



台灣服務業聯盟  
Taiwan Coalition of Service Industries

## **Digital Services Taxes, Trade and Development: Why a Multilateral Solution is the Only Fix**

Members of the Global Services Coalition, which includes associations representing the services sector from around the world, highlight below conclusions from a new paper by former WTO chief economist Patrick Low titled *Digital Services Taxes, Trade and Development*<sup>1</sup>.

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Questions on how to approach digital taxes have sowed new frictions among trading partners. A growing number of countries – at least 30 jurisdictions so far -- have broken with longstanding global principles of taxation to implement digital services taxes on their own.

This recent move towards unilateral taxes is now threatening to escalate into broader trade disputes. The U.S. has pledged to impose retaliatory tariffs of \$1 billion-plus on France in merely the first of ten DST-related investigations announced to date. Unfortunately the core trade rules of the WTO, drafted three decades ago, never anticipated the complexities of cross-border services trade that exist now. As a result, countries may implement taxes that run afoul of key trade principles, most notably that of non-discrimination – inflaming trade tensions and potentially prompting the use of trade remedies that could lead to further discord.

There's an increasing risk that frustration over the use of unilateral taxes could have broader, destabilizing repercussions for the global trade system.

In his paper, Low urges countries to prioritize reaching a multilateral agreement on digital taxes. The goal should be not only to avoid a costly cycle of retaliation and counter-retaliation, but also to promote a stable global tax system that can in turn foster continued trade growth. In the absence of a unified tax system, a patchwork of different tax regimes would needlessly hike compliance costs and create regulatory friction for companies selling into foreign markets.

In the paper, Low outlines steps to reduce the risk that disagreements over digital taxes could lead to avoidable trade disruptions. Among his recommendations:

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<sup>1</sup> Full paper at [https://iit.adelaide.edu.au/ua/media/1221/dst-paper\\_final\\_december\\_2020.pdf](https://iit.adelaide.edu.au/ua/media/1221/dst-paper_final_december_2020.pdf) - see related article at <https://iit.adelaide.edu.au/news/list/2020/12/16/the-case-for-multilateral-agreement-on-digital-taxation>

- Countries should forge a multilateral agreement on digital taxes through ongoing negotiations at the OECD
- The WTO and OECD should coordinate more closely on the potential impact of taxes on global trade
- Tax authorities should consider the use of a non-discriminatory GST/VAT approach to taxation (not as a substitute to the ongoing OECD initiative, but as a complement)
- The WTO should undertake negotiations on market access and national treatment commitments under the General Agreement on Trade in Services

On the last point, the aim of WTO negotiations would be to expand non-discrimination obligations to a wider range of industries. To understand why, imagine that a country were to impose a DST on service suppliers from another country, but not on their domestic counterparts. As it stands, under the General Agreement on Trade in Services (GATS), the foreign suppliers could complain that the tax has resulted in less favorable treatment – in other words, that the taxing jurisdiction has not complied with its commitments to provide national treatment. However, whether a particular country is bound to provide national treatment would depend on which service sectors it opted to include on its positive list schedule. By updating and expanding GATS, WTO members could better employ it to protect against cases of tax-related discrimination.

In sum, Low appeals to countries considering unilateral digital taxes to exercise restraint. A multilateral solution, he says, is essential to avoid pricey and debilitating trade conflicts.