

The impact of the Digital Era on Tax

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Agenda

- The new Digital Era
- Impact on business models
- Tax consequences



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The new Digital Era



Bitcoin



The Cloud



Blockchain



Internet of Things



Cognitive Analytics



Robotic Process Automation



Connected Home



Electric and Connected Cars



Drones



Oculus Rift / VR



Blockchain – The biggest disruptive since the internet

Peer-to-peer network with shared ledgers

- Everyone keeps track of all the transactions and the blocks
- With regular intervals new blocks are generated (Bitcoin: every 10 minutes)
- Economic incentive to create & verify blocks
- Consensus: proof of work
- No single point of failure
- No barrier to entry



Hash: A calculated number that changes completely, even if there is only a minor change (e.g. space or dot) in the data

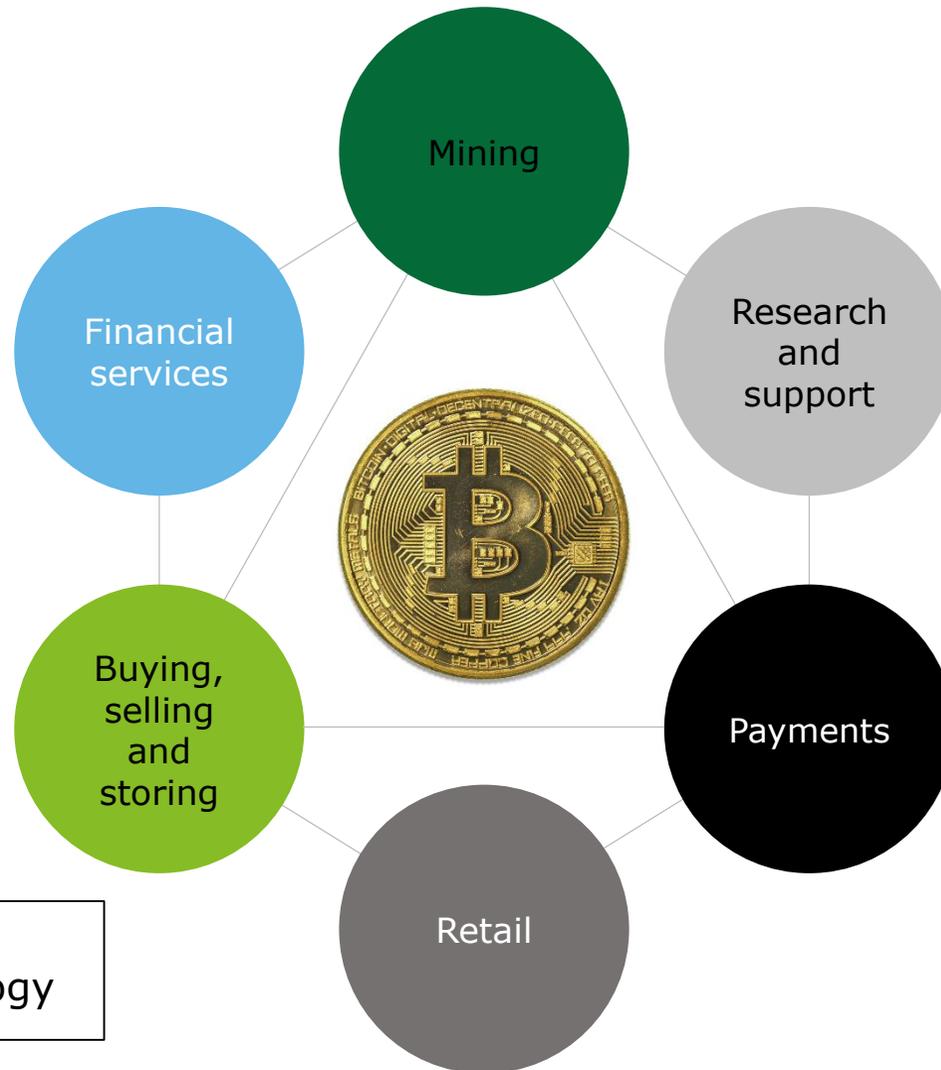
Block hash: A hash of the data contained in a block

This ensures that the entire ledger becomes a permanent, trusted record



Bitcoin – The new gold rush?

