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Kuzey YMM ve Bağımsız
Denetim A.Ş.
Eski Büyükdere Cad.
Orjin Maslak No:27
Maslak, Sarıyer 34398
İstanbul - Turkey

Tel: +90 212 315 3000
Fax: +90 212 234 1067
ey.com
Ticaret Sicil No : 479919
Mersis No: 0-6010-2772-0400010

Chaos in the taxation of the digital economy: Can the efforts of OECD be finalised till at the end of 2020?

The share of global digital companies in the economy and global trade is increasing each passing day. Since the share of these companies in the global trade of goods and services is realised in the country where they are resident without creating a physical workplace from another country; with the current international tax architecture, it is not possible to collect taxes on the earnings they have obtained from the countries that are the source of their income.

The Economic Cooperation and Development Organization's (OECD) efforts to find a solution to this problem were progressing rapidly until the COVID-19 pandemic. Considerable progress was gained through a double pillar approach called Pillar One and Pillar Two. However, according to press reports on June 18, 2020, referring to the U.S. Treasury Secretary Steven Mnuchin, a letter was sent to the French, Spain, Italy and British finance ministers indicating that the US withdrew from talks on the taxation problems of the digital economy and the taxation of multinational companies led by the OECD.

Shortly after the news on the US’s withdrawing from the negotiation process; another statement came from the U.S. Treasury Department saying, "we wanted to take a break while everyone was focused on COVID-19". This development brought to mind the question that the US decision to withdraw from the negotiations may actually be a part of its negotiation approach. Because the four countries that received the US Treasury’s letter offered to proceed with a new initiative to facilitate the deal explaining that changes can be made to the scope of taxation of digital companies.

In addition to the increasing income needs of governments due to COVID-19 outbreak's cost to economies, the increase in the revenues of companies targeted by the digital services taxation during the pandemic has highlighted the taxation of digital services. That made global digital companies a clearer target in financing aid packages they started to implement in the fight against COVID-19. On 2 June 2020, the United States announced investigations will be conducted into certain jurisdictions including Turkey relating to the adoption or contemplated adoption of a digital services tax (DST). Jurisdictions included within the scope of this announcement include Austria, Brazil, the Czech Republic, the European Union (EU), India, Indonesia, Italy, Spain, Turkey, and the United Kingdom and consultation with the relevant authorities of these countries was requested.

The system in Europe is back on the agenda with the taxation of global digital companies. Within the European Union, unanimity among member states is required for legal regulations related to tax.

While most of the EU decisions are taken with a qualified majority based on each member country’s population; decisions are taken unanimously in sensitive areas such as taxation, foreign affairs and defence policy In addition to the problems of the EU's ability to make common policy, it remains unclear how the outbreak will affect new decisions to be taken.

On the other side, it is also worth remembering that the presidential election in the US in the last quarter of 2020 may delay the schedule for resolution on digital taxation until 2021.

Is the transformation of Turkey's digital economy taxation a requirement? Yes, a transformation is essential in Turkey’s taxation policy on the digital economy. Because, Turkey is implementing a dual digital company taxation if VAT is set aside. The first of these is the withholding applied on internet advertising service payments made abroad within the scope of tax liability and the second is the digital service tax implementation introduced through the Law no.7194.