Revenue Opening Statement to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
1 May 2018

My name is Kate Levey and I am the Principal Officer in the EU Branch of the International Tax Division in Revenue and I am joined today by my colleague Maeve O'Malley who works directly on international proposals on taxation of the digital economy.

On behalf of the Revenue Commissioners, I would like to thank the Committee for the invitation to assist Members in considering the EU legislative proposals on Taxation of the Digital Economy.

I thought it would be helpful at the outset to outline very briefly Revenue's role in relation to tax policy and these specific proposals.

Revenue's Role in Tax Policy

In addition to Revenue's core role of administering the tax system, Revenue also assists the Department of Finance in the formulation of tax policy. Our experience of administering the tax system enables us to advise in particular on the practicalities of proposed measures, including avoidance and evasion risks and how they can be mitigated.

Each of the proposed Directives that have been put forward by the European Commission will be discussed in detail at the relevant Council working group at the EU. Revenue will participate in these discussions with our colleagues from the Department, providing the necessary support on technical, administrative and Exchequer implications. In the event the Directives are agreed, Revenue also has an important role in transposing tax Directives into domestic legislation.

Revenue role in relation to Exchequer implications includes providing statistical and economic analysis and costings to the Department, the Government and the Oireachtas. While it will not be possible to produce an estimate of the cost of the Commission's longer-term proposal on the corporate taxation of a significant digital presence until the profit allocation rules in the proposal are further elaborated, Revenue has been working to produce an estimate of the potential cost of the Commission's interim proposal for the introduction of a Digital Services Tax since the proposals were published on 21 March last.

Potential Cost of the Proposed Directive on a Digital Services Tax (COM (2018) 148 final

If the proposal as currently drafted were to be adopted, DST would apply at a rate of 3% to revenues from a narrow range of digital services:

- Digital advertising;
- Intermediation services; and
- The transmission of data collected about users of a digital interface.

The tax would only apply to companies with total annual worldwide revenues above €750 million and total annual revenue from the relevant digital activities in the EU above €50million.

The EU Commission has estimated a yield of approximately €5bn from the DST which implies that the new tax would apply to c.€166bn in digital services supplied in the EU market. Unfortunately, the Impact Assessment that was published with the proposals does not itself contain the underlying data on which the figures are based. We will, however, continue to explore the basis for this estimate.

In the interim, Revenue has considered the data sources available to us internally and established a *preliminary* estimate of potential cost in respect of the DST Directive. This is the cost arising by virtue of DST paid in respect of transactions and revenues across EU Member States being deductible from corporate profits that are charged with tax in Ireland.

While the Directive does not provide explicitly for the DST to be deductible against corporate profits, the analysis is based on the assumption that it would, in fact, be fully deductible against taxable income in Ireland.

Using data on supplies of services from Ireland to other EU countries which is reported by taxpayers under the VAT Information Exchange System (VIES), an analysis of around 20 companies engaged in digital activities was performed - each of which has gross revenues in excess of €750 million and EU revenues of at least €50 million. These companies had combined EU revenues of c.€56 billion in 2017 with the top 10 accounting for 95% of the total (c.€53bn).

It is important to emphasise at the outset that it is not possible to determine the proportion of the revenues of each company that would be subject to DST or, in fact, whether some of the companies would be subject to DST at all - that question can only be answered definitively by the company themselves. Given the relatively narrow scope of the DST, it is reasonable to assume that a number of the approximately 20 companies may not be impacted by the DST at all. The analysis therefore focuses on the top 10 companies which account for 95% of total revenues.

Based on an analysis of the activities of these 10 companies, it is estimated that the DST could apply to between 60% and 80% of their revenues. This gives a range of potential cost between €120 million and €160 million, in respect of the deductibility of DST paid in Member States.

Given that the Commission proposals were only released very recently, it is very important to emphasise the preliminary nature of this initial analysis and I would highlight a number of caveats in particular:

- It should be noted that because there is no Irish tax liability associated with VIES reporting, the accuracy of the data is not verified in all cases,

- To the extent that the analysis may not yet have identified all digital supplies that would be subject to the DST, it may underestimate the potential cost to some degree.

- On the other hand, to the extent that DST may not always result in a matching reduction in Irish taxable income - for example in circumstances where the taxpayer concerned is in a loss-making position or does not bear the full burden of the DST - it may also overestimate the potential cost to some degree.

- The estimates do not take account of the potential cost of implementing and collecting the new tax.

Potential Yield from DST

In the time available, Revenue has not been able to identify the relevant data in order to estimate the potential yield to the Irish Exchequer from the DST (the VIES data covering only supplies of services to other EU Member States).

However, if we were to start from the European Commission's estimate of yield, a very simplistic approach would to be to assume that Ireland would receive a proportion of the €5bn commensurate with our population. Taking the Eurostat estimate of EU population in 2017 of 511.8 million people and an estimate of the Irish population of 4.8 million people from the same source gives Ireland as a percentage of the EU total at 0.9%. Applying that to the €5bn yield gives an estimated yield for Ireland of c. €45m. It is particularly important to highlight that this estimate is based entirely on the Commission's estimate and not supported by any Revenue data at this stage. I would add, to avoid any doubt, that this broad €45m. estimate is separate from, and has not been taken into account in estimating, the potential cost – already mentioned – of the deductibility of DST ranging from €120m. to €160m.

I would like to thank the Members for their attention at this stage and say that we are happy to assist the Committee in any way we can today in its consideration of these EU proposals.