Cryptography currency with open source processes

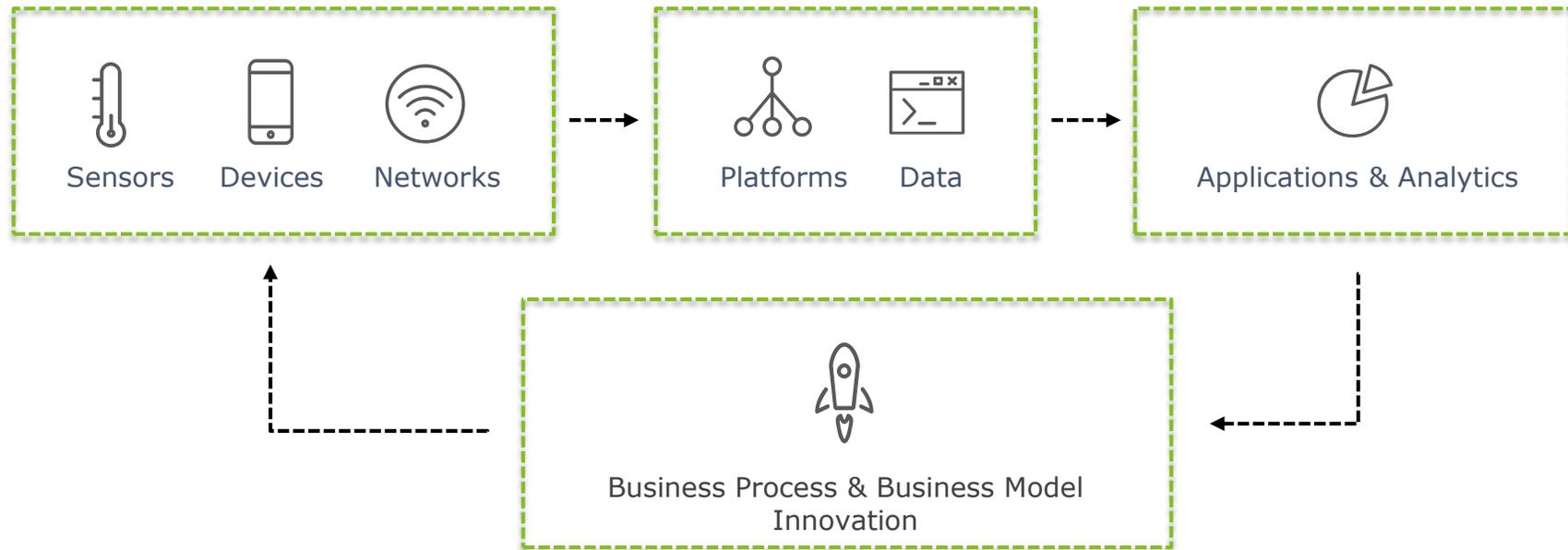


**Application of
Blockchain technology**

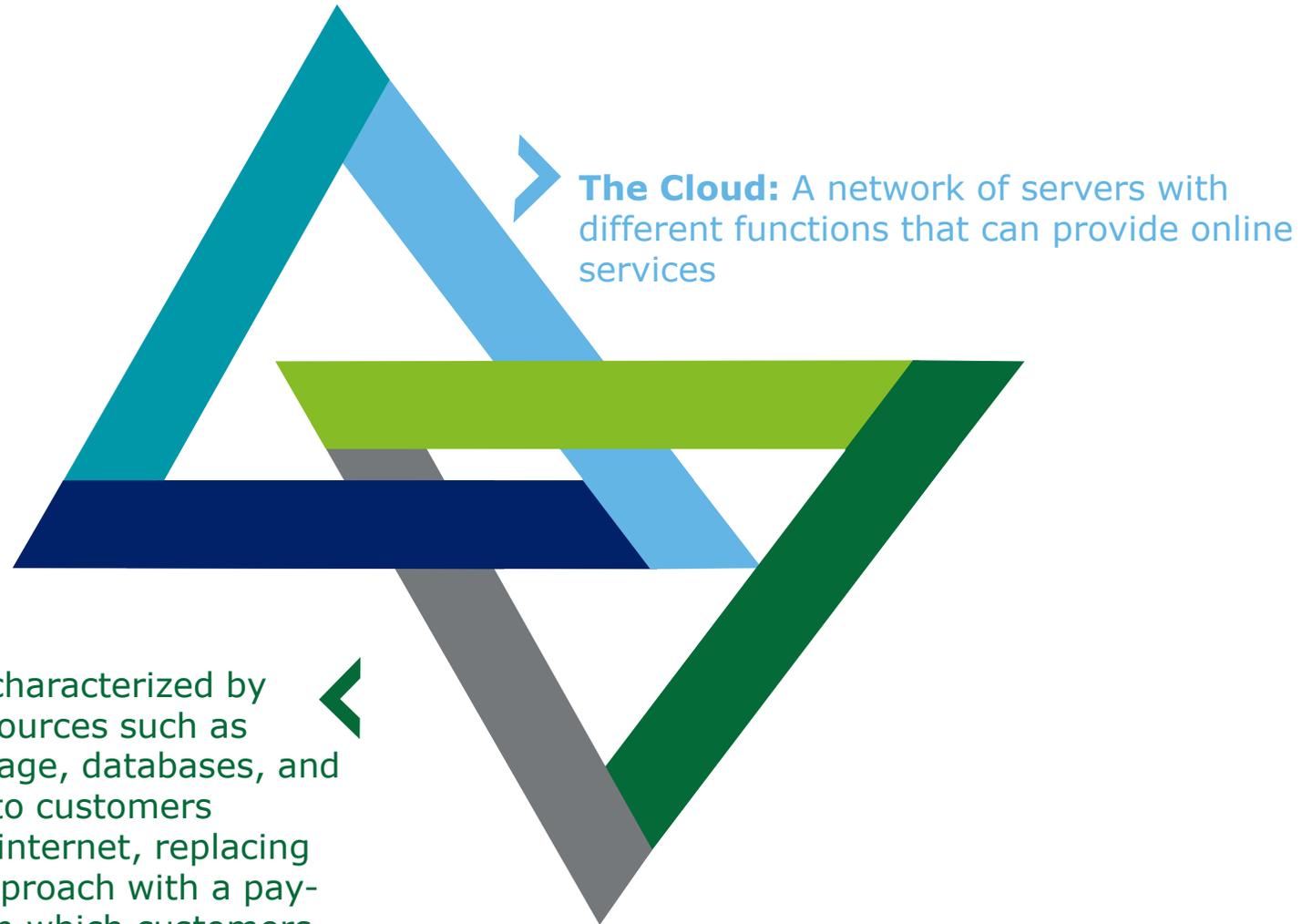


Internet of Things – Enabling new business (models)

IOT is about INTERCONNECTED TECHNOLOGY ARCHITECTURES that drive smarter actions



IOT-Enabled processes can grow revenue, cut costs, and save time



The Cloud: A network of servers with different functions that can provide online services

Cloud computing is characterized by making computing resources such as computing power, storage, databases, and applications available to customers generally through the internet, replacing the install-and-own approach with a pay-as-you-go-approach, in which customers pay for the amount of computing resources actually used

The impact on Business Models



Blockchain



Internet of Things



Cloud Computing



Disruptive technologies

Blockchain – Impact on business models



Real life examples



Mutual (P2P) insurance based on consensus (crowd insurance)



Improve KYC process by introducing ID-token, certificate of KYC approval



Automate & simplify life insurance using smart contracts



Store and analyse personal health data on Blockchain



Car insurance: register car and usage data to personalize premium and predict behaviour



'Smart-claiming': Optimize and automate claiming process (e.g. when missing a flight)



