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Digitalization, Value Creation
&
“Fair Taxation”

Structure of Digital Business Models

Highly digital business models are like all other businesses:

Best product/service at best price at the right place at the right time wins – same for all

There are 4 principal models

1. Access (to market place) - Uber, Air B&B
2. Access to Content – Spotify, Deezer
3. Social Media/Advertising, Facebook, Google
4. Remote Sales - Amazon

General Characteristics

- Substantial investments -- in highly skilled employees and technology
- Need big scale/very high revenue to operate
- Many years of investment to become profitable

Value Creation

There is NO! difference where value comes from between highly digitalized business models and any other business model

Value in business starts and ends with talented people;

- **entrepreneurs, and**
- **talented employees**

Value created by businesses

- Products and services which if successful could give rise to to the **net profit**
- Which is subject to **corporate income tax** – where the value giving rise to the net income has been created

Value created by the market

- The value created in the individual national market is **consumption**
- Which is taxed through **consumption taxes**

Specifically on Data & Value Creation

- **User engagement is what makes a digital business succeed**

- **Understanding and meeting user needs and preferences is achieved by**
  - **judicious data collection and**
  - **smart analytics**

Raw –un-structured and/or un-processed data has no value in its own right

The value of data comes from highly skilled and talented people:

- Determining which data are relevant to collect
- Developing systems to collect and store the data
- Creating tools to analyze the data and performing of the analysis
- Use of the analysis results to make decisions adding value to the business in many different ways

S0?

Payment of taxes where revenue is generated?

- Generation of revenue = consumption – should be taxed with consumption taxes
- Consumption is in many many countries already taxed with (very high) consumption taxes/VAT
- In EU – MOSS (which should be role model for the rest of the world)

Thus this is already taken care of - one down ☺

Payment of taxes where activities take place?

- The Arm's length principle – concerns corporate income tax
- Significant people functions = Activities(Key activities)
- OECD BEPS Actions 8-10 – Taxation in line with value creation = activities

Thus this is already taken care of also – woohoo, two down ☺

However!

Politically in EU and other countries there is desire to collect more taxes from digital business.

- **This pressure seem to have passed the point where we now are looking at fundamental changes to principles of international taxation**
- **In short the allocation of taxation rights will change towards more corporate tax due in countries of sales/consumption - where the market is.**

Spotify supports this change

- **Technically – long term – there will be rules on a so-called "digital permanent establishment" = taxable presence for corporate income tax.**

Spotify have yesterday in Brussels committed substantial resources to both the EU and the OECD to support the development of these new and very complex rules

STAY TUNED ☺

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