



# Euro Tax Flash from KPMG's EU Tax Centre



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## Digital economy updates from the EU institutions

[European Parliament ECON committee vote on digital economy resolution – Legislation on reporting requirements for digital businesses published \(DAC7\)](#)

On March 23, 2021, the European Parliament's Committee on Economic and Monetary Affairs (ECON) adopted a motion for a European Parliament resolution on "Digital Taxation: OECD negotiations, tax residency of digital companies and a possible European digital tax. The report sets out the European Parliament's views ahead of the final negotiations on a global reform within the OECD/G20 Inclusive Framework.

On March 22, 2021, the Council of the European Union adopted the rules revising the Directive on administrative cooperation in the field of taxation (the DAC). The Directive – Council Directive (EU) 2021/514 (DAC7), was published in the Official Journal of the EU on March 25, hence will enter into force on April 14, 2021 and will allow member states' tax authorities to collect and automatically exchange information on income earned by sellers on digital platforms, from 2023 onwards.

## ECON vote on digital economy resolution

The motion was previously discussed in the Parliament's FISC Subcommittee (permanent Subcommittee on Tax Matters) – see E-news [Issue 128](#) – where 243 amendments tabled to the draft report were reviewed.

The two co-rapporteurs for the draft resolution noted in an explanatory statement that the context for drafting the report, i.e. the impact of the coronavirus (COVID-19) pandemic on the budget

revenues of Member States, has increase the need for a swift agreement at the G20/OECD level on taxing the digitalized economy.

The draft resolution focuses on three areas, as indicated below.

#### *Addressing challenges arising from the digitalization of the economy*

The document notes that existing international tax rules, mainly focused on a nexus triggered by a physical presence, are no longer fit for a globalized and digitalized economy. As such, there is a need to introduce the concept of a virtual permanent establishment, whereby a tax nexus is based on where the online platforms and consumers of digital services are located. For this purpose, an international agreement should be reached, aiming for a fair and effective tax system.

#### *A global multilateral agreement: the preferred but not the only way forward*

Whilst welcoming the efforts undertaken at G20/OECD level, the resolution calls for a swift agreement, by mid-2021, and expresses support for a holistic solution, where both Pillars are adopted. In the ECON's view, the rules should apply to large multinationals and should avoid creating additional burdens for small- and medium-sized enterprises.

The document includes a call on the Commission and the Council to intensify the dialogue with the new US administration on digital tax policy, with the aim of finding a common approach in the framework of the G20/OECD before the end of June 2021.

#### *A call for immediate EU action*

The report further notes that, irrespective of the progress of negotiations at G20/OECD level, the EU should be ready to roll out by the end of 2021 its own solutions for tackling the challenges of the digitalized economy. Any solution proposed by the EU should consider compatibility with the G20/OECD BEPS 2.0 initiatives.

As a first step, the Commission is invited to introduce an EU digital services tax, combined with a phasing out of unilateral domestic measures taken by Member States in this area.

The resolution expresses concerns that the Council did not agree with previous proposals put forward by the European Commission, such as those on digital services tax, the significant digital presence, the Common Corporate Tax Base and the Common Consolidated Corporate Tax. Member States are called to reconsider their position on these proposals, and to consider the possibility of adopting them under a qualified majority, if no unanimous agreement can be reached. Furthermore, the resolution calls for a stronger role for the European Parliament in legislative procedures in the area of taxation.

#### *A digital levy as a new EU own resource*

The resolution concludes by welcoming the European Council conclusions of July 21, 2020, regarding the EU's own resources – see E-news [Issue 121](#) – including an EU-wide digital levy.

## EU Tax Centre Comment

The European Parliament is expected to cast their vote on the draft motion in the plenary session scheduled for April 24, 2021. If adopted, the resolution would not be binding on the Council and European Commission, therefore the adoption of any changes requested or suggested by Parliament in its resolution is at the discretion of the two institutions.

## DAC7 update

On March 22, 2021, the Council adopted rules under which the exchange of information under DAC is extended to digital platforms. on which political agreement on these rules had been reached in December 2020 – see KPMG EU Tax Centre's [ETF 437](#). Whilst the European Parliament recommended changes to the text agreed by the Council – see E-news [Issue 128](#) – these were not considered on the final version.

The rules impact both EU platform operators, as well as non-EU entities, if the latter facilitate reportable commercial activities of EU sellers/providers or the rental of immovable property located in the EU. Reportable activities include the rental of immovable property, personal services, sale of goods, and rental of any mode of transport. The reporting obligations apply with respect to cross-border and local commercial activities. Operators falling within the scope of DAC7 are required to collect and verify in line with certain due diligence procedures the information from sellers/providers on their online platform. Subsequently, certain information will be reported to the sellers/providers and to the relevant tax authority. Such information includes, inter alia, an overview of amounts paid to sellers from the reportable activities and platform fees and commissions incurred. For more details please refer to KPMG EU Tax Centre's [ETF 437](#).

Member States have until December 31, 2022 to transpose the amendments into national law . The Directive will apply from January 1, 2023 throughout the EU member states and the first reporting of data will be required by January 31, 2024.

Should you have any queries, please do not hesitate to contact [KPMG's EU Tax Centre](#), or, as appropriate, your local KPMG tax advisor.



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