBT
1	United States	37	2,239	452
2	Japan	4	334	77
3	United Kingdom	9	315	60
4	China*	4	241	58
5	Switzerland	3	201	43
6	France	6	203	39
7	South Korea	2	228	36
8	Taiwan, China	1	45	20
9	Germany	3	134	19
10	Australia	1	43	14
11	Ireland	2	74	11
12	Spain	2	61	7
13	Hong Kong, China	1	34	7
14	Belgium	1	47	2
	Total	**76**	**4,201**	**844**

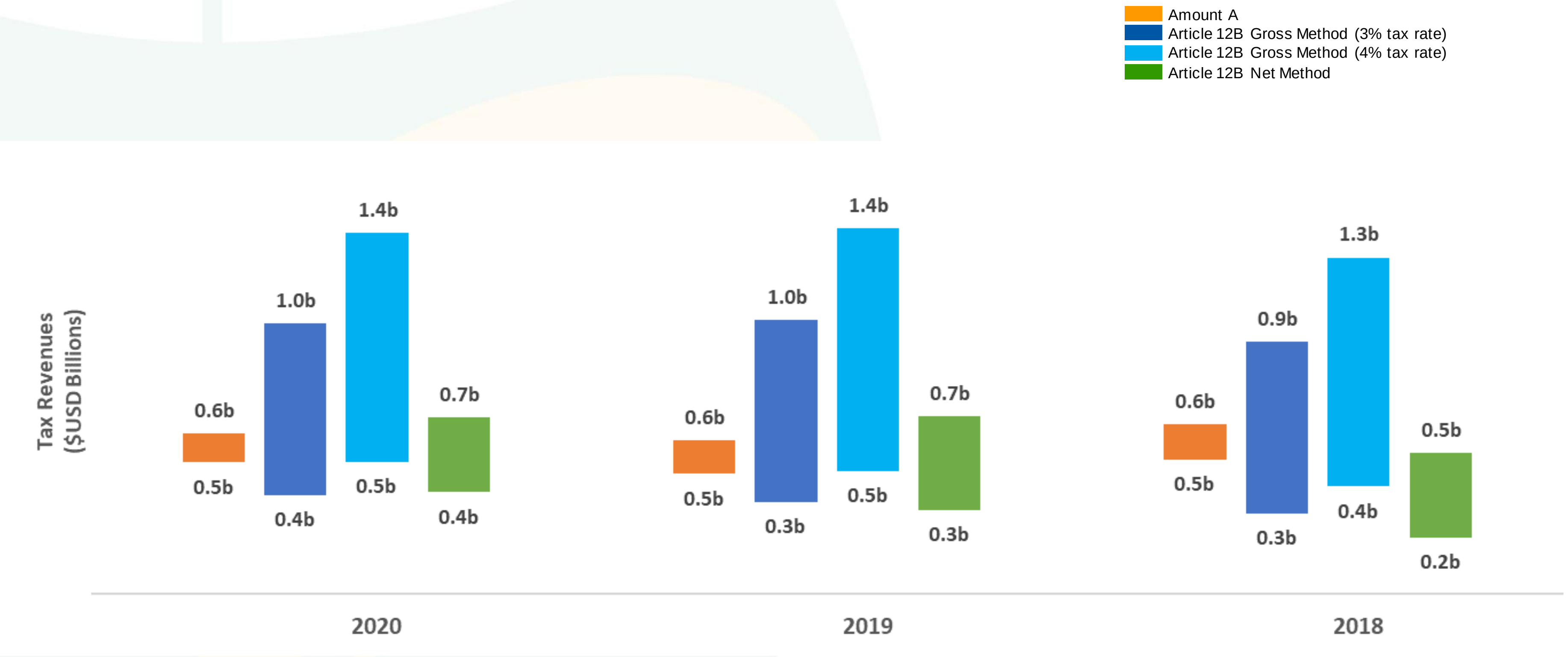
SOUTH CENTRE

Amount A vs. Article 12B for the 54 South Centre Member States (2018 to 2020)



