

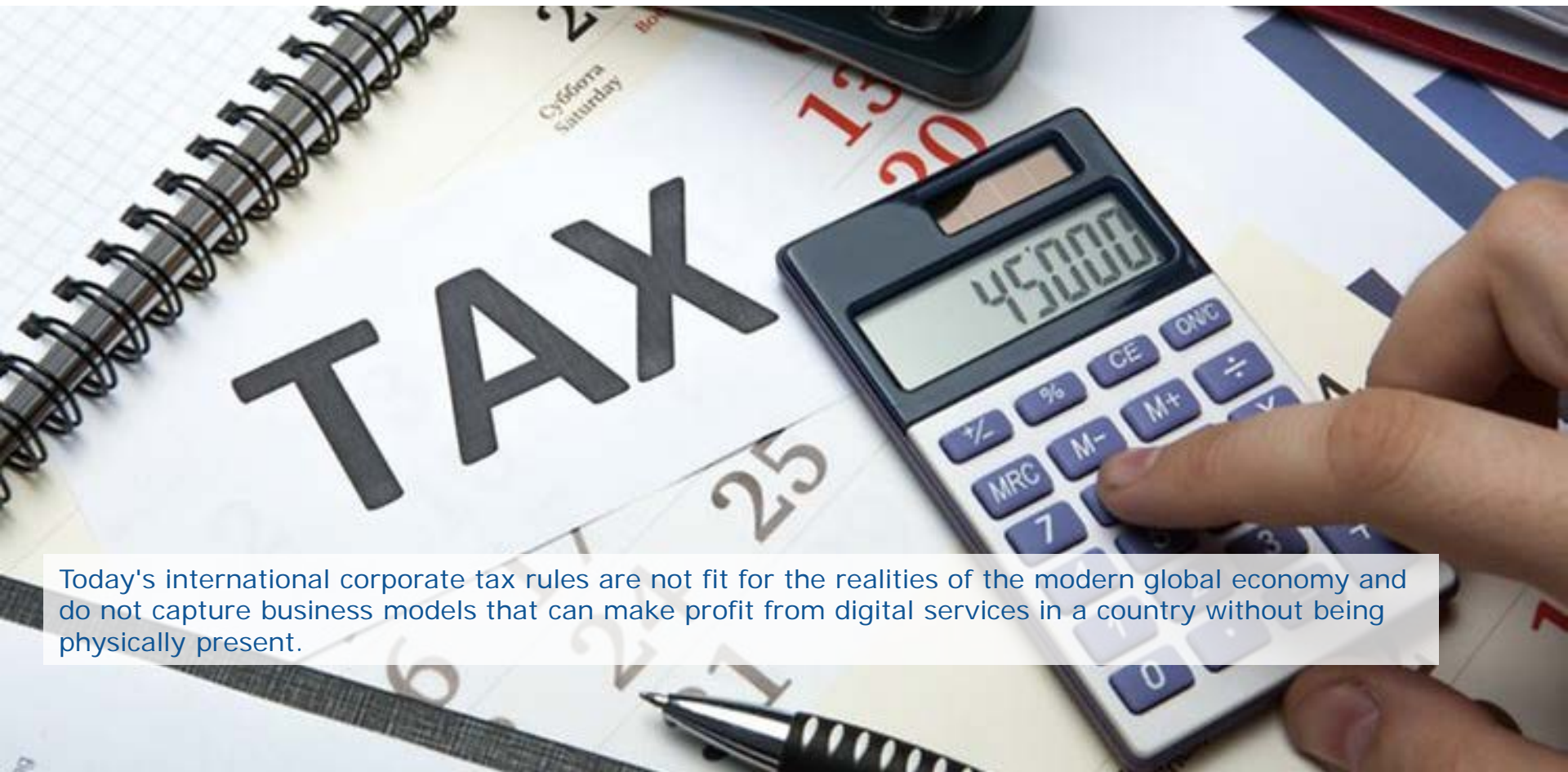
Economy of digitalization

Module 4.1: Intangibility of the digitalization



Economical challenges Digitalization brings





Today's international corporate tax rules are not fit for the realities of the modern global economy and do not capture business models that can make profit from digital services in a country without being physically present.



