Thank you for the opportunity to testify today with regard to proposed actions resulting from the conclusion of the Office of the U.S. Trade Representative’s (USTR) Section 301 Investigation of France’s digital services tax (DST). My name is Sam Rizzo and I am Director of Policy at the Information Technology Industry Council (ITI), where I lead on trade policy matters.

ITI represents the world’s leading information and communications technology (ICT) companies. We are the global voice of the tech sector and the premier advocate and thought leader around the world for the ICT industry.

Our members rely on clear and established international tax rules to innovate and grow their operations. A primary objective for ITI is to ensure a functioning and dependable international tax system. We encourage countries to continue their work toward meaningful solutions and offer our comments in that spirit.

As we have asserted previously, the enactment of France’s unilateral digital services tax represents a troubling precedent, unnecessarily departs from progress toward stable, long-lasting international income tax policies and disproportionately impacts U.S.-headquartered companies. We are supportive of USTR’s efforts to analyze the impact of the French measure; however, our ultimate goal is one in which all parties reach a multilateral solution on appropriate international income tax reforms.

Since our last appearance before the Section 301 Committee in August 2019, we have seen an accelerating trend toward the unilateral adoption of DSTs, which, for these purposes, refer to gross revenue-based taxes on a narrowly defined set of digital services. Spain, the Czech Republic, Poland, the UK, Canada and Turkey have proposed or enacted DSTs, with Turkey’s DST poised to take effect in early 2020. And even worse, Italy’s and Austria’s DST measures went into effect on January 1, 2020.

It’s therefore important to recall that today’s hearing – which centers on the appropriate U.S. policy response to France’s DST – is about more than the French digital services tax. It is about preventing the widescale application of targeted, unilateral taxes, which stand to undermine a functioning international tax system and compromise the predictability it has afforded to companies to conduct business globally. Indeed, the significance of this issue goes well beyond tax policy. What is ultimately at stake is whether economies are prepared to do the hard work of developing coherent, collective solutions to complex, cross-border policy challenges, of which there are many in today’s global policy environment.

Against this backdrop, the Section 301 investigation report published by USTR on December 2nd represents a thorough analysis that defines in detail the problematic nature of France’s unilateral measure. We appreciate USTR’s efforts to investigate France’s DST, and we concur with the report’s conclusions that the tax targets U.S. digital companies. We also share the view of the report that
France’s DST contravenes longstanding international taxation principles and generates broader concerns around global fragmentation in the tax space.

At a broader level, USTR’s report shows the incompatibility of unilateral DSTs with rules-based, multilateral approaches to international tax and trade policy. Throughout ITI’s engagement on these issues, policymakers have largely conceded that DSTs are flawed solutions to address international tax challenges. These challenges are inherently global and demand a multilateral solution. Unilateral trade remedies are similarly not a substitute for a successful and lasting tax policy resolution. The true remedy to the pressing challenges created by France’s and other unilateral actions is to recommit to reaching a multilateral consensus on the rules governing international income taxation.

Fortunately, the United States, France and more than 130 other nations are currently working to reach such consensus at the Organisation for Economic Co-operation and Development (OECD). It is important to recognize how interrelated DST activities are to the OECD digital taxation negotiations, and vice versa. While the threat of a trade response may have focused the minds of those participating in the OECD negotiations and moved the process along, we are not out of the woods and, as I noted previously, we expect to see a proliferation of unilateral policies in the coming year.

We are in a critical period at the OECD, and the outcomes of the current negotiations are likely to define key global trading relationships for years to come. We acknowledge the scale and scope of the task at hand; however, achieving consensus among the diverse group of nations represented in the negotiations will be no easy task. That said, we believe there is a landing zone that can meet the broad objective of addressing the stressors digitalization has placed on longstanding international tax rules. Both the U.S. and France have expressed understanding of the current stakes and have been productively engaged in these talks as a way to avoid further escalation of tensions. We appreciate this engagement and encourage all sides to reach a lasting solution. ITI remains committed to doing all we can to enable a successful outcome.

Tax policy problems require tax policy solutions. The multilateral case against France’s DST as laid out in USTR’s Section 301 report is clear. The simplest way to avoid further escalation would be for France and other countries considering unilateral actions to withdraw individual measures and all parties to continue engaging through the OECD process. Let me reiterate that the significance of this issue goes well beyond the French DST, or tax policy in general. It is about preventing the widescale application of targeted, unilateral taxes, that would undermine a functioning international tax system and compromise predictability for businesses globally.

We are grateful for USTR’s extensive efforts in identifying and critically assessing these trends. I look forward to answering any follow up questions you have.