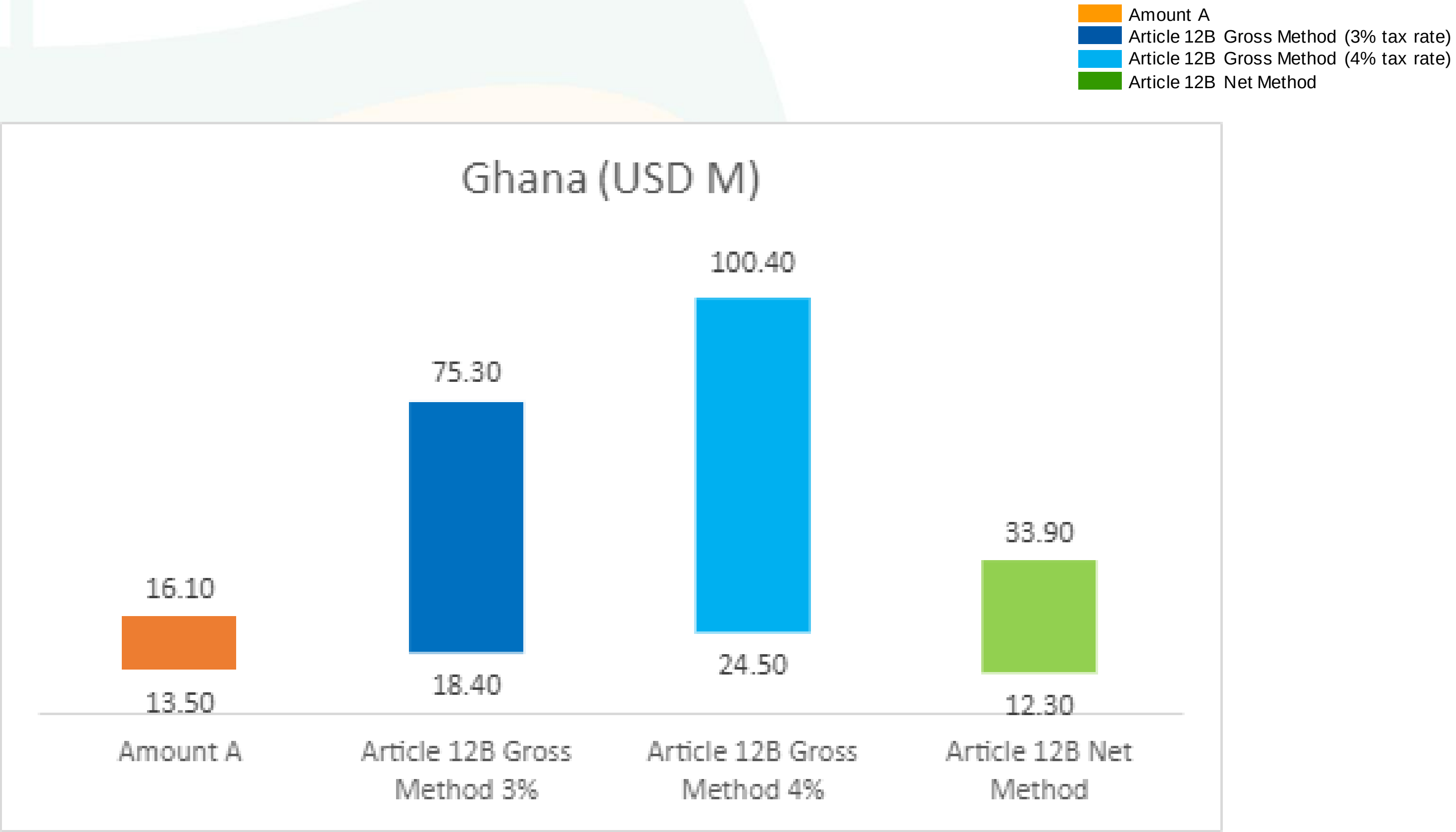
Source: South Centre (2022)

Amount A vs. Article 12B for the 54 African Union Member States (2018 to 2020)

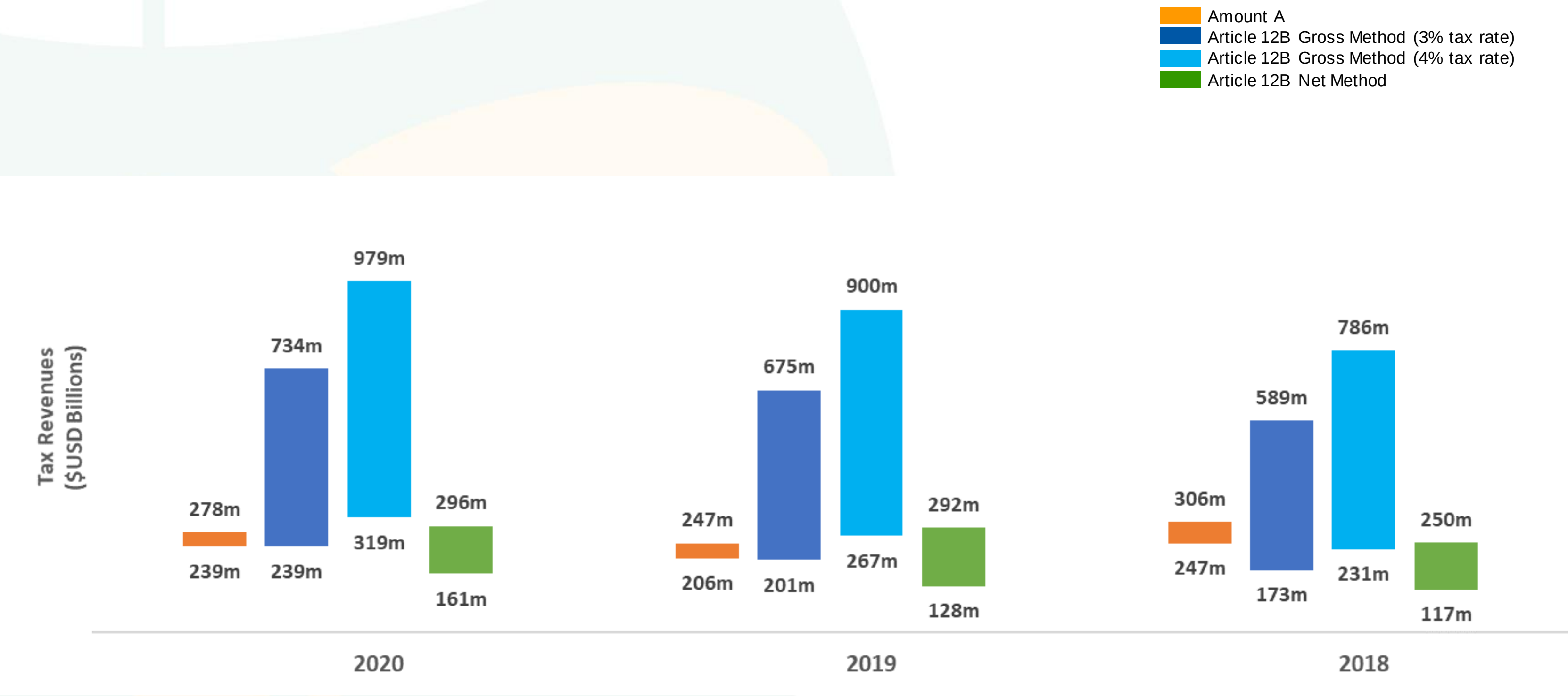


Source: South Centre (2022)

