



The 'Digital Tax' will have a negative economic impact of up to €662 million on the Spanish GDP

Madrid – January 29, 2019. The tax on certain digital services (IDSD) raised by the Spanish Government will have a negative impact on consumer welfare. This loss of welfare, of an estimated economic value of 515-665 million euros, is calculated on the basis of the increase in the price of products and services the tax will cause, and which means paying more for them (negatively affecting consumers' savings) and, in some cases, not being able to afford these products and services and enjoy them. These are some of the key findings of the 'Impact of a tax on digital services of the Spanish economy' report, conducted by PwC on behalf of AMETIC and Adigital.

According to this report, given the structural characteristics of the digital sector, the big losers in this context will be the main beneficiaries of digital services, i.e. both small and medium enterprises (SMEs) and consumers. The cost of the tax will be transferred to the companies that use the taxed services, which, at the same time, will transfer part of it to consumers through their products' final price.

The report estimates that Spanish companies using digital services will see their profits reduced by up to 562 million euros, as a result of the increase in the production costs and the decrease in sales. This will have a negative economic impact of up to 662 million euros on the Spanish GDP. Likewise, as a result, this tax will have a negative net impact on the collection of VAT.

Long-term effects on the economy

Companies' digitalisation is essential to guarantee the competitiveness of the Spanish economy in the medium and long term and survive in a globalised context. In addition to this, it is an opportunity to introduce new business processes that allow Spanish SMEs to grow faster and more solidly and target new customer groups. In the long term, if this process slows down, the national economy will be at a competitive disadvantage compared to other countries.

According to PwC, an increase of 10% in the digitisation index of a country could result in a 0.75% growth in GDP per capita and reduce the unemployment rate by one percentage point. Burdening the digitisation process with a digital tax would limit these potential benefits that digital technologies can bring to a country in terms of productivity.

The 'Digital Tax' will have a distorting effect on the market, creating competitive advantages of certain companies over others. The tax will damage the most digitalised companies that use third-party platforms to sell or advertise their products (generally SMEs, due to the lower cost). Digital SME will be damaged:

When exporting (DST will work as an export tariff).

In the local market, against foreign importers (DST will work as a subsidy to import).

Importance of digital services for SMEs and consumers

Marketplaces (online platforms for the exchange of products and services either between companies (B2B) or companies and final consumers (B2C)), are one of the activities that will be impacted by this tax. Marketplaces make it affordable for smaller companies and startups to sell their products online without having to develop their own platforms. Marketplaces make it easier for SMEs to start operating abroad, too. The IDSD, however, will not only impact on B2B/B2C companies but also on P2P platforms (those that allow for the exchange of goods or services between individuals), companies selling user-generated data and online advertising platforms.

"The tax on certain digital services punishes the digital industry. In addition to that, by taxing income and not profits, it goes against the international principle of taxing corporate profits, leading to situations of double taxation. Global and coordinated measures are needed within the OECD to avoid its distorting effects on the market", said María Teresa Gómez Condado, general director of AMETIC.

José Luis Zimmermann, general director of Adigital, also agreed on the need for a regulation agreed at a global level, based on a constructive, coherent and holistic dialogue: "It is about achieving a modern and adequate regulatory framework that incorporates the international principles which have made innovation possible to date and adapts to the numerous changes that digitalization brings. Spain cannot adopt unilateral measures that leave us in a situation of exceptionality, and therefore of disadvantage, in the international political and economic context. We are talking not only about the impact on competitiveness and investment in our country but also about the fragmentation of the Digital Single Market."

About Adigital

Adigital is the Spanish Association of the Digital Economy, formed by more than 500 associates. Its objective is to promote and support the digital economy in Spain in its different aspects, such as the development of information society services, electronic commerce, marketing and digital communication, mobile applications, digital content, digital advertising and other related activities such as contact center services, advertising agencies and networks, logistics or means of payment. Adigital is a partner, together with Autocontrol, of Online Confidence, a seal of quality to which more than 2,000 companies are affiliated and present in more than 2,600 sites.

More information

Adigital – Communication Department

comunicacion@adigital.org

Telephone: 915 981157