Using prediction market (Augur) to collect actuarial data



Real-time remote auditing of companies to ensure solvency

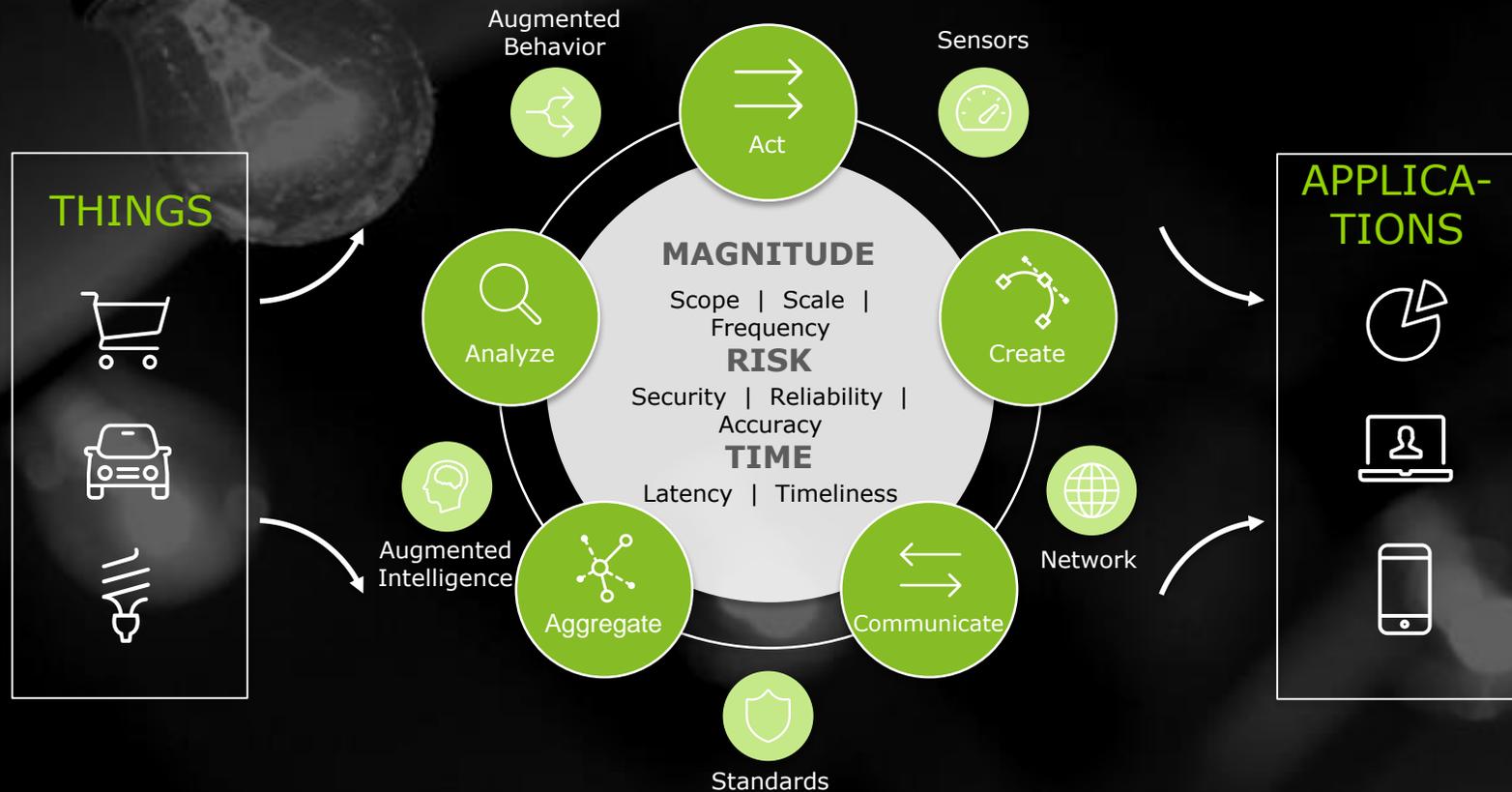


Tracking valuables (diamonds, art) on Blockchain to secure ownership and guard against counterfeiting



Internet of Things – Impact on business models

There are many opportunities to create value with IOT





Internet of Things – Impact on business models

CONSUMER IOT is big and may present an opportunity to shift business models



SPEED & CONVENIENCE

- Optimized shopping experiences
- Convenience of payment
- Ease of identifying product and location

PERSONALIZATION

- Tailored shopping experiences
- Meaningful recommendations

UNIQUE EXPERIENCE

- Surprise and delight the customer
- Experience aligned with customer passions



Product Development & Customer Experience

Consumer Products

Company: products bundled with voice recognition that enable two-way conversations, which the company uses to understand your preferences, offer personalized experience, and feed product development



New Revenue

Global Express Shipping

Company: delivery fleet data is used to construct a real-time perspective of traffic, weather, and other transportation disruptions; this risk and disruption "picture" is sold to other companies



Efficient Operations

Automotive Manufacturer:

automatic routing of auto-bodies through assembly lines based on the temperature and humidity in paint booths



Product Differentiation

Europe-Based Port Authority:

aggregates information from port tenants, optimizes use of space in real-time, and makes the port a more attractive option to shippers



Providers of cloud computing

- Creation of transformational technology
- Characterization of transactions
- Virtual permanent establishment status



Users of cloud computing

- In stead of buying hardware and software services are obtained on a pay-by-use basis
- Minimizing risks and costs
- Characterization of the transactions:
Software, platform, infrastructure





Current organizational capabilities may not support the new model, and risk-averse stakeholders may be resistant to the change. The short-term impact on financial performance may have significant implications both internally and externally

The stakes are high and rising

With traditional business models under threat, the pressure to offer flexibility in consumption is rising

The challenge is complex

Scope of disruption requires a complete reconsideration, recalibration and redefinition of operations

There is little room for error

Failure to act, execute, and transform in a timely manner may threaten the viability of the business

A successful transformation to flexible consumption models requires strategic thinking, high levels of organizational coordination and alignment, driven by visionary leadership

Tax consequences

BEPS and the Digital Economy

Action 1

➤ Address the tax challenges of the digital economy

Action 7

➤ Prevent the artificial avoidance of permanent establishment status

BEPS Key themes

Widening of the tax base |

Compliance |

Enforcement

BEPS – Action 1

The action plan looks at the ability of the company to have a significant digital presence in the economy of another country without being liable to taxation in the other country

Attribute digital sales to jurisdiction of customer?

