

135 Members of the European Parliament
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Brussels, 22 January 2020

Ways and Means Committee
U.S. House of Representatives
1102 Longworth, House Office Building
WASHINGTON D.C., 20515
United States of America

Committee on Finance
United States Senate
219 Dirksen, Senate Office Building
WASHINGTON D.C., 20510
United States of America

Concerning: Digital Services Tax and international negotiations on Base Erosion and Profit Shifting

Annex: *Resolution on fair taxation in a digitalised and globalised economy: BEPS 2.0*

Dear Members of the U.S. Congress,

At a time of growing scepticism about globalisation, increased pressure on our social safety net, and deep concern about levels of inequality, our citizens demand concrete action. From the heartlands of Michigan to the outskirts of Milan, many call for a fairer economy and society. To face these challenges, we must put an end to the tax practices of many large multinational corporations, which all-too-often find grey zones in the law that allow them to pay fewer taxes than they should. This leaves individuals with moderate incomes and small and medium-sized companies, the backbone of our economies, at a disadvantage.

Our citizens are right to demand equal treatment and protection. Over the past decades, corporate tax rates have plummeted. Between 1995 and 2017, US federal corporate tax revenue fell 30 percent. In the EU, the average nominal tax rate has decreased by 32 percent since 2000. It is of the utmost importance that companies, and not only individuals, contribute fairly to the sustainability of public finances. To achieve this, we must put an end to the profit shifting of billions to tax havens.

The key economic assumption that taxes are paid where profits are booked no longer holds true. This is not an inevitable consequence of globalisation. Lack of coordination has allowed this phenomenon to thrive. In a world dominated by multinational corporations, unilateral solutions do not deliver optimal results. Instead, they are opening new loopholes. The BEPS 2.0 negotiations at the OECD level are the perfect opportunity to modernise the principles that govern our out dated corporate tax system, and close loopholes, tackle our system's shortcomings and secure a fair taxation for our citizens. At the same time, broadening the tax base reduces the need for increased tax rates.

Our companies and citizens have adapted to our new weightless economy; so should the tax rules that govern its exchanges. We should move away from the arm's length principle and towards forms of unitary taxation. Concepts like minimum level of taxation, harmonisation of the tax base, and cross-border consolidation of taxable profit should be considered. Such was the motivation behind last December's European Parliament resolution on the matter, which we have attached to this letter.

There is widespread support, in society and in politics, to help middle and less privileged classes and stop letting some get away from their civic duties - such as paying taxes - which we should face collectively. In addition, many companies are calling for more stable and less complicated tax rules. As such we, the undersigned MEPs, ask you to join forces. We should push our respective administrations to take a constructive stance in the ongoing OECD negotiations and work to re-establish a well-functioning tax system. This means encouraging governments to tax companies, including digitalized companies, that currently pay minimal or no taxes. On the other hand, threats to impose tariffs in response to such measures should be condemned by both our institutions.

We hope that jointly, we can stimulate the development of a fair system in which all, rich and poor, pay their fair share.

Yours sincerely,

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