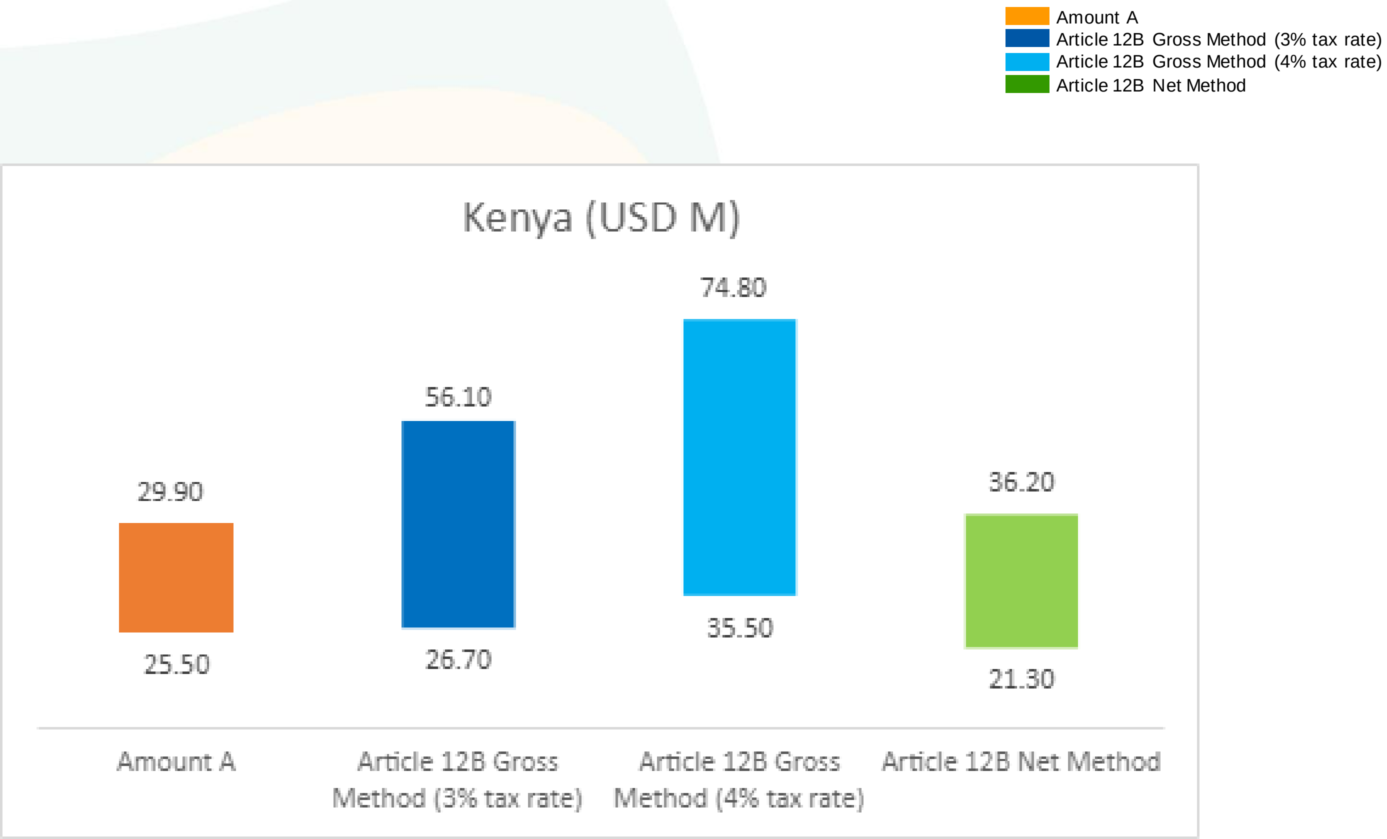
ATI and South Centre Members: Ghana (2020)



