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UK ratchets up pressure on US tech giants with new tax

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Dark clouds on the horizon for tech companies in Britain

Britain could become the first major world economy to impose a specific tax on tech giants, as international negotiations to overhaul analog-era global tax regulations drag on.

The announcement was made in a budget speech on Monday by finance minister Philip Hammond, who said:

"The UK has been leading attempts to deliver international corporate tax reform for the digital age.

"A new global agreement is the best long-term solution. But progress is painfully slow. We cannot simply talk forever.

"So we will now introduce a UK Digital Services Tax," Hammond added.

Chancellor of the Exchequer Hammond said Britain would at the same time continue to engage with international partners to come up with a new global agreement, saying this was "the best long-term solution".

Zuckerberg as Dracula

The 2.0-percent tax levy on sales made by large digital companies in Britain would apply to search engines, social networks and e-commerce channels, the UK Treasury said.

There has been public outrage over relatively low levels of tax paid in Britain by giants such as Amazon, Facebook and Google.

Hammond said the tax would apply to companies with more than £500 million (561 million euros, $638 million) in global revenues and was expected to raise £400 million a year from 2022.

The announcement in the week of Halloween prompted The Sun tabloid to report the news with photo-montage depicting Facebook chief Mark Zuckerberg as Dracula.

The paper said Hammond had "put the bite on tech giants sucking the lifeblood from British high streets".

Experts have warned about the potential impact of the tax.

"It's a very bold and surprising move," said Tej Parikh, a senior economist at the Institute of Directors, told the BBC.

"There's always a risk you could hamper the competitiveness of the country," he said.

'Modernise tax rules'

Some smaller economies have announced similar initiatives.

Spain's socialist government earlier this month approved a tax on big internet companies as part of its 2019 budget, hoping to raise up to 1.2 billion euros ($1.4 billion) next year.

The tax, which still requires parliamentary approval, will "modernise tax rules" for 21st-century businesses, Finance Minister Maria Jesus Montero told reporters following a weekly cabinet meeting.

It calls for a 3.0 percent tax on online advertising, sales of user data and online platforms.

The tax will be levied on companies with annual revenues of over 750 million euros worldwide, and at least 3.0 million in Spain.

In Italy, a "web tax" of 3.0 percent was adopted by lawmakers last year but the new government has changed tack and said it prefers to wait for EU-wide regulation.

Talks have been ongoing on a European level since March.

The European Commission, the EU's executive arm, has proposed a 3.0 percent tax on tech giants while an international solution is being worked on by the Organisation for Economic Co-operation and Development.

But the need for unanimity on an EU level makes progress difficult.

Several countries are opposed to the project, most notably Ireland where several tech giants have their European bases.

In Asia, Singapore has announced a digital tax but its effect is limited. India is also working on a tax on tech giants, while Malaysia is expected to unveil its own proposals on Friday.

"In this complicated landscape, people have contradictory interests and therefore contradictory positions," said Pascal Saint-Amans, head of the OECD's tax policy and administration centre.

'Unfair treatment'

A Europe-wide tax was originally called for by Germany during its presidency of the G20 starting in December 2016, Saint-Amans told AFP, but then US president Barack Obama refused to discuss it.

Under President Donald Trump, the US administration has shown "active and engaged support" on the issue, he said.

Saint-Amans said that "the global solution would be to change all tax regimes, including in the United States, China and Japan... to be able to tax a company that has no physical presence in your country".

As the world waits, European tech companies like Spotify, Booking.com and Zalando have expressed serious concern about a possible EU tax in a letter to European finance ministers made public on Tuesday.

They argued that big US tech firms could absorb the costs, while European ones would struggle, warning that a digital services tax "will have a disproportionate impact on European companies, resulting in unfair treatment".

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