The characteristics of income derived from new business models

Attribution of value created to market location data?

Indirect tax (VAT) issues are also considered

BEPS – Action 1

The report examines the evolution over time of information and communication technology, including examples of new business models, and identifies the key features of the digital economy and confirms that treating 'digital' as separate from more traditional business for tax purposes would be difficult, if not impossible

New Business models

- E-commerce
- App stores
- Online advertising
- Cloud computing
- High frequency trading
- Participative Networked Platforms
- Payment services

Key features of the digital economy that are potentially relevant from a tax perspective

- Mobility
- Reliance on data
- Multi-sided business models
- Networks effects
- Tendency to monopoly/oligopoly
- Volatility

BEPS – Action 1

Options proposed to the Task Force

Creation of a permanent establishment for fully dematerialized activities based on a significant presence data systematically or having significant contractual, consumption or payment arrangements

Virtual permanent establishment concept, such as based on maintenance of a website or technological conclusion of contracts or through on-site services at the customer's location

Requiring non-resident suppliers of remote digital business to consumer supplies to register and account for VAT in the jurisdiction of the consumer. Lowering the threshold for low value imports and requiring vendors to register and account for VAT in the jurisdiction of importation

A withholding tax on payments made for digital services or goods

Modifications to exemptions from PE status, e.g., warehousing

Consider whether this Action may affect your current tax strategy

- Does the group currently have an online internet site through which sales are made?
- Does the group provide cross-border services 'remotely'?
- Does the group operate cross-border with centralised servers or data centres?
- Does the group gather data from online customers to which they attribute value?

Quantify potential exposure

- Identify sales income from online sales split by territory
- Calculate appropriate profit margins associated with income by territory
- Calculate additional tax cost consider:
 - VAT impact
 - CT impact



BEPS – Action 7

BEPS Action 7: Prevent the artificial avoidance of Permanent Establishment status

- Commissionaires
- Limited Risk Distributors that automatically bind the POC (e.g., inappropriate level of review at POC of price exceptions, sales contracts, material sales terms, etc.)
- Inventory owned in a warehouse in one jurisdiction by an entity in another jurisdiction
- Tolling arrangements where POC owns inventory
- Procurement or purchasing operations
- Fragmenting local operations in order to manage PE risk
- Splitting service contracts to manage the 183 day rule
- Insurance sales in one jurisdiction on behalf of foreign Insurance or Re-Insurance Co

The goal is to expand the tax base of the countries where the sales, warehousing, manufacturing, or service delivery take place (“source countries”)



Consider whether this Action may affect your current tax strategy



Does the group have warehouses in territories which are not regarded as PEs? Are any goods held in these warehouses subject to any processing, modification or packaging?



Does the group have material sales to customers in any territories, supporting by local marketing teams and/or warehousing, which are not booked as the sale revenue of that territory?



Does the group have overseas VAT registration where there is no PE?



Does the group operate any commissionaire structures?



Does the group 'artificially fragment' their operations among multiple group entities to qualify for the exceptions to PE status for preparatory and ancillary activities?



Consider comment on how changes to PE regime may lead to tax in different jurisdictions but overall tax burden remains the same. Compliance burden will increase.



Quantify potential exposure



Quantify income flows/profits associated with operations in territories where there is no current permanent establishment



Calculate potential tax exposure if a Permanent Establishment were regarded as existing in those territories



Consider whether alterations will be necessary to current structure and cost/time to implement



The Digital Economy – Change in tax fundamentals

Complex tax landscape – Technology and business models shifting faster than regulations can keep up

Indirect tax considerations – Shifting from products to services, nebulous indirect tax implications for cloud-based services

Transfer pricing considerations – Supply chain value drivers, shifting operations to low cost regions

What you call yourself publicly matters – Sub-SEC code definition, telecom nuances

Global tax reset considerations

Leading practices for companies:

- Get tax organization involved in the transition discussions early
- Analyze tax implications throughout the strategy, business model, capabilities and operating model discussion
- Integrate tax planning into the strategy so decisions can be made on after-tax basis
- Act fast and act strategically



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