Traditional Economy



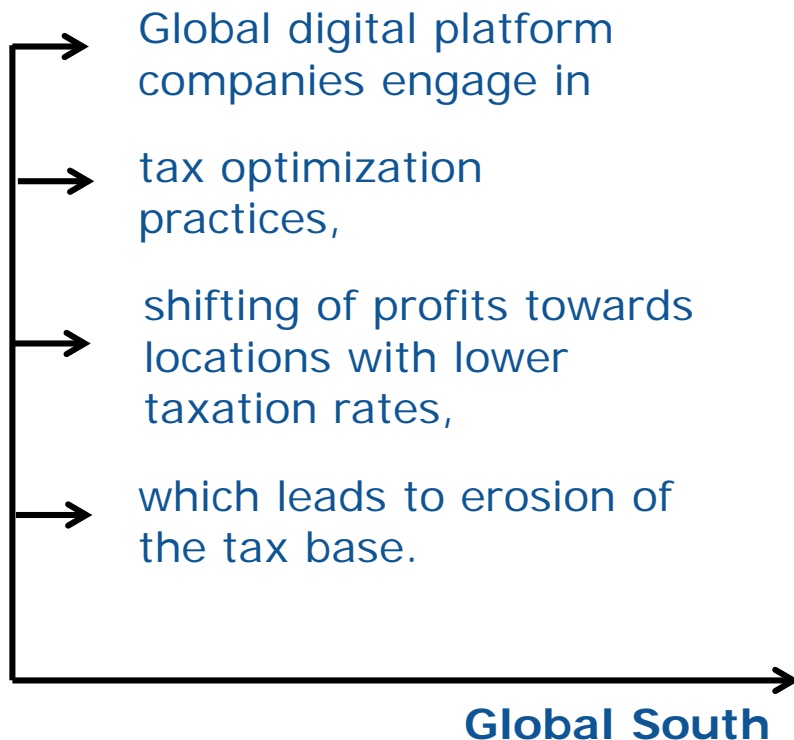
Digital Economy



1. Where to tax non-resident digital businesses?
2. How to assess intra-group transactions?
3. How to classify digital goods?
4. How to identify taxpayers?
5. Where and how to collect taxes?

Taxation

The digital economy raises challenges for taxation



- Developing countries do have low tax rates
 - But lack digital infrastructure (including legislation and trust) to attract big digital firms
 - While these markets become more and more important
 - Taxes are paid somewhere else
- 

Taxation

Approaches for taxing digital businesses

- *Tax erosion:*

- **OECD** inclusive Framework on tax base erosion and profit shifting (BEPS)



- 134 countries work on a common system
 - to re-allocate **some** profits and corresponding taxing rights to countries and jurisdictions **where MNEs have their markets**, instead of a physical presence. New rules shall be set deciding
 - (1) where tax should be paid (“nexus” rules) and
 - (2) on what portion of profits they should be taxed (“profit allocation” rules).
 - **Agreement to be reached by 2020**

- **EU efforts**



- have been blocked by the Nordic countries, which prefer a solution on the OECD / global level
 - Countries like France, Spain or Austria therefore introduce a digital tax on national level and look to replace this legislation as soon as an agreement is reached on OECD level

- *Tax increase*

- More tax-income thanks to better economy,
 - More data and higher transparency and accountability
 - the transition of informal to formal work thanks to online platforms (see GIG-Example)

EU Proposal 1: A common reform of the EU's corporate tax rules for digital activities

Profits are registered and taxed where businesses have significant interaction with users through digital channels.

Where to tax?

Under the proposed new rules, companies would have to pay tax in each Member State where they have a significant digital presence, reaching **one** of the following thresholds:



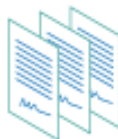
Revenues from supplying digital services exceeding €7 million



Number of users exceeding 100,000



Number of online business contracts exceeding 3,000



What to tax?

The attribution of profit will take into account the market values of:



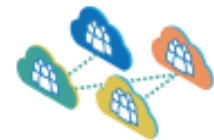
Profits from user data

(e.g. placement of advertising)



Services connecting users

(e.g. online marketplace, platforms for "sharing economy")



Other digital services

(e.g. subscription to streaming services)



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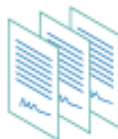
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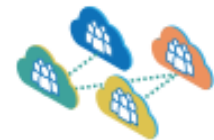
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Proposal 2: An interim tax on certain revenue from digital activities

An indirect tax would apply to **revenues** created from certain digital activities which escape the current tax framework entirely.

An interim tax of 3% on revenues made from three main types of services, where the main value is created through user participation.



Online placement
of advertising



Sale of collected
user data



Digital platforms that
facilitate interactions
between users

... and provided by businesses with:



Total annual worldwide
revenue above

750 M€



Total annual revenue from
digital activities in the EU above

50 M€

Expected outcome: An estimated €5 billion in revenues a year could be generated for Member States if the tax is applied at a rate of 3%.

Taxation

Taxing the user, not the company

Trend in Africa: Consumer related taxes

Government Benin proposed a tax on over-the-top-services (OTT):

- **5% tax** on the pre-tax price for voice, SMS and internet services
- **5 CFA fee per MB** for data used to access social media and OTTs

Benin reversed the policy quickly after protests.

