Brussels, 1st February 2021
VH/AP

EACB comments on EC roadmap consultation on the taxation of the digital economy

The European Association of Cooperative Banks (EACB) gladly takes the opportunity to comment on EC roadmap consultation on the taxation of the digital economy following its comments on the OECD Pillar I and II consultations on the same issue.

The EACB welcomes the EC plans on the taxation of the digital Economy. This initiative aims to introduce a digital tax to address the issue of fair taxation of the digital economy. The EACB is a strong advocate of this approach.

In view of these circumstances, the EACB believes that the financial sector should be exempted by the new digital taxation. This should apply both to the investment banking business and at consumer-facing banking services.

This carve -out should be granted to the financial sector both for simplification and, in particular, for compliance cost reasons. The financial industry is one of the industries which has been hugely affected by new regulation and extra compliance costs in the recent years in order to reduce risks and safeguard financial stability. For this reason, political institutions have not expressed any concerns regarding the level of taxation of banks. As a result, there is no need to rectify any injustice in terms of profit sharing.

It has to be noted that banks are strictly regulated regarding the activities that they perform. Every jurisdiction has limits on the types of financial services that can be provided. The services offered must comply with these rules. In order to perform banking activities in jurisdictions other than their home country, banks require a licence to operate in these countries (so-called bank licences). Especially, retail banking businesses do not operate remotely across borders because such remote operation would normally be prevented by the regulatory framework for banking business. In order to obtain a banking licence, banking supervisors insist on a physical presence of the retail bank in the market jurisdiction so that they can exercise their supervisory role and protect local consumers and deposit holders by imposing capital requirements, reporting requirements, adequate staffing requirements, codes of conduct and participation in deposit guarantee schemes. Therefore, banks are often forced to maintain a local presence anyway, to which the respective jurisdiction can link the tax consequences. Banks are thus already in scope of normal taxation of revenues.

Moreover, the main goal of the new digital tax is mainly to tax fair the activities of the Digital Companies (e.g. GAFA). It must also be taken into account that banks do not have such high profitability, especially in consumer and retail banking, as might be the case in the digital sector. This fact can be verified by simply applying the return on equity and return on assets standards. Moreover, institutional and investment banking should also be out of scope of the digital Tax since these services are provided in a business to business context.

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The financial sector functions as a prerequisite for the economic prosperity of other industries by making capital available to internationally operating companies. Therefore, an extra tax to the financial sector would harm growth and reduce liquidity globally without solving in any way the problem of digital activities taxation.

Thus, our members fear that the new regulations and the resulting compliance will place an additional financial burden to the banking sector. This extra addition of another complex tax system will have a negative impact on the banking industry.

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