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EU tech titans tax plan riles Washington

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The EU wants to change how it tax US tech titans to ensure all countries get a fair share.

European Union plans for a digital tax on US tech giants like Facebook, Amazon and Google sparked fresh trade war tensions with Washington on Friday.

Brussels will next week unveil proposals aimed at recovering billions from multinationals that divert European earnings to low-tax countries, the latest front in an offensive by Brussels against Silicon Valley giants.

The European Commission will propose that "big tech" should be taxed on overall revenue in the bloc and not just on their profits, at a rate somewhere between two percent and five percent, according to a draft obtained by AFP.

EU Economic Affairs Commissioner Pierre Moscovici says the plan that he will announce on Wednesday will "create a consensus and an electroshock" on taxing digital firms.

US Treasury Secretary Steven Mnuchin warned against jeopardising the major contribution tech firms make to US jobs and economic growth.

"The US firmly opposes proposals by any country to single out digital companies," Mnuchin said on Friday.

The EU plan comes as Brussels and Washington are at odds over US President Donald Trump's intention to impose steel and aluminium tariffs.

Brussels is seeking an exemption from the tariffs but is preparing to retaliate if Trump goes ahead.

The tech titans plan will target companies with worldwide annual turnover above 750 million euros ($924 million), such as Google, Facebook, Twitter, Airbnb and Uber.

Spared are smaller European start-ups that struggle to compete with them. Companies like Netflix, which depend on subscriptions, may also avoid the chop, a source close to the issue told AFP.

Critics say tax-avoidance strategies used by the California tech giants deprive EU governments of billions of euros while giving them an unfair advantage over smaller rivals.

Under EU law, firms like Google and Facebook can choose to book their income in any member state, prompting them to pick low-tax nations like Ireland, the Netherlands or Luxembourg.

That can mean other nations in the bloc miss out on tax revenue from the US firms, even though sales in those countries may account for a bigger share of the earnings.

Turning the screw

Under the EU plan, revenue from the digital tax would be fairly distributed to where the companies actually operate, according to the level of activity in those countries and not the level of booked profit.

Brussels will unveil the plan on the eve of the March 22 European Union summit in Brussels, which is also set to debate the issue, and ahead of an April G20 summit of the world's most developed economies.

The Organisation for Economic Cooperation and Development, a club of rich nations, released Friday a downbeat report requested by the G20 ahead of a meeting of its finance ministers next week.

The group saw little chance of bridging "divergent views" on digital taxes in the short or long term, but pledged its member countries will work "towards a consensus-based solution".

Despite opposition to a digital tax, Mnuchin said Washington sought to "put the international tax system on a more sustainable footing."

France, Germany, Italy, Spain and Britain—the five EU G20 members—are pushing first for a European solution that can set an example for the rest of the world.

French President Emmanuel Macron, who is lobbying for a series of reforms to the EU in the wake of the Brexit vote, has pushed hard to take on the big US tech firms.

"Our international partners are not moving fast enough to meet the challenge of digital tax," said Moscovici, a Frenchman.

But for the plan to become reality it must be unanimously approved by all EU countries, and it remains to be seen whether the big states can win the support of smaller ones that offer the tax breaks to the tech titans.

The EU has turned the screw on US tech giants recently, ordering Apple in 2016 to repay 13 billion euros in back taxes to Ireland, and hitting Google with a record 2.4-billion-euro fine in June last year for illegally favouring its shopping service in search results

The EU has repeatedly pledged to crack down on tax avoidance in recent years after the "LuxLeaks" scandal showed how multinationals divert profits through low-tax countries, and the Panama Papers uncovered huge offshore movements.