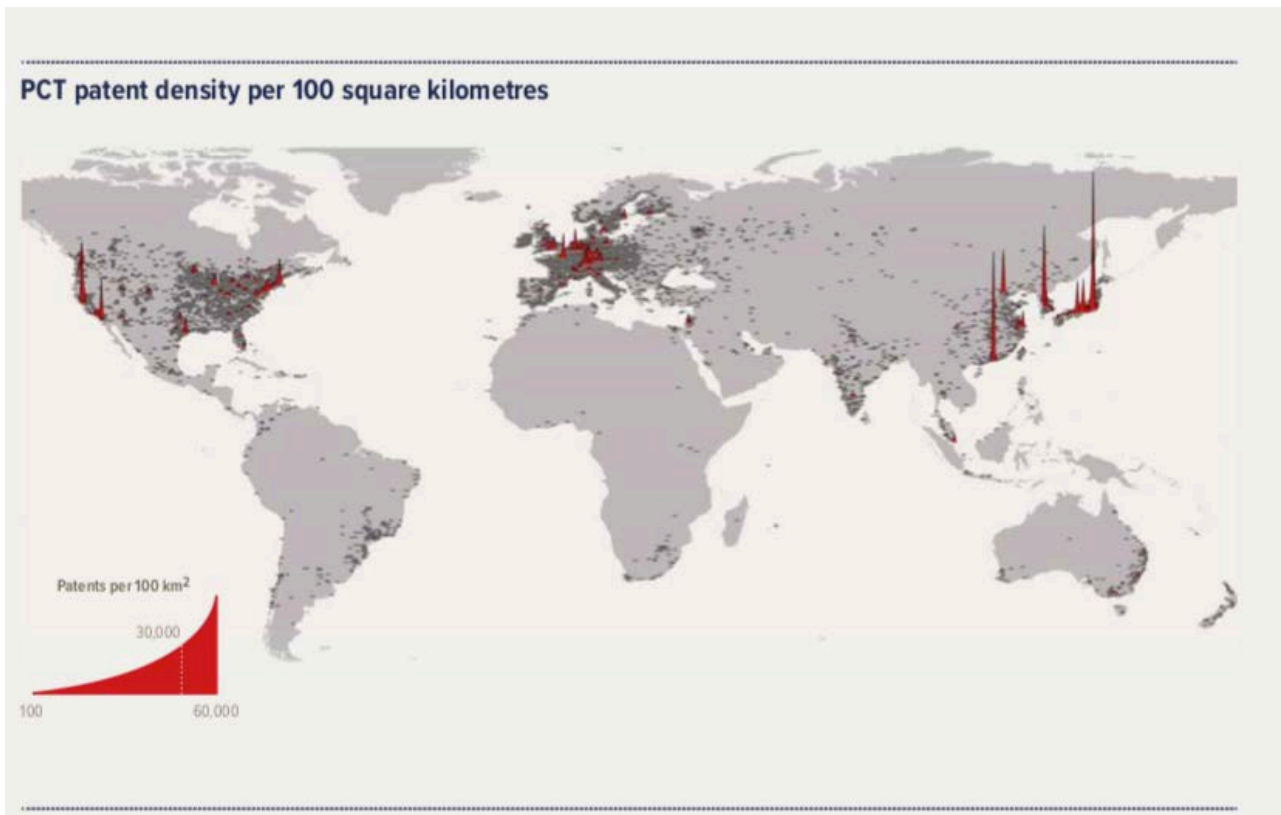
A research by A4AI also highlighted the possible negative impact of such models. The initiative calls for more **holistic assessment of the impacts of taxes**, particularly how they may **decrease internet use** and have negative spillover effects for the economy as a whole.

Something else intangible



Intellectual Property Rights

Status quo in Africa



Patent Cooperation Treaty (PTC) is an international law treaty.
Source: Table taken from the International Innovation Index 2018

Where African economies fall short is in two predominant areas:

First, there is a lack of legal enforcement of IP rights.

Second, simply not enough people in Africa are registering their IP.

In sum, the current local systems in place to register IP are inaccessible, time consuming and difficult to use.

Intellectual Property Rights

Relevance

Intellectual Property Rights (IPR) in the digital age:

- encourage new ideas
- affect innovation performance
- provide incentives for investment and for universities to transfer knowledge
- impact how individuals and firms can access and exploit existing knowledge on efficient terms



→ The data-driven economy builds on the knowledge-based economy, in which the essential capital is intellectual property (IP).



Intellectual Property Rights

Pragmatic approaches

1. Don't File Patents.
2. Run Lean And Fast. ...
3. Separate Teams. ...
4. Open-Source It. ...
5. Avoid Joint Ownership. ...
6. Get Exact-Match Domains. ...
7. Safeguard With Strong Access Control. ...
8. Get Strong Non-Disclosure Agreements.



Intellectual Property Rights

EU Copyright Directive


15

17

- 1) What do you know about the EU Copyright directive?
- 2) What do you think of it?
- 2) Where do you see the relevance for developing countries?

Intellectual Property Rights

Example: Microsoft4Afrika

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Turning Today's Ideas Into Tomorrow's
Solutions

Due to her unique challenges and the digital revolution, Africa has the
potential to give the world more solutions than ever.