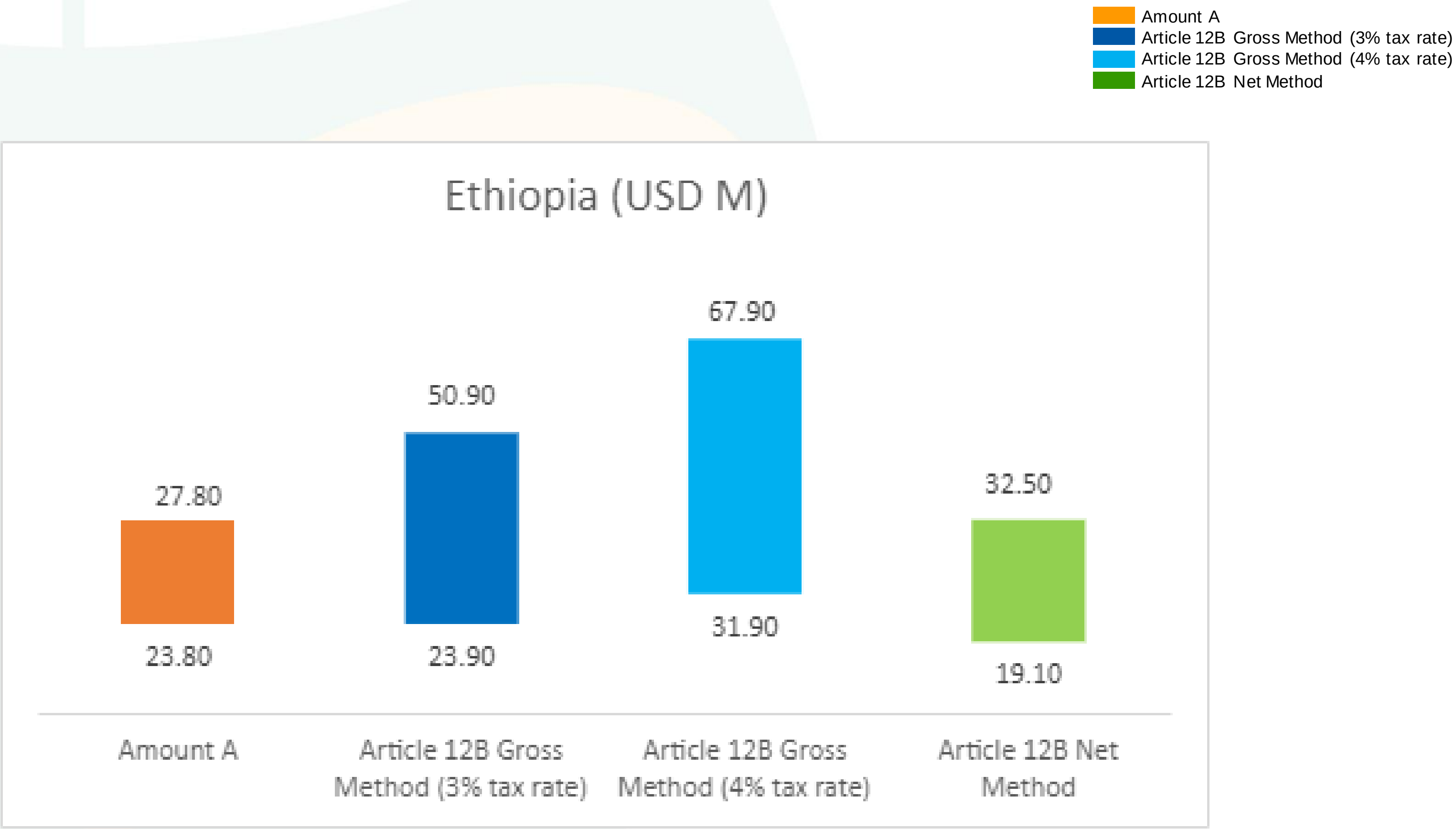
ATI and South Centre Members: Indonesia



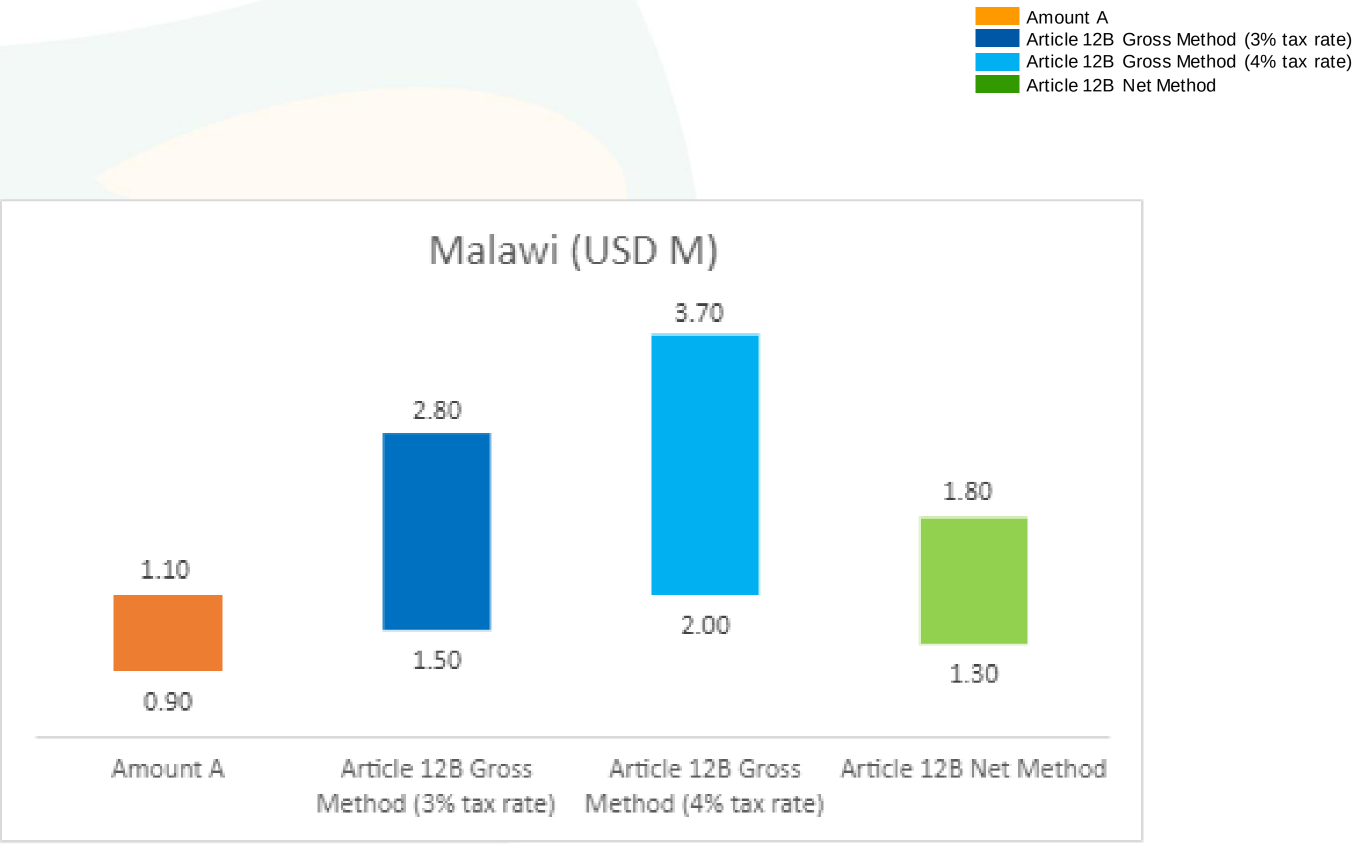
ATI Members: Kenya (2020)



