

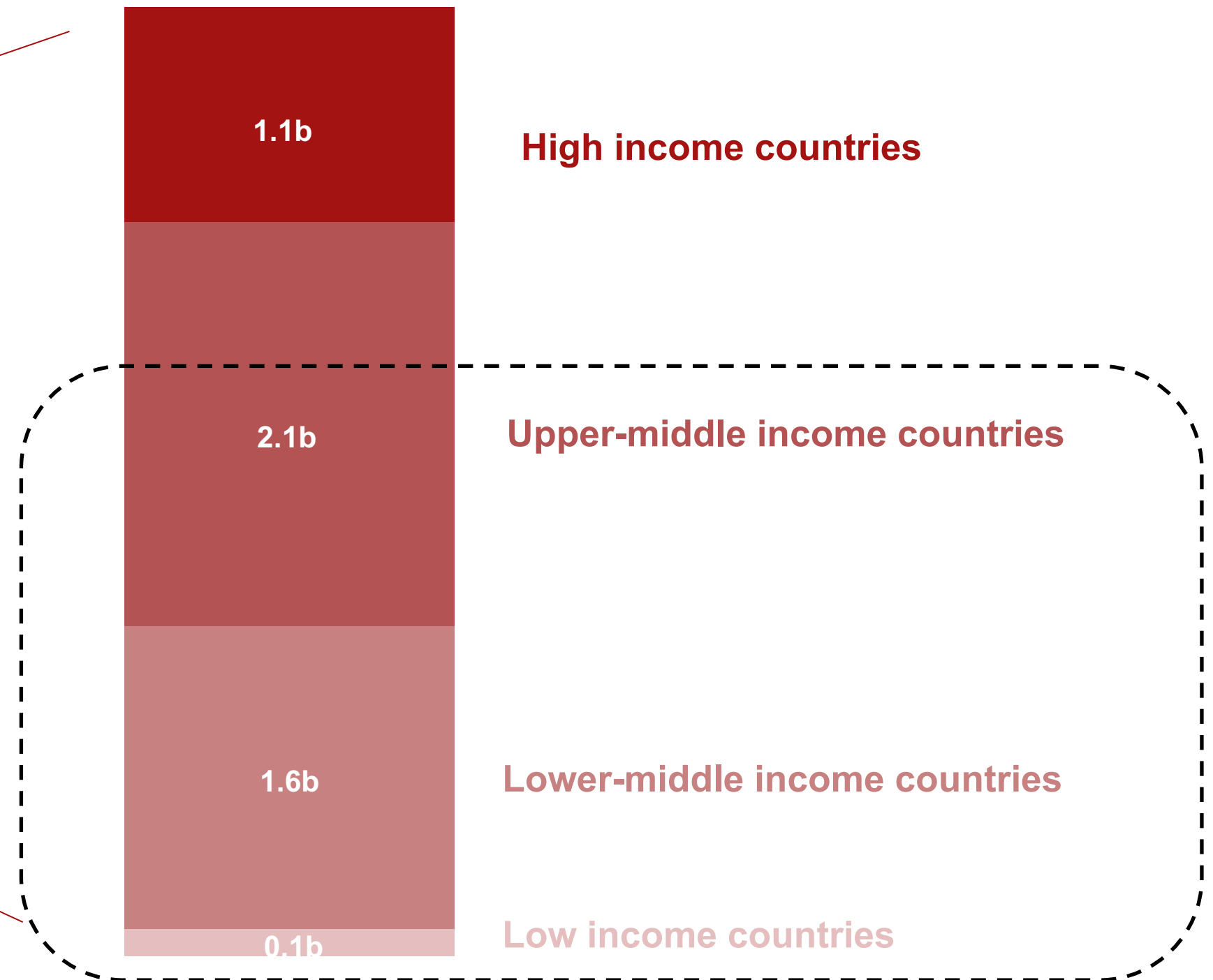
# Taxing Tech Titans: Policy Options for the Global South

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# Many internet users reside in the Global South

