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THE DIGITAL COMPANIES' OFFSHORE TAX EVASION AND COUNTERACTION TO IT

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Abstract

The relevance of the study is determined by the severity of the problem of filling the budget in the context of the global economic growth problems, the Internet trade intensification and the digital economy development in general. Digitalization of the world economy opening up new economic prospects at the same time creates new opportunities for tax planning, which is especially true for digital giants. The aim of the research is to identify the most relevant methods of tax policy in the conditions of digitalization and globalization of the world economy. The authors applied the general scientific research methods such as the system, process, situational, the content analysis and other approaches, as well as the specific scientific methods such as the economic comparative instruments and others. The information basis included various statistical and other sources of the national and international organizations, the internet resources and the special literature. The final section provides a brief analysis of the reasons for France to be among the first ranks of the fighters for a more equitable international taxation and rigid opposition to the administration of the Macron against the digital giants of the world economy. Under these terms the perspective vector of further research is the analysis of the concrete governance mechanisms able to provide the efficient realization of such measures in Russia.

Keywords: Taxes, tax planning, digital platforms, digital corporation, Base Erosion and Profit Shifting (BEPS), GAFA tax.

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1. Introduction

It is very difficult to imagine modern life without the Internet. Statistics show that about 20 billion emails are sent every day with social media users sending 150 million messages, search engines handling about 650 million requests, and almost half of the European population being registered with Facebook.

Quite a large number of companies exist and operate on the Internet only without any direct physical presence in targeted companies that do have a physical presence. The Interest in digital companies is logic. Nowadays they demonstrate a prominent growth. In annual terms, it is 14%, against 0.2-3% of traditional business, even the international one and the annual profits growth rates of digital companies amounted to 14% over the past 7 years. In 11 years, the digital company's number in the top twenty firms of the market capitalization ranking has increased from 1 to 9. These specialize in combinations of algorithms, user data and sales. All data and preferences of users of search engines, forums and social networks are further monetized by means of the targeted advertising addressed to the users with the same preferences.

The digital industry is no longer just a branch of the economy, but a force that changes all spheres of human activity. The digital economy has fostered a winner-takes-all logic. It was built around large platforming enterprises these to prove their central role in reshaping the value chains of various economic sectors furtheron. The GAFA (Google, Amazon, Facebook, Apple) alone worth 3 trillion dollars capitalization, making it comparable with states.

The digital transformation is affecting the competitive, economic and geopolitical balances in the world also. The United States is among the leaders to force this transformation closely followed by the developing regions of Asia and South America. European digital enterprises account for the 2% of the global capitalization only, thus the region only to perform as an eyewitness of the digital revolution and a reservoir of consumers and producers of personal data (HM Revenue and Customs, 2018). With their fate to be in the hands of global external platforms the Europeans are worried under the current power distribution and the possibilities of the future economic vassalage of the continent. Meanwhile the contradictions between Europe and the American administration of the day tend multiplying. The economy goes on digitalizing and with the activities optimizating and delocalization the platforms manipulate their transborder operations thus damaging the taxation and the state control over it.

2. Problem Statement

The limited tax revenues as a main source to fund the economic development problem is that of many Nations, with emerging markets especially. Thus, the states hope reasonably for the large companies' contribution, the digital giants especially. However, the global practices prove the economy' digitalization to open new sources of government revenues forms many opportunities for tax evasion (Tax Justice Network, 2019). This is especially true for the large TNCs evolved in digital platforms. This paper is about the analysis of modern practices of the tax planning of the digital TNCs and the methods it to be counteracted by national states.

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3. Research Questions

The main research issues are:

- the organizational structure of the digital platforms' identification to facilitate new methods of tax planning;
- the analysis of the taxation interstate regulation measures after the OECD;
- the Macron government' tax reform evaluation as the most efficient under globalization.

4. Purpose of the Study

The purpose of this study includes:

- determination of the emergence of new tax planning schemes based on digital technologies;
- detection of non-trivial tax avoidance schemes built in the digital age;
- identification of the reaction of different groups of countries to the newly emerged tax evasion schemes;
- taxation optimization under the challenges of the digital age.