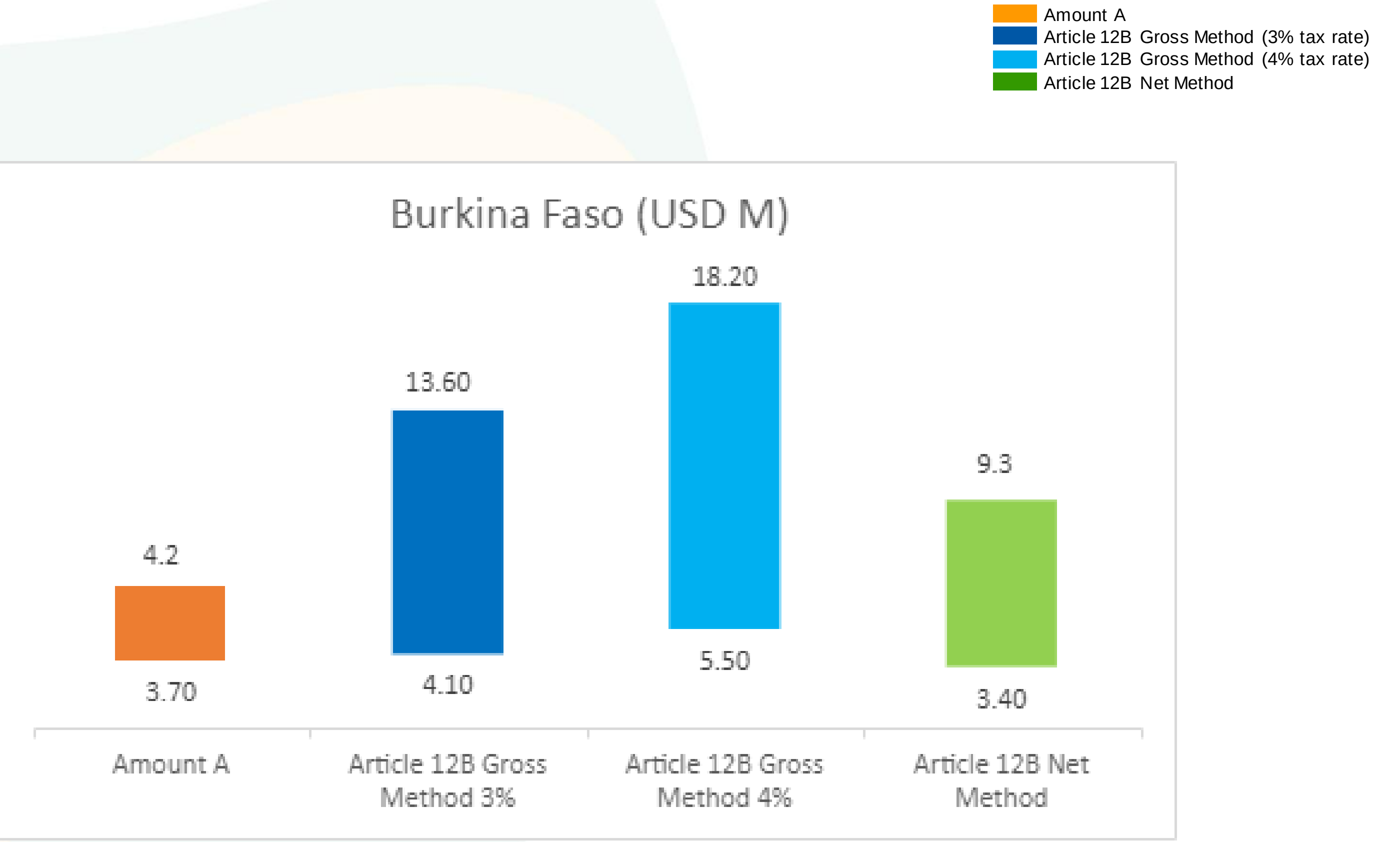
ATI Members: Ethiopia (2020)