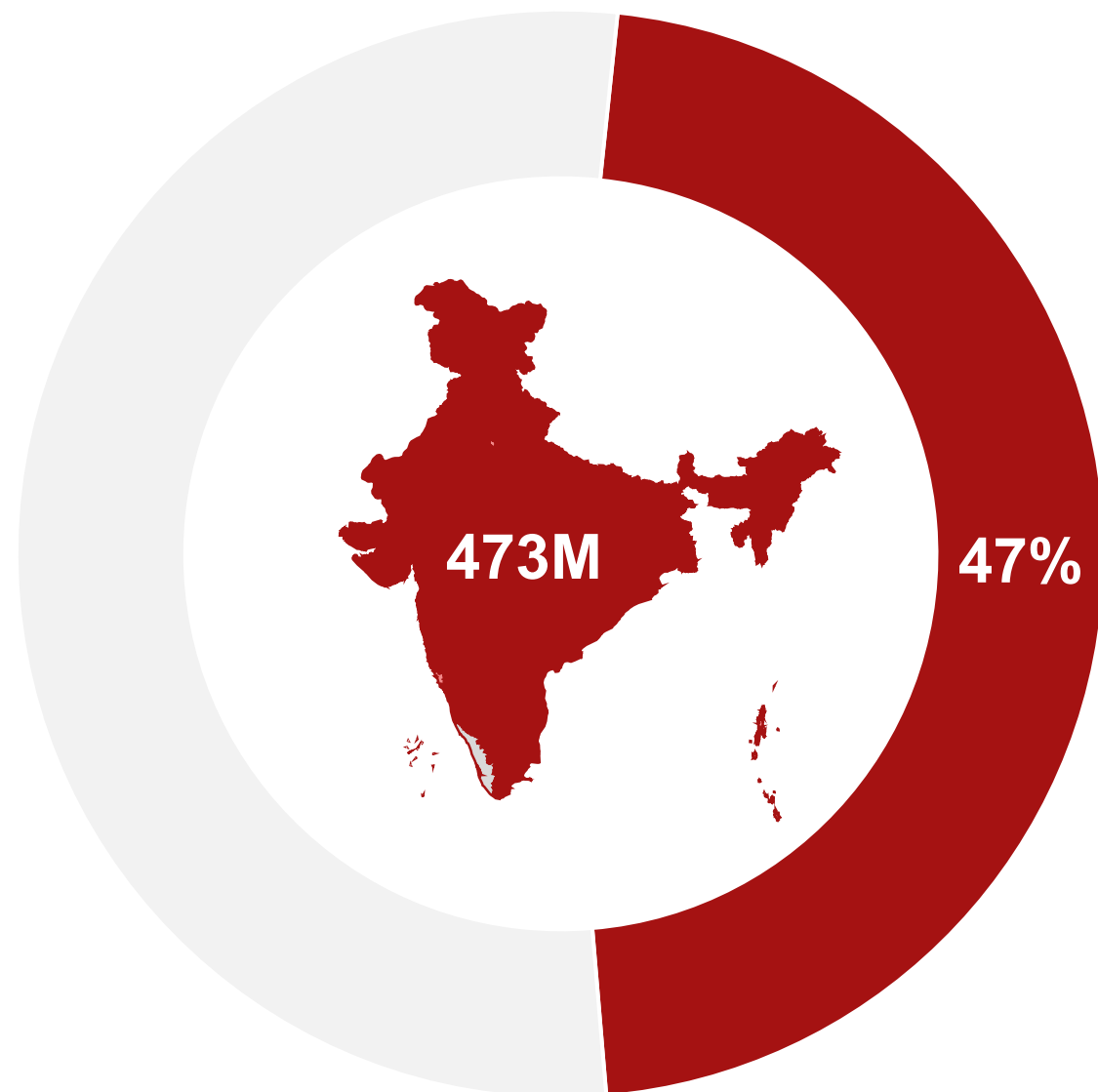
4.9b

Internet users  
worldwide

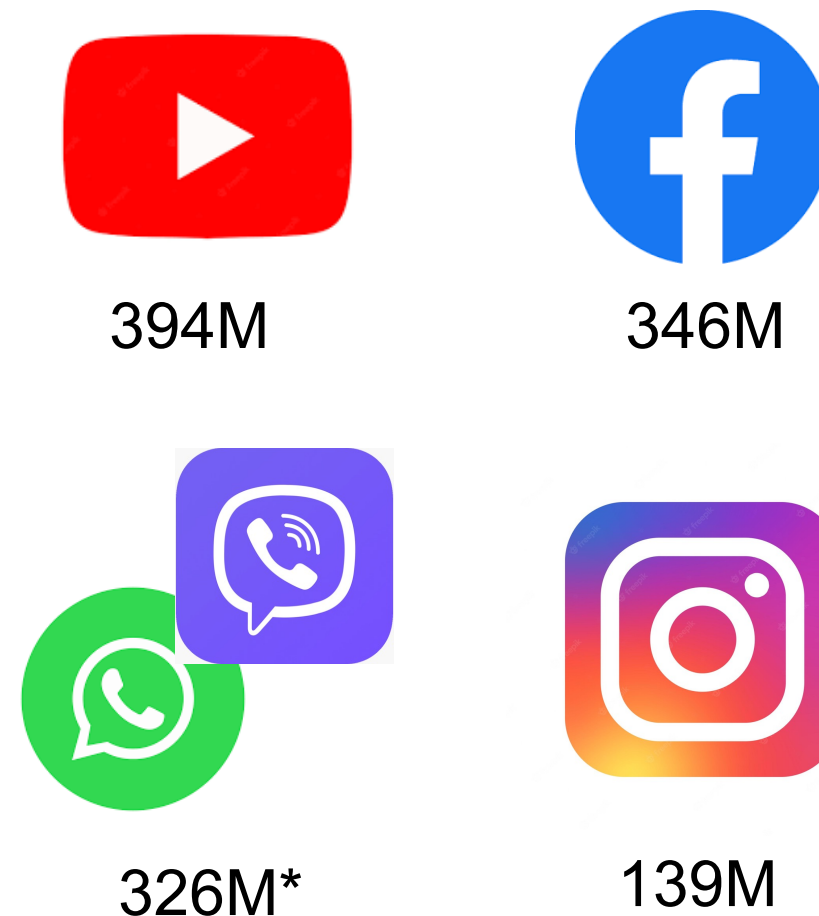


# Many apps/platforms used in the Global South are products of large technology MNCs

Internet users in India - 2021  
(% of population aged 15+)



Number of users in India in 2021  
(aged 15+)

