eu travel tech

eu travel tech views on the European Commission's Inception Impact
Assessment to establish a EU digital levy

In this paper, eu travel tech sets out its initial views on the possibility of the EU applying a digital levy to digital companies, based on the European Commission Inception Impact Assessment.

eu travel tech acknowledges that today's world economy has been fundamentally transformed, with digitalisation enhancing and permeating all sectors. Notwithstanding the resulting benefits to businesses and consumers, whilst adapting to fast-paced global markets, this digital transformation inevitably brings challenges, such as the need to ensure that tax systems reflect the new realities of a digital economy.

At eu travel tech we hold in high regard the global community effort to address these tax challenges of the digital economy, and strongly support the European Commission in giving preference to an OECD agreement on an international solution, as previously announced by Vice-President Dombrosvskis and Commissioner Gentiloni.[1] We believe that such a solution is crucial to ensure a level playing field on tax internationally, and to avoid negative and discriminatory implications for the EU economy.

As such, we are concerned about the unintended consequences that initiatives such as a new EU digital services tax ('DST') or a EU digital levy could have, ultimately harming both the competitiveness of the markets and consumers.

EU travel tech members, having felt significantly the effects of the pandemic, share the urgency of identifying measures that support recovery and return to growth. At the same time, we call for caution with introducing a digital levy that could go counter to that objective.

We believe that the considerations presented in this paper would help design a balanced solution that avoids negative and discriminatory implications for the EU economy.

[1] https://www.politico.eu/article/dombrovskis-hopes-to-save-mercosur-deal/ and https://www.europarl.europa.eu/doceo/document/E-9-2020-002726-ASW_EN.pdf

We would recommend that the European Commission takes into account the following concerns, if/when designing a EU digital levy:

- The levy has the potential to discriminate against certain digital companies

The Inception Impact Assessment[2] indicates the need to promote '*fairer and more open digital markets for everyone'* and that *'the ineffective taxation of companies engaging in the digital economy (…) impact(s) the level playing field between these companies and those of other sectors of the economy'.*

While we agree that the accumulation of market power of certain digital platforms is a problem that needs addressing, the competitiveness of digital markets is the main focus of the proposed Digital Markets Act[3] and attempting to solve this with a digital levy would have unintended consequences for a number of other economic players.

Furthermore, if on the one hand the European Commission approach shows willingness to target specifically the so-called digital companies, on the other it recognises that digitisation is pervading the whole economy. As a result, the proposed digital levy could apply a blanket approach to any company that is deemed digital, while leaving out companies that are digitising and provide similar services.

This is particularly important for the online travel sector: online in-house direct distribution of travel (such as airlines, hotels) and indirect distributors (such as online travel agencies/online intermediaries and metasearch companies), compete within the same market. In fact, major international hotel chains or airlines often capitalize on their size by pulling all their brands in a single online channel (usually, the hotel group/airline website) and then sell products and services directly to consumers. A levy applicable to certain travel companies deemed to be 'digital' but not others would effectively cause distortion of competition in the market.

As the economy digitalises, with most 'bricks and mortar' companies having an online presence, the logic behind imposing the levy on some digital companies, but not others, carries little weight. As the OECD has itself stated in the BEPS Action 1 report '*the digital economy is increasingly becoming the economy itself, it would*

[2] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12836-A-fair-competitive-digital-economy-digital-levy

[3] https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-markets-act-ensuring-fair-and-open-digital-markets_en

be difficult, if not impossible to ring fence the digital economy from the rest of the economy for tax purposes'[4].

- The levy would appear to be built on the premise that all digital companies benefit from an advantageous tax regime & have increased sales during the COVID-19 crisis.

According to the Impact Assessment document[5], the future introduction of the digital levy is justified because *'lower taxes, or even no taxes at all, paid by companies engaged in the digital economy weaken the sustainability of public finances'*, and that *'this is particularly blatant at a moment when the EU and Member States are facing a greater fiscal and debt burden as they tackle the COVID-19 crisis and support a recovery'.*

While eu travel tech shares the view that it is important to find a fair and equitable solution for business taxation in a digitalised world, it is unreasonable and arbitrary to assume that all digital companies do not pay a fair amount of taxes and that their businesses have not been impacted by the pandemic.

Certain companies have grown stronger since the beginning of the health crisis[6] as restrictions to movement forced people to move their work, shopping or entertainment online. However, travel tech companies are an example of a sector that does business online and has suffered severely from the consequences of the COVID-19 outbreak. The Covid-19 global pandemic has resulted in a significant drop in profits and revenues for travel companies. WTTC estimates that 75 million jobs related to tourism and travel are at risk worldwide, 27 million being in Europe. Persisting national and local travel restrictions mean that recovery may take a significant amount of time. At present, eu travel tech members heavily depend on governments putting in place the right frameworks so that consumers have the confidence to start booking and travelling again. In this context, recovery in the travel sector may be longer than the projected recovery in other business sectors.

Considering this, any future EU proposal should not disregard the difficulties the online travel sector, and the broader travel industry are facing at the moment, and it would be very damaging to introduce additional tax obligations at a time when the sector is struggling to stimulate and bring back demand.

[4] https://read.oecd-ilibrary.org/taxation/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report_9789264241046-en#page13
[5] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12836-A-fair-competitive-digital-economy-digital-levy
[6] https://unctad.org/system/files/official-document/dtlstictinf2020d1_en.pdf

In that respect, a 'safe harbour' threshold for low-profit or loss-making groups should be considered. Based on each taxpayers' taxable capacity, in the interest of tax fairness and considering the economic conditions impacting the online travel sector, we consider this provision to be particularly important.

Furthermore, it is important to specify whether the digital levy would be temporary to help off-set the effects of the pandemic, and if so, for how long it would apply (for example until the global OECD solution is implemented).

- The levy should recognize the different market power of digital players and potential impacts on supply chains

Just as it happened with national DST initiatives, the costs of a EU digital levy would likely be passed on to the consumers.
Indeed, large digital companies have passed on the costs of national DSTs to their users (i.e. suppliers, advertisers, content providers) while simultaneously competing with them in the same market. For example, Google announced in September 2020 that it would impose higher Adwords fees in the UK, Austria and Turkey as of November 1 2020[7], passing on the costs of the DST bills to the advertisers on their platform. Similarly, Amazon declared that it will pass along costs of France's digital service tax. [8]
This creates a situation where online travel companies are 'squeezed' at both ends, by incurring increased costs from large digital players and being hit with the tax themselves. This is not a tenable nor fair outcome. We urge policy makers to be mindful of this experience when considering a digital levy. The digital levy, either in the form of a digital tax, a top-up corporate tax or a transaction tax, may eventually leave little other option to businesses than pass on the costs further down the supply chain.

In view of all of the above, we would urge policymakers to meticulously consider the scope and effectiveness of this levy as well as its interaction with a potential OECD solution and existing national DST measures. This is vital in order to avoid duplication and disproportionate costs on businesses. While recognising the need to identify sources for the recovery from Covid-19, EU travel tech members caution against measures that may instead have negative consequences on the EU's longer term competitiveness.

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eu travel tech represents the interests of travel technology companies. eu travel tech uses its position at the centre of the travel and tourism sector to promote a

[7] https://www.ft.com/content/fda648aa-bb52-4ab2-aa18-46b5023cb893
[8] https://edition.cnn.com/2019/08/19/business/amazon-france-tax/index.html

consumer-driven, innovative and competitive industry that is transparent and sustainable. Our membership spans Global Distribution Systems (GDSs), Online Travel Agencies (OTA), Travel Management Companies in business travel (TMCs) and metasearch sites.