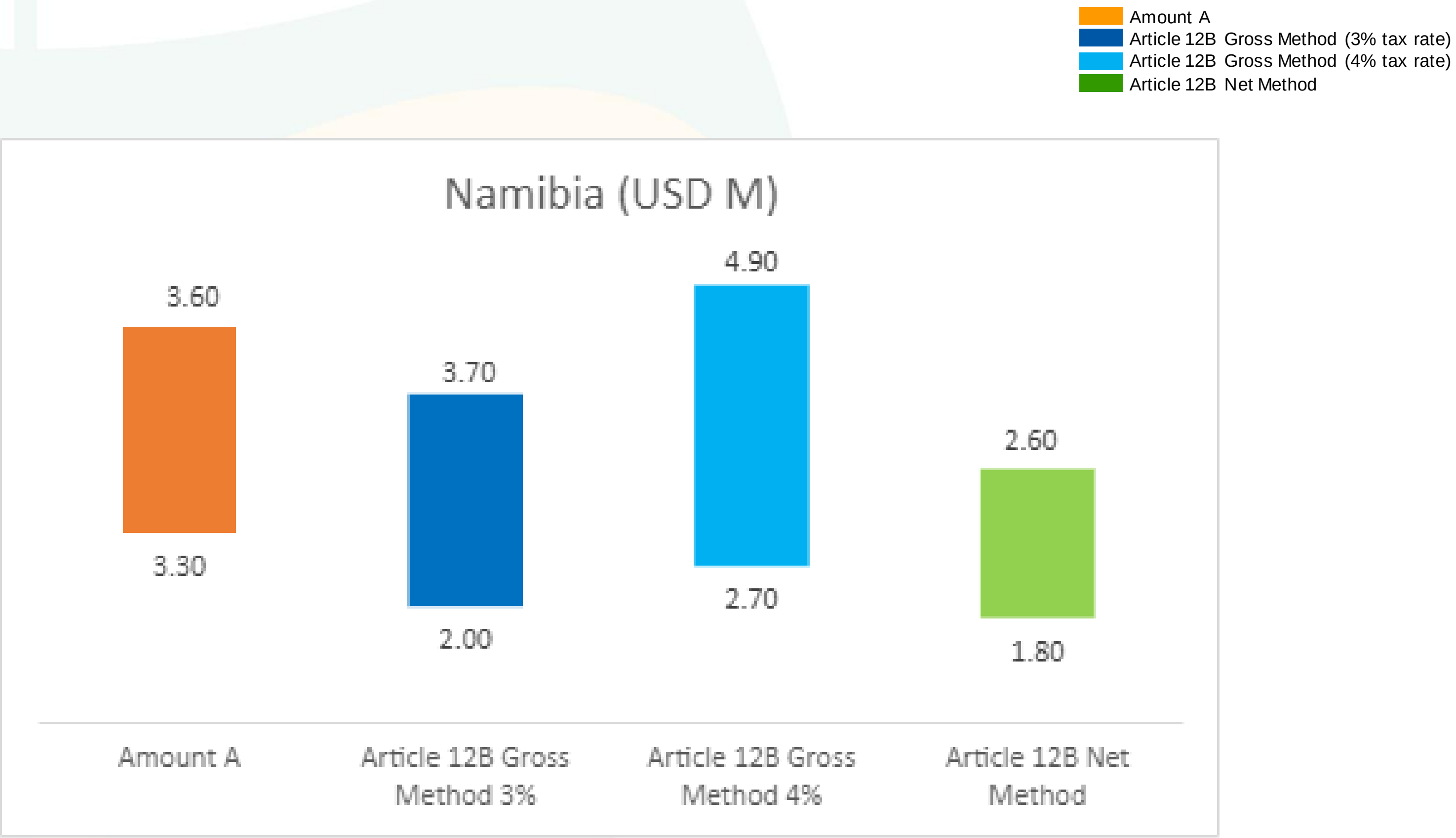
ATI and South Centre Members: Malawi (2020)



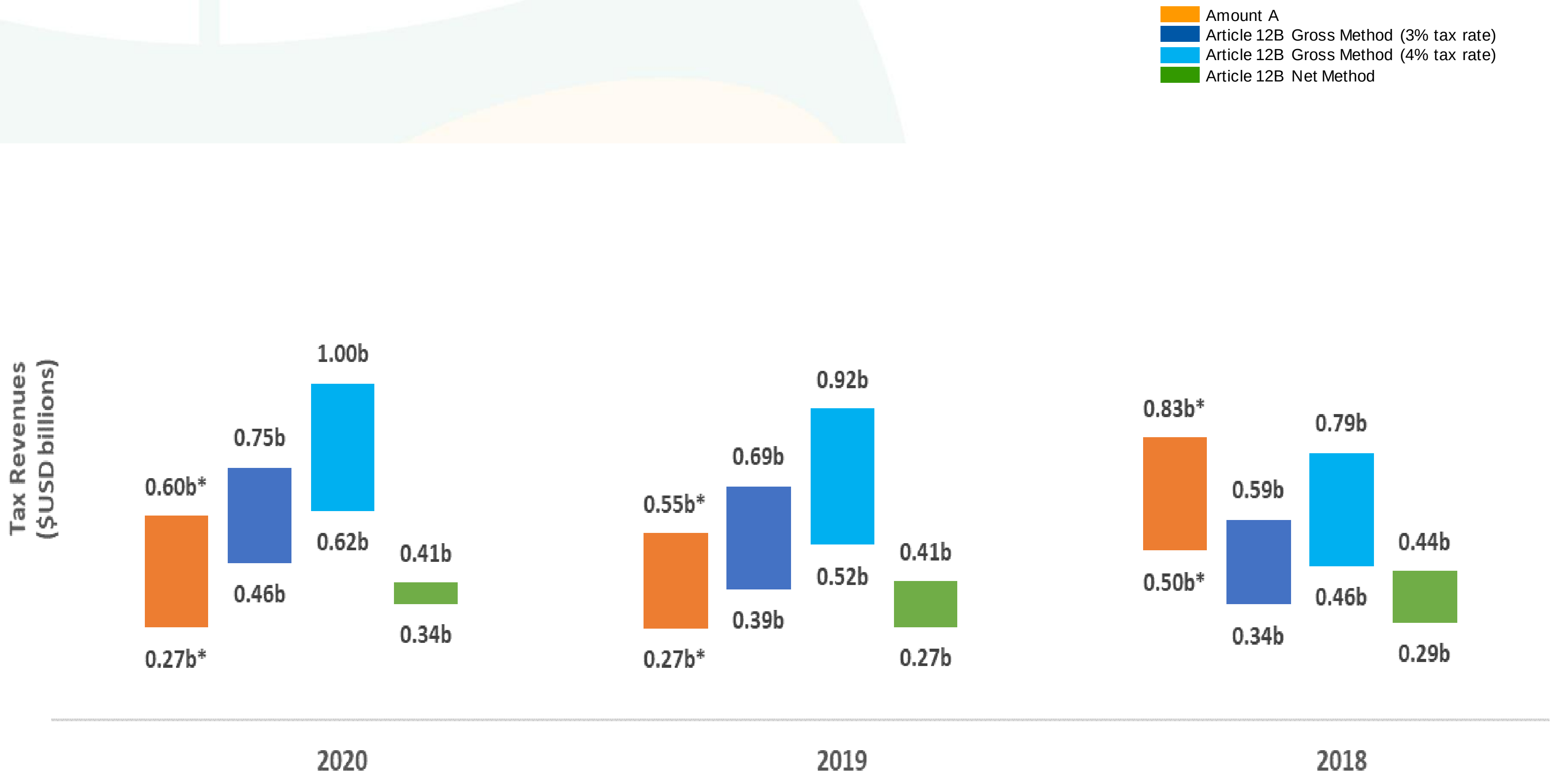
ATI Members: Burkina Faso (2020)