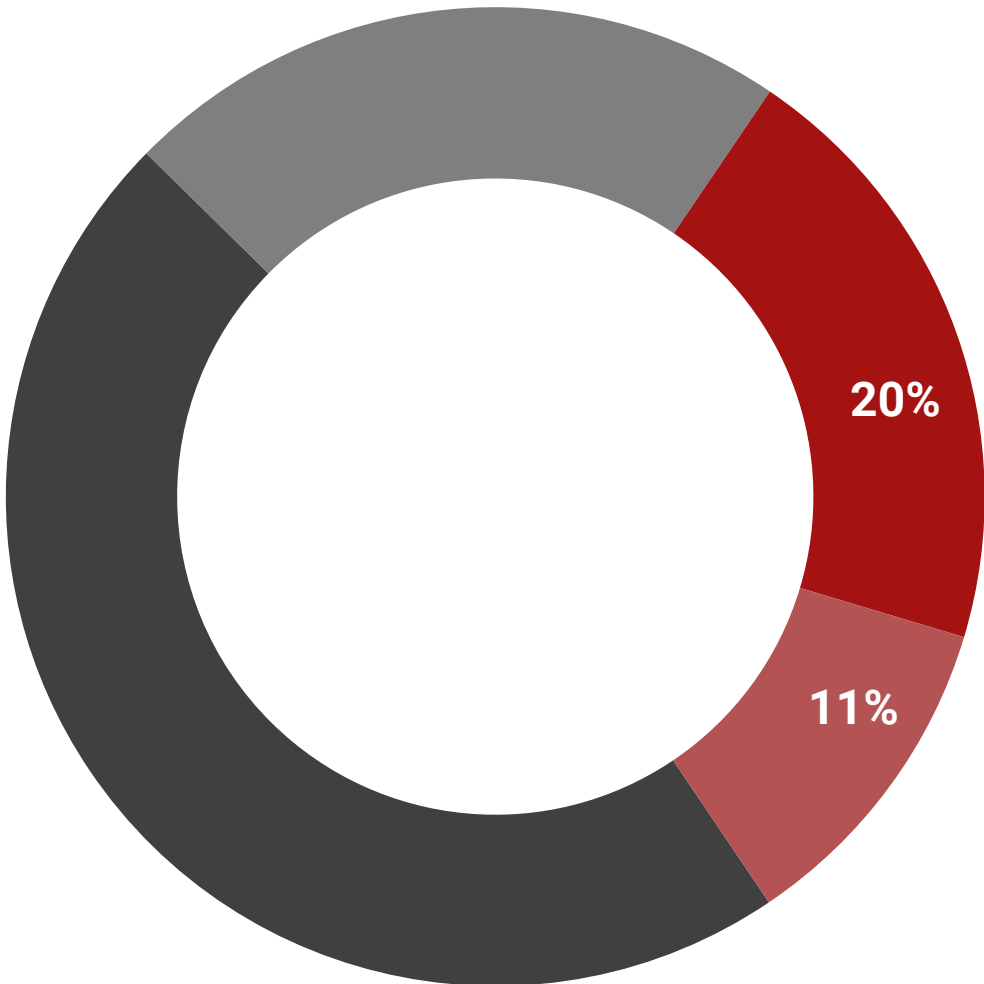


Source: LIRNEasia nationally representative survey – 2021 (n = 7,500); representative of population aged 15+ at a margin of error of +/- 2.8% at a 95% confidence interval