5. Research Methods

The paper follows the main scientific logic methods to identify the key features of the global tax planning structure basing on the prospective empirical study. It is organized in the following way:

- the application of the representative and innovative thematic studies related to the implementation and institutionalization processes of tax policies;
- the identification and characterization and of comprehensive approaches and analyzes that constitute mandatory inaugural references that add specific interpretations to various taxation policies of OECD countries;
- the systematization of policies that were persued in the OECD countries and identification of those that have become a reference for countries' tax systems modification.

6. Findings

The paper reveals the important and complicated effects of the gaulalism taxation principles application to the digital domeins with respect to the large corporation performance in a recipient economy affecting these the international economic policy relationship in an unprecedented manner than it could occur in the times before the digitalization.

The digital sector make the profits gained in Internet to be tax-free actually. Meanwhile the digitalized companies use actively the opportunities to structure international business and optimize the tax payments with the effective rate to be 9.5% average against 23.2% of the companies with the traditional business models (Palan, Murphy, & Chavaneaux, 2010). Thus, the state revenues are at risk, because they just can't get the tax of the digital companies profits. In turn, it affects seriousely the public funding of hospitals, schools, public transport, etc. Besides, the taxation deficiencies under the digital economy affect the health and stability of the competitive environment of online - Commerce.

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Another feature of the digital companies taxation is the problem of the identification of the place to charge them and the authorities to realize it. After the "Audit Analytics" the offshore assets amounts of the American enterprises of 2018 were up to USD 2.4 trillion, of which 500 billion accounted to the 5 largest internet corporations, – Apple (USD 230 bln), Microsoft (USD 113 bln), Cisco (USD62 bln), Google (USD 49 bln), Oracle (USD 52bln) (Honeyball, 2016).

The most prominent case is that of the Apple digital giant. Its corporate structure facilitates the money transfer to the low-tax jurisdictions like Ireland with corporate tax rate of 12.5% which is much lower than in the very US. The European Commission states that the country allows the companies to pay the income taxes at an effective rate of 1%, which is a quite favorable condition for Apple to operate in the country in exchange of the jobs' provision. The European Commission calculated the amount of the unjustified tax breaks of Ireland to Apple for €13bln (McKay & Peters, 2018).

The cause is that the value added of digital companies is formed not in one but in various countries with the head office located in Belize e.g., program users in Europe, the capital stored in the Caymans, and IP-Intellectual property rights in Cyprus (Dueñas & Bunn, 2019).The scheme results in a reduction of the tax rate of the large international digital corporations 2 times against its competitors in the traditional economy. The previous taxation after the headquarters' location becomes inefficient.

Thus, many countries lose tax revenues it not to fit the BEPS program to combat the erosion of the tax base. (Base Erosion and Profit Shifting) (Ogle, 2017). Therefore the OECD proposes the G20 and the others to follow the following steps: 1 – to introduce an interim tax for the digital economy in near future, 2 – to develop an integral taxation strategy for the next two years.

The first stage is the operative introduction of an interim tax. The velocity requirement is due to the variety of the measures taken by the participating countries which crumble the market into small parts and complicate the work of business. Meanwhile the OECD proposal is the introduction of the tax to overcome such a failure.

The tax rate is to be of 3% charging the 3 main services domains in which the main value is created by means of the users participation. These are the online advertising, the sales of the collected information about users and the platforms development for the interaction between users. Still there is another requirement for the operation which refers to the minimal total turnover of the company it to exceeds € 750 mln. annually and in the European Union – € 20 mln., respectively. (At the moment, the proposal is to tax companies in each country of its digital presence against one of the following terms at least: the profit of the services provided to exceed € 7 mln.; the number of users to exceed 100,000 people; the number of online business contracts to exceed 3,000.).

Thus, the profits with the targeted advertising(the user data), the services of the users' integration (share economics, online trading platforms, etc.) and another digital services effects (streaming services subscription, etc.) are to be charged. Under such terms the giants will be forced to redeem in nearest future and the startups and small businesses kept able to advance for at least two years without being charged. Meanwhile the OECD particilants and those of the G20 would get the time up to 2020 to agree upon the common steps to implement them to tax the digital economy operations. And for the year of 2020 the OECD countries are to adopt the common taxation standards (Kutera, 2018).