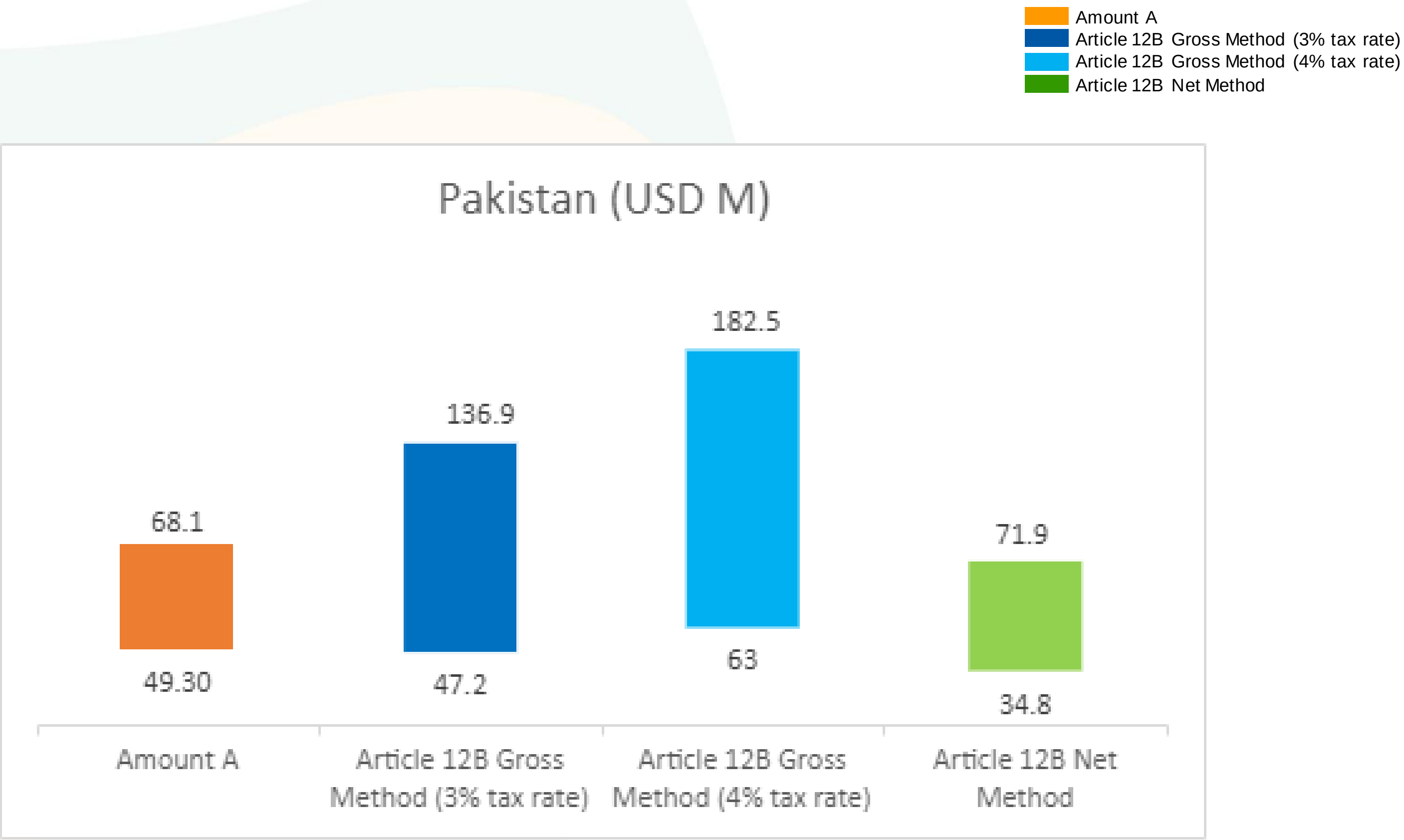
ATI and South Centre Members: Namibia (2020)