\* Indicates a category of platform (e.g.: voice, messaging or chat apps where WhatsApp is depicted)

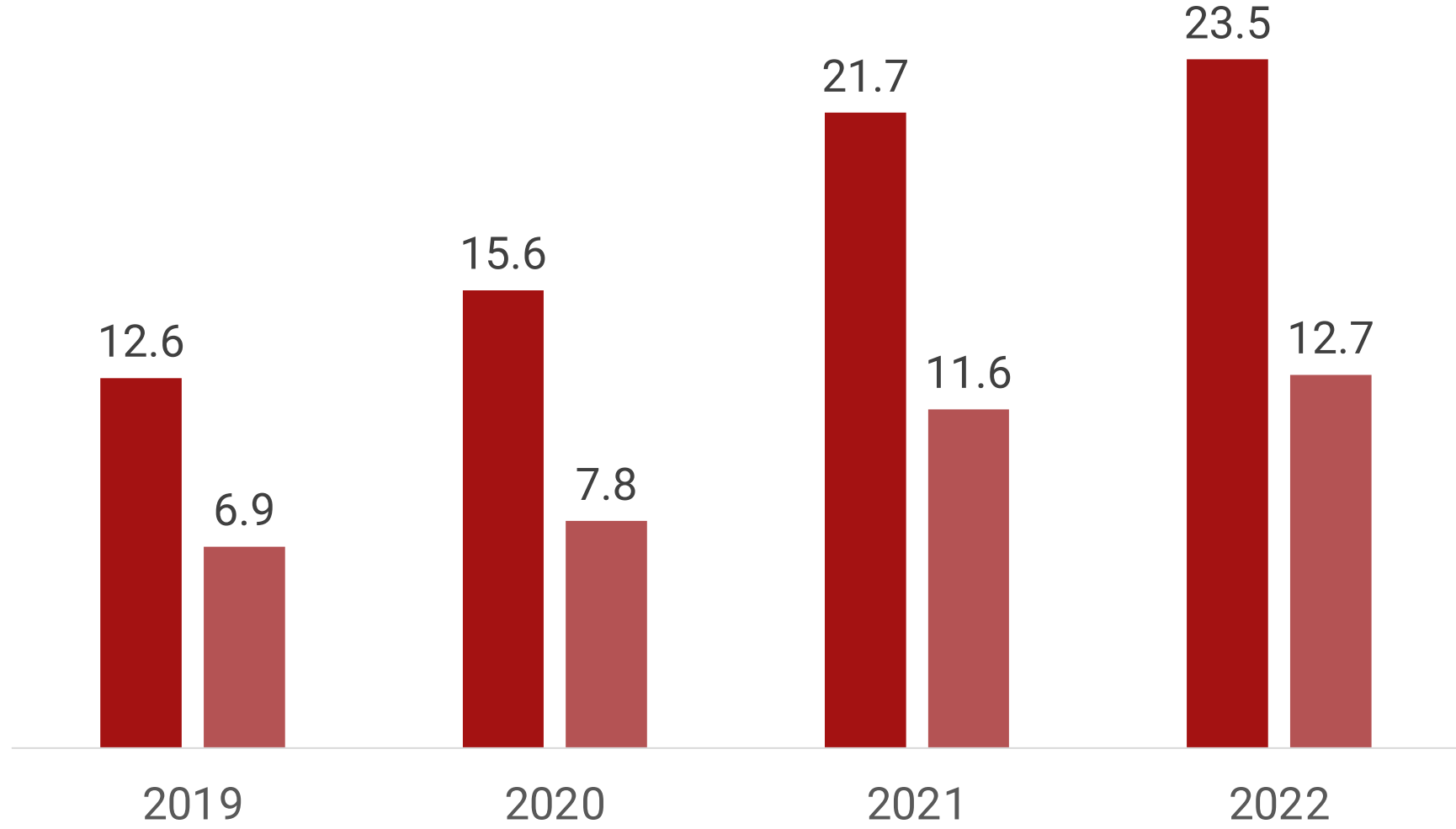
# Global South is a growing and lucrative market for large tech MNCs, despite most revenue still being derived from the Global North