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However, in July the 11th, 2019 the French Parliament accepted definitively a digital corporations taxation, – the so called GAFA tax. After it any IT company with the € 750 mln. or more revenues, of which € 25 mln. gained in France, is to assign 3% the revenues of its local unit to the state budget (OECD, 2019).

Formally the companies from different countries (UK, Germany, China, etc.) become the subject of such a taxation being its main object (or target) the giants from the USA. Its President Mr. Donald Trump has already ordered to study the options for the measures of response, referring primarly to the elevation of the levels of duties on French wines, the aerial vehicles, its parts and/or elements and automotive industries products (Gravelle, 2015). Such an exchange of mutually painful news looks to design the American-European trade war contours to become more tangible. Still we are to recognize the introduction of the GAFA tax of Emmanuel Macron to be beneficial after several aspects.

First, the digital companies taxation is an effective way to replenish the treasury of the state. Further to the preliminary calculations, the funds raised for the budget due to the new tax introduction by the end of 2019 may amount to some € 400-500 mln. Apprised in absolute terms, these figures look not so important great. Nevertheless, nowadays the French government is to count every cent because of the recent crisis consequences, its "yellow vests" backup and the prominent increase of the value of social obligations of the State which are to be funded somehow soon.

Next, by means of the GAFA tax the Government get the opportunity to play the public justice card. In case the authorities charge individuals (middle class especially) for additional funds the discontent outburst will be provoked immediately. Macron intends to manifest his followers that the authorities are able and ready to perform firmly even with the rich, - especially if these are not from France, - which have been almost out of ANY control previously.

However, the main problem is that to discuss with Trump in such an easy way would not work. His main idea which facilitated him the President authorities and is intended to by in use for the future reelection if still relevant is a tough protection of the interests of American business overall. And this is the way Trump is performing promising to put pressure on France sensitive industries and by means of it to menace the entire European Union.

Similar to China, the EU is to get involved in such an endless bargaining with the American President without knowing exactly of where it’s end is and without so much desire to finance such a large-scale trade war (Minor, 2019). Still, unlike China, the Old World's ability to conduct the "combat operations" in the trade war and the whole economic sphere is quite limited due to the slow growth of production in most of the countries of the continent, France first of all.

Bruno Le Maire, the French Minister of Economy and Finance proposed the introduction of some more decent principles of taxation to be accepted by European countries. However, the situation got aggravated by their incapacity to unite themselves definitively around such a proposal – being such a performance tipical for the Europeans.

Thus, the French GAFA taxation scheme look to become a peculiar manifestation of a “digital gaulalism”, being it meanwhile of the worst alternatives Paris worked recently. First. The leadership of the Republic lobbying for the adoption of a single tax at the EU level was resisted by the Scandinavian countries and Ireland which are more favorable for digital corporations with their more proslective

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positions in the world economy. Then the France attempted to negotiate bilaterally with Germany. But Berlin got extremely worry with the prospect of epy tough American response. After this, France decided to act as a kind of frondeur within the EU, a "Skirmisher", i.e. to verify initially the cases of the other states intending to introduce a similar tax (e.g. UK, Italy, Austria). And with this the French economy could know the means and the price of the American digital giants to adjust and of the official Washington to respond.

7. Conclusion

The problems of the digital business taxation prove the problems of states to perceive, accept and adapt to the new challenges developed in the era in the economy' digitalization. This deferred reaction of the authorities is aggravated by the contradictions between European Union and the United States if not to mention China and other countries and regions, generated by the uneven development of the digital economy in them. Obviously, there will be some solution found, but until now no strict recommendation exists and nobody knows for the time it to be elaborated. Under such conditions and making the effective use of the sanctions against Russian economy the national government get a prospective opportunity to optimize its efforts for the digital entities taxation while considering the efforts and the failures of leading economies.

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