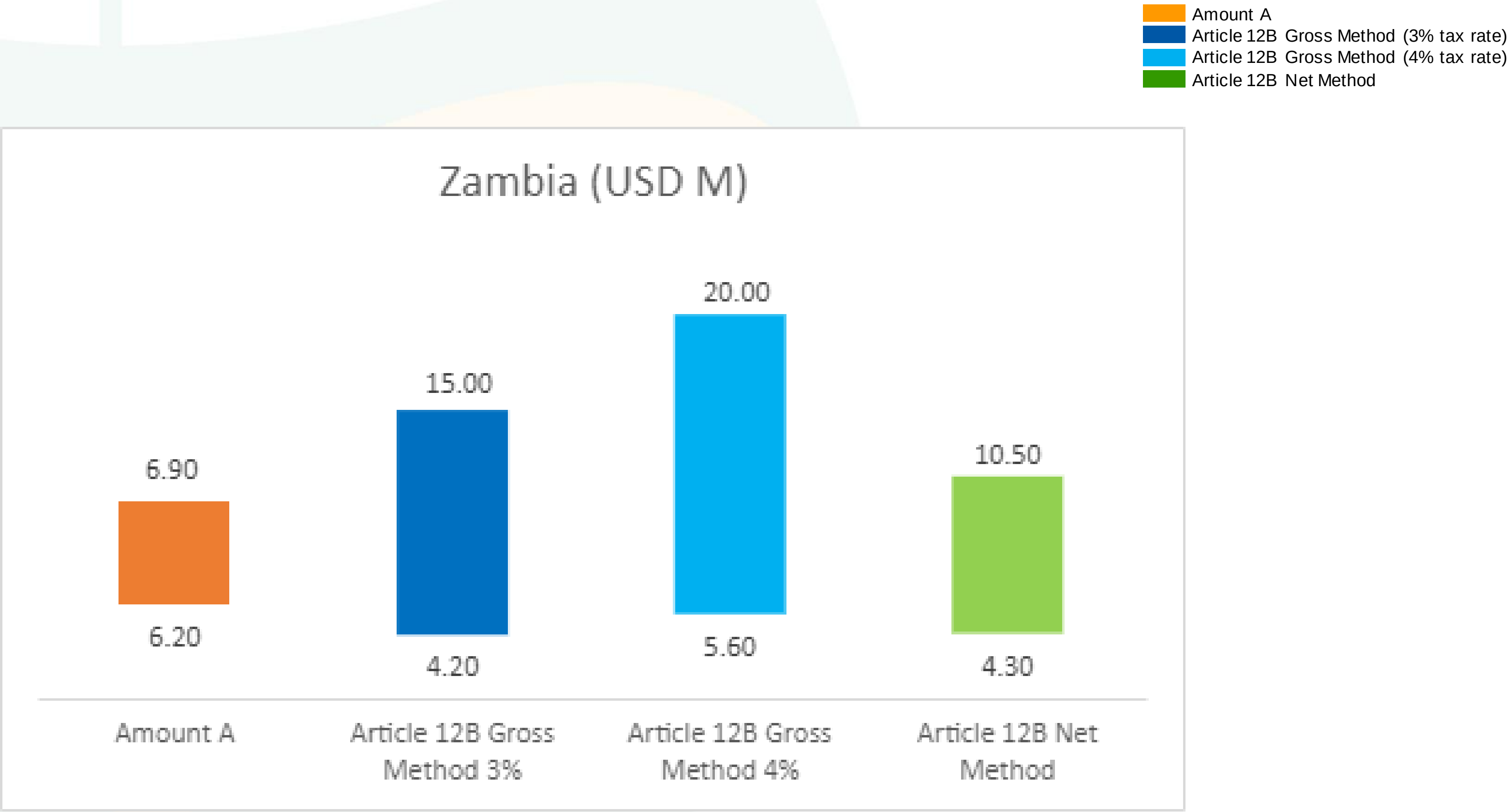
South Centre Members: India



ATI and South Centre Members: Pakistan (2020)



ATI Members: Zambia (2020)



Other Revenue Estimates on Two Pillars by South Centre

Digital taxation under the OECD Amount A and UN Article 12B mechanisms for market jurisdictions in Africa: a comparative analysis (March 2023)

Revenue Effects of the Global Minimum Corporate Tax Rate for African Economies (Oct 2022)

Evaluating the Impact of Pillars One and Two (Oct 2022)

SOUTH CENTRE

Open Source Databases Available for Carrying out Revenue Estimates

- Net Profits – Forbes 2000
- Country wise Average Effective Tax Rates (AETR) – OECD
- Statutory Corporate Income Tax Rates
- **Revenue Sourcing**
- Final Consumption Expenditure – World Bank
- 10K Filings with US Securities and Exchange Commission
- FactSet (private)
- Orbis (private)

Final Takeaways

UN Solution Gives Up to Three Times More Revenue to Developing Countries than OECD Solution

But UN Solution Requires Bilateral Negotiations; Time and Resource Intensive

UN Tax Committee Creating UN 'Multilateral Instrument' which can update multiple bilateral tax treaties simultaneously

Support of Developing Countries Required for This Effort

Next session of UN Tax Committee: October 2023, Geneva

SOUTH CENTRE

Final Takeaways - II

Countries can also initiate national measures like Digital Services Taxes or Significant Economic Presence

Most countries that have implemented DSTs collected more revenue than expected

Developing Countries encouraged to initiate national measures until Amount A comes into force & then take a call whether to accept it or not

Final Takeaways - III

Key objective of Amount A is to stop Digital Service Taxes & bring in mandatory binding dispute resolution

Amount A Multilateral Convention expected to be released in July and opened for signature in December

Half of Amount A in-scope companies HQ'd in USA, making its participation critical

ATI partner countries and all developing countries strongly urged to wait till USA ratifies Amount A before even considering signing

SOUTH CENTRE

THANK YOU

Please contact us for more information at:

Taxcooperation@southcentre.int

SOUTH CENTRE

THE SOUTH CENTRE

International Environment House 2
Chemin de Balexert 7-9
POB 228, 1211 Geneva 19
Switzerland
Tel.: +41 22 791 8050
south@southcentre.int

›› FIND OUT MORE:

https://www.southcentre.int
https://taxinitiative.southcentre.int

›› THE SOUTH CENTRE IN SOCIAL MEDIA:

@South_Centre

SouthCentre_GVA

South Centre, Geneva