Meta - Revenue by region, 2022  
(% of total revenue)



■ US & Canada   ■ Europe   ■ Asia-Pacific   ■ Rest of the World (Africa, LatAm)

Meta – Revenue – Asia Pacific and Africa + LatAm, 2022 (USD billion)

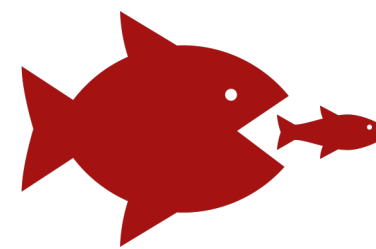


Source: LIRNEasia estimates based on Meta annual reports (2019-2022)

**However, large  
tech MNCs  
remain outside  
the tax nets of  
some countries  
in the Global  
South**



Impacts government  
revenue



Creates an uneven  
playing field for local  
and multinational  
businesses

# Various legal and policy factors underpin lags in implementing digital taxes

- Several countries have dated taxation strategies, focusing on taxes on telecom companies and IT imports
- Existing legislation of some countries (e.g.: Income Tax Acts) necessitate physical presence for companies to fall into the tax net.
- Defining and sizing the digital economy is complex, due to the cross-border nature of their operations.
  - Waiting for further clarity and direction on multilateral processes

# Various policy options are available to tax the digital economy



## Domestic legal measures

**Digital services taxes, Gross based withholding taxes based on digital services, Digital permanent establishment rules,** consumption based taxes, tax preferences



## UN Model Tax Convention

**Article 12B,**  
UN STTR



## OECD/G20 Inclusive Framework 2 Pillar Solution

**Amount A,** Amount B,  
Global Anti-Base Erosion (GloBE) rules, Subject To Tax Rule (STTR)

**\*Focal point in today's discussion**

# Some countries have implemented domestic legal direct taxation measures

## Example: Countries in South & Southeast Asia with direct tax measures

Country	Tax
India	Equalization Levy Withholding Tax* Significant Economic Presence Provisions
Pakistan	Fee for Offshore Digital Services
Nepal	Digital Services Tax
Vietnam	Withholding tax*
Malaysia	Withholding tax*



\* Withholding Tax refers to a special type of withholding tax levied specifically on digital services (e.g.: income from digital advertising/e-commerce)

Note: We focus on direct tax measures such as equalization levies, withholding taxes and SEP measures, not indirect measures such as VAT/GST



