Written evidence submitted by Ethical Consumer Research Association

Introduction and Reason for Submitting Evidence

Ethical Consumer Research Association is a Manchester-based non-profit research group helping to make business more sustainable through consumer pressure. As part of our mission, we have worked on addressing tax avoidance by large consumer brands for many years and were involved in setting up the Fair Tax Mark certification scheme in 2013.

We have been organising a consumer boycott of Amazon around its tax avoidance since 2015. We are responding to this call to evidence to inform the committee specifically about a campaign we are running which calls for a windfall tax on tech multinationals to help rebuild post-covid societies.

Below is a link to the Ethical Consumer website and Fair Tax Mark webpage:

www.ethicalconsumer.org/ethicalcampaigns/tax-justice/fair-tax-mark

What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?

We note that the erosion of the tax base by the systematic avoidance of corporation tax by multinational digital business has been the focus of international concern for nearly a decade now and note the following two key responses.

1. The OECD BEPS project.
The OECD has been building complex new rules to prevent 'profit shifting' by multinational companies since 2012. Although this has met with some success, finding agreement on how to tax the new digital economy remains bogged down. Opposition from the US government has been key to this lack of progress (2020a).

2. The Digital Services Tax (DST)
Because of this impasse, national governments have become impatient and started introducing their own rules. In the UK in April 2020, a digital services tax (DST) went into effect at a rate of 2% on sales of very large companies providing search engines, social media services and online marketplaces. This approach, of a tax on sales rather than profits, has now caught on globally in various forms and, at the last count, 36 countries have implemented or announced plans for such a tax (2020b). Most countries are framing these DSTs as temporary measures until agreement is made around the OECD BEPS plan.

We note that there has been some criticisms of the way this tax has been organised which is covered in more detail below.

We are proposing that there should now be:

3. A pandemic windfall tax on big tech corporations
When you look at the rates of Digital Sales Taxes (DSTs) in other countries, it appears that the UK's rate is relatively modest. In Turkey it is set at 7.5%, in the Czech Republic 7% and in Austria it is 5% for example (2020a) in July this year, an article in Ethical Consumer magazine proposed increasing the DST to 10% during the pandemic in order to help finance the very costly social and health interventions the pandemic has required (Harrison, 2020).

What further impacts will the coronavirus pandemic have on our tax base?

We note that, as of the 13th of October 2020, there have already been a loss of 700,000 jobs with the unemployment rate set to increase to around 8–8.5% (2.8 million) in the first half of 2021 (Nabarro, 2020). GDP forecasts for the UK look set for a 6.4% contraction (2020c), with World Bank forecasts predicting a shrinking of 5.2% this year for the world economy (World Bank, 2020).
One sector that has not just seen growth, but supernormal profits appears to be the digital economy, with the tech giants of Amazon, Apple, Facebook and Google recording profits of $38 billion on nearly $240 billion in revenue at the last quarter (Molla, 2020). Broken down their profits look like this:

In the quarter ending on the 30th of September (Molla, 2020):

- Amazon's profits rose nearly 200 percent from a year earlier
- Google's profit grew about 60 percent
- Facebook's grew by 30 percent
- Apple, whose profits were down slightly, brought in a healthy $12.7 billion in profit.

Do these pressures need to be met with tax reform, and if so, is this the right time for reform?

Calls for reform of taxes on digital companies are now coming from across the political spectrum.

In the Guardian in November 2020, Tom Kibasi suggested that a solution to avoidance by big tech companies "*could be accomplished through a special levy – calculated as a percentage of UK sales – for the decade ahead*." (Kibasi, 2020) In the Times in October 2020, Lord Leigh of Hurley, the Conservative peer and former party treasurer, called for a rethink. "*This seems to me to be absolutely outrageous*," he told the Lords. "*It is clear that the UK government is not taxing Amazon properly and is allowing it to avoid tax on its own sales through the marketplace. This puts regular retailers at a significant disadvantage. The digital sales tax does not achieve its objective of yielding more revenue from the likes of Amazon, as it is simply passed on to its suppliers in the marketplace, which have to absorb this tax in their margin*." (Wright, 2020)

What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?

We note that the UK's DST has come in for criticism in two main areas:

Problem 1: Passing the tax onto consumers
While it looked like a good idea at the time, since it was implemented it appears that many of the big tech monopolies are simply, and openly, passing the costs onto their consumers.
Well-known tax commentator, Richard Murphy, has pointed out that, as most of the companies were effective monopolies – a DST was always going to be the "easiest tax on Earth to pass on". This is naturally creating an aggrieved cohort of consumers and sellers who, seeing their costs go up, become opponents of the new tax regimes.

One of the interesting developments here is public comments from two companies (Facebook and Ebay) that they are not intending on doing this. We have compiled a small table below with position statements on the DST from those companies we know that have made them.

Company	Statement	Source
Amazon	Will pass tax onto sellers on its platform	Guardian (Sweney, 2020)

Google	Will pass costs onto advertisers	Guardian (Sweney, 2020)
Apple	Will pass onto App Store users	Gamesindustry.biz (Handrahan, 2020)
Facebook	Won't pass on costs to its advertisers	Bloomburg (Ali, 2020)
Ebay	Won't pass on the tax to sellers on its platform	Thisismoney.co.uk (Oliver, 2020)

Problem 2: Amazon is off the hook again

When the DST was designed, the government stopped short of applying it to product sales to consumers (as opposed to services which were taxed). This was because of concerns that it might adversely affect traditional retailers such as John Lewis. The upshot of this was that Amazon, one of the most problematic tax avoiders of all, escaped the tax on its own product sales.

The fact that Amazon has chosen to pass on the DST to its Amazon marketplace third party sellers (who are being provided with a service), rather than eat into its own profits, has drawn particular ire from a wide range of commentators. Andrew Goodacre, chief executive of the British Independent Retailers Association, apparently said: "*All it has done is resulted in small sellers paying more and making less while Amazon gains further competitive advantage*." (Wright, 2020)

This means that, in addition to calling for a 10% windfall rate of DST for a few years, the tax also needs to be reformed to address these two issues.

Proposals for DST tax reform

Given that consumers and sellers are already aggrieved that the 2% DST is being passed onto them, they are likely to be even more unhappy about the idea of a 10% rate. It is difficult though to think of another way that windfall taxes might easily be applied to tech multinationals. Profit taxes, the usual way for governments to make windfall provisions, are not going to work because the companies have already made the profits magically disappear. A levy on assets, which was applied to the banking sector after the 2008 crash, would not really work here either since so many of these are offshore for tech firms too.

It is important therefore to amend the rules at the same time, in order to rectify the problems that have arisen in its first iteration.

In order to capture the sales of Amazon and start re-balancing the UK economy towards other less aggressively tax-avoiding retailers, it will be necessary to extend the current DST to product sales. If there is a desire that such a change should not bring John Lewis and others within its scope, then an exception should be made for companies which can meet high standards of tax transparency and which are thereby able to evidence that no artificial avoidance is taking place. The Fair Tax Mark has devised a robust set of rules which have stood the test of time in being able to certify that a fair rate of tax is being paid. It should be possible to apply similar rules to companies seeking an exemption from any future and higher-rate DST.

The following amendments therefore would need to be made to the next iteration of the UK's DST.

- The new DST must expressly prohibit companies from directly or indirectly passing on this tax to consumers or users.
- The new DST will apply to product sales for any company falling within its scope which is not able to demonstrate that a fair rate of corporation tax is already being paid. Companies would have to demonstrate this through transparent public reporting of country-by-country financial results and other data.

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