# France’s Digital Tax Bill

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The new economy's stakeholders cannot be free riders in today's world, because the new economy also creates disruption and inequality. It is disrupting communities and creating situations that call for public action to provide compensation and support. Therefore it is legitimate and right to ask those amassing profits from the new economy to contribute to this solidarity.

**Emmanuel Macron**
President of the French Republic
Speech at the Sorbonne

Value creation in the twenty-first century is underpinned by new principles based on mastery of disruptive technologies such as artificial intelligence and data processing. As of today, a handful of players have benefited from a regulatory and tax framework that has enabled them to attain virtual monopolies.

These companies have built up their businesses without ever paying their fair share for the benefits of the public services they use in France and in other countries.

This is why urgent action is needed to adapt our outdated rules to tax value where it is created: in data. This is our response to two injustices: the first affects our small and medium-sized businesses, which pay 14% more tax than digital businesses, and the second affects our fellow citizens, whose personal data are used to create value. It is also our response to inefficient taxation resulting in losses of several hundreds of millions of euros for our public finances.

Our Digital Tax Bill creates a simple, targeted and efficient tax.

Simple, because it levies a 3% tax on digital revenues earned in France.

It is targeted in that it concerns only the largest businesses, with global digital revenues of more than 750 million euros and French digital revenues of more than 25 million euros. It is aimed at the three digital services that generate the greatest value: targeted online advertising, sales of user data for advertising purposes and online intermediation platforms.

It is an efficient tax that will quickly yield 500 million euros to help finance our public services.

We have been seeking a European solution to this challenge for two years. France has been a pioneer in this quest. In a few months, we have managed to convince 23 Member States. But the principle of unanimity has prevented us from achieving an agreement. Therefore, we have decided to move ahead with a national tax, as have six other European States, including Spain, Italy, the United Kingdom and Austria.

We are still fully determined to redefine tax rules at international level as well.

We are establishing a national tax, but in the coming months an international agreement should be reached, thanks to the commitment of the OECD countries and now the support of the United States. We would like the agreement to go into effect in 2020. As soon as the international agreement enters into force, it will replace the national tax we are creating today.

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# Adapting taxes to the digital economy

**Tax rules have not kept up with economic reality.**

Today, value is found in data, but our taxes are still based on businesses' physical presence.

**Unequal taxation of businesses.**

**23.2%** is the average tax rate for a business in the European Union.

**9.5%** is the average tax rate for a digital business in the European Union.

**Unfair taxation of citizens.**

**750 million** Internet searches are made in the European Union every day.

**150 million** posts are uploaded to social networks in the European Union every day.
All these user data create value for digital businesses.

**Inefficient taxation for financing public goods.**

The largest digital businesses have developed without ever paying their fair share for the benefits of the public services they use.

# A simple, targeted and efficient tax

**A simple tax**
A 3% tax on digital revenues earned in France

**A targeted tax**

Three digital services are concerned:

Targeted online advertising

Sales of user data for advertising purposes

Online intermediation platforms

Businesses' revenues from these activities must exceed two thresholds to be subject to the tax.

**€750 million in global digital revenues**

€25 million in French digital revenues

**An efficient tax**

The new tax will quickly yield 500 million euros.

**A temporary tax**

The tax will apply until the OECD finds an international solution.

# Frequently Asked Questions

## Which services will be taxed?

The digital services to be taxed are:

> Advertising targeting services using Internet users' personal and other data

> Sales of data collected online for the purposes of targeting advertising

Services that enable advertisers to display advertisements, such as sponsored links on search engine results pages, will be taxed if the advertisements are targeted according to the users' queries. Sites comparing goods and services that earn their revenues by charging the suppliers offering the goods and services will be taxed on those revenues.

> Sites that connect Internet users to each other for direct transactions between themselves or for other purposes will be taxed.

Such sites could include online marketplaces for goods and services between businesses, between consumers, or between businesses and consumers, as well as dating sites and app stores.

## Which services will not be subject to the tax?

Services that are not primarily designed to connect users to each other. Such services include:

• Direct sales of goods and services, including digital content (e-commerce, on-demand video and music services)

• Messaging and payment services

• Advertising services where advertisements are targeted solely on the basis of the website content and are identical for all Internet users

• Sales of data that are not gathered online or for purposes other than advertising

• Regulated financial services

## How is the tax calculated?

The 3% tax rate will be applied to revenues from the taxable services that can be ascribed to the French market.
It will cover all revenues, regardless of how they are invoiced (commissions, subscriptions, etc.), and regardless of the nature and location of the payer and service provider.

The portion of revenues ascribed to the French market will be calculated on the basis of global revenues, using a coefficient representing the digital presence in France. This coefficient will be derived according to the share of active French users of the service, in light of the specific features of each category of services.

## How will filing and payment take place?

The filing and payment procedures will be the same as for VAT, with a few adjustments.

Tax returns will be filed annually at the end of April. Payment will be made in two instalments, which will both be at least equal to half of the tax due for the previous year. The first instalment will be payable in April of the previous year, and the second at the end of October of the same year. An adjustment will be made when filing the return the following year. Businesses will be allowed to reduce their instalment amounts, subject to some requirements, if they consider that the amounts are greater than their definitive tax liability.

In 2019, when the tax enters into force, a single instalment, which will be double the size of the instalments due in later years, will be payable at the end of October and based on 2018 revenues.

The tax department collecting the tax will be either the Business Tax Department or the Foreign Business Tax Department of the Public Finances General Directorate.

## How is this tax connected to corporate income tax?

Business that pay the new tax and are also subject to corporate income tax in France will be able to deduct their digital tax payment from their taxable income.