# Digital service taxes can vary in design

Country (name of tax)	India (Equalization Levy )	Pakistan (Fee for Offshore Digital Services)	Nepal (Digital Services Tax)
Effective date	2016 (EL 1.0), though revised in 2020 (EL 2.0)	2018	2022
Services covered	<p>EL 2.0</p> <p>-E-commerce supply and/or services (any consideration received or receivable by a non-resident e-commerce operator from e-commerce supply or services made or provided or facilitated by it to a person resident in India; or a non-resident (in respect of the sale of advertisements targeted at, or data collected from, a person resident in India or using an IP address located in India); or a person who buys goods or services using an IP address located in India.</p> <p>*with exceptions</p>	<ul style="list-style-type: none"> <li>- Online advertising services including provision of digital advertising space</li> <li>- Website designing, creating, hosting or maintenance services</li> <li>- Provision of digital or cyber space for websites, advertising, e-mails, online computing, blogs, online content, and online data services</li> <li>- Provision of any facility or service for uploading, storing or distribution of digital content including digital text, digital audio, or digital video</li> <li>- Services involving online collection or processing of data related to users in Pakistan</li> <li>- Provision of any facility for online sale of goods or services</li> <li>- Provision of any other online facility</li> </ul>	<ul style="list-style-type: none"> <li>- Advertising services</li> <li>- Movies, television, music, over the top (O.T.T.) and other similar subscription-based services</li> <li>- Data collection services</li> <li>- Cloud services</li> <li>- Gaming services</li> <li>- Mobile application related services</li> <li>- Online marketplace services, and services and goods provided through it</li> <li>- Supply and update of software</li> <li>- Sales of data collected from Nepal resident person</li> <li>- Download of data, images, and similar services</li> <li>- Education, consultancy, skill development and training services</li> <li>- E-book, e-library, and e-newspaper</li> </ul>
Taxability threshold	INR 20 million (USD 243,900)	None	NPR 2 million (USD 15,190)
Rate of tax	2% (initially 6% in EL 1.0)	10% (initially 5%)	2%
Leviable on gross basis?	Yes	Yes	Yes
Incorporated outside the Income Tax Act	Yes	No	Yes
Revenue collected	USD 475 million (2022)	USD 2.53 million from 7/2022 to 2/2023	N/A

# Countries can also use treaty based solutions to digital taxation, which can reduce the risk of double taxation



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# Treaty based solutions too differ: OECD Amount A uses multilateral processes, while UN Article 12B uses bilateral

Feature	Article 12B (UN)	Amount A (OECD/G20)
<b>Implementation</b>	Bilateral tax treaties	Multilateral convention
<b>Services covered</b>	Applies on defined Automated Digital Services especially: <ul style="list-style-type: none"> <li>- Online advertising services</li> <li>- Supply of user data</li> <li>- Online search engines</li> <li>- Online intermediation platform services</li> <li>- Social media platforms</li> <li>- Digital content services</li> <li>- Online gaming</li> <li>- Cloud computing services</li> <li>- Standardized online teaching services</li> </ul>	Applies to all types of businesses that are in scope (see below)
<b>Scope</b>	No threshold	In-scope companies are the multinational companies with global turnover above EUR 20b (~USD 21.5b) and profitability above 10%. However, extractives and regulated financial services companies are not in scope.
<b>Nexus</b>		<ul style="list-style-type: none"> <li>- For countries with GDP &gt; EUR 40b (~USD 44b): applies when the in-scope MNE derives at least EUR 1m (~USD 1.1m) in revenue from the market jurisdiction</li> <li>- For countries with GDP &lt; EUR 40b (~USD 44b): applies when the in scope MNE derives at least EUR 250,000 (~275,000) from the market jurisdiction.</li> </ul>
<b>Allocation of income</b>	Gross basis or fractional apportionment (net basis)	Formulary apportionment
<b>Tax rate</b>	<p>For gross basis of taxation: To be mutually decided by contracting jurisdictions. Recommendations have been made within the Commentary to Article 12B to keep this between 3-4%.</p> <p>For net basis of taxation: The corporate income tax rate of a particular jurisdiction shall apply to Qualified Profits, which are defined as 30% of the amount resulting from applying the profitability rate of the MNE to the locally derived revenues.</p>	25% of the MNEs residual profit is allocated to market jurisdictions in proportion to sales. To this amount, the corporate income tax rate of a particular jurisdiction shall apply.

**Revenue,  
competition  
impacts, and ease  
of implementation  
should be  
considered in  
policymaking**

Revenue  
potential

Impact on  
competition

Policy certainty

Impact on  
sovereignty

Negotiation costs

Compliance  
costs

Capacity building

Technological  
requirements

Timelines

**Our topic today:  
Should countries in  
the Global South sign  
up for the OECD/G20  
Multilateral  
Convention on  
Amount A by end  
2023?**

By signing up, countries agree to  
refrain from imposing newly  
enacted DSTs or relevant similar  
measures until end 2024

unless at least 30 jurisdictions  
accounting for at least 60 percent  
of the Ultimate Parent Entities  
(UPEs) of in-scope MNEs sign the  
multilateral convention