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GLOBAL AND LONG-TERM SOLUTION NEEDED FOR TAXATION OF DIGITAL COMPANIES

The global economy has changed significantly in recent years and the wave of digitalization has influenced almost every sector of the economy. In such an environment, a single company can have a global impact and create profits even without being physically present in the country where the profits are made. However, corporate tax rules still define that companies tax their profits in the country where they are registered. That's why the European Commission in March 2018 presented its proposals on a directive laying down rules relating to corporate taxation of a significant digital presence and a directive on a common system of taxation of revenues resulting from the provision of certain digital services. The proposals were discussed at a debate organised by the Representation of the European Commission in Prague, the Office of the European Parliament in Prague, the Confederation of Industry of the Czech Republic and CEBRE on 5th October in the European House in Prague. Roberta Grappiolo of the European Commission says that they propose two kinds of measures – an interim one and a long term one. The long term solution would ensure that businesses tax their profits in countries where they don't have physical presence, but do have a taxable "digital presence". That digital presence would be applicable if the company fulfils one of the following criteria in a tax year in a Member State: annual revenues higher than 7 mil. EUR, more than 100 000 users or more than 3000 business contracts for digital services with business users. The interim solution would apply a 3% tax on companies with total annual worldwide revenues of 750 mil. EUR and EU revenues of 50 mil. EUR. According to MEP Petr Ježek, such measures wouldn't harm creation of new services and products as start-ups and SMEs would be excluded. Czech businesses, represented at the debate by Vladimír Štípek of the Confederation of Industry of the Czech Republic, expressed their worries related to the proposals. The interim proposal can't be viewed as a complex solution and only ads tax burden on digital companies. The long-term solution is a good first step to debate on this topic; however, the measures need to be in line with other proposals of the European Commission, like CCCTB. In addition, the EU should aim for a global solution to this issue, not just one limited to the EU.

News FLASH

>UNEMPLOYMENT STILL LOWEST IN THE CZECH REPUBLIC

According to recent Eurostat data, the Czech Republic has still the lowest unemployment among EU Member States with 2.4%, followed by Germany and Poland (both 3.4%).

>TEAM CZECHIA TO HELP BUSINESSES

A new platform called Team Czechia has been created to support Czech businesses in their growth. The platform offers a one-stop-shop solution for companies that want to expand to foreign markets and make advantage of business support services offered by the Government.

>YES TO THE SINGLE DIGITAL GATEWAY

The Czech Republic welcomed the outcome of the September Competitiveness Council that gave a green light to the Single Digital Gateway proposal. The Czech Republic has been a strong supporter of this initiative since the beginning.

MEPs Corner

"The proposal suggests targeted measures that would only be applicable to large multinationals, so they wouldn't jeopardize the growth of SMEs and start-ups. I believe that large companies, even after paying their fair share of taxes, will have enough resources for their further development."

Petr Ježek,
Chair of Special committee on financial crimes,
tax evasion and tax avoidance of the European Parliament

FINANCIAL INSTRUMENTS – AN ALTERNATIVE TO ESIF FUNDS

The European Fund for Strategic Investments (EFSI), the main pillar of the so-called Juncker Plan launched in 2014, has been a great success so far. The first phase of EFSI that was supposed to leverage 315 bn. EUR in investment with 26 bn. EUR worth of guarantees from the EU budget and an additional 7.5 bn. EUR from European Investment Bank's own capital, exceeded expectations and managed to trigger 344 bn. EUR in investment from the private sector. That's why, the EU institutions agreed to extend the Fund until the end of 2020 with a target of 500 bn. EUR in investment. The opportunities for Czech companies to use the EU financial instruments as well as the InvestEU programme were the main topics of a seminar organised by the Representation of the European Commission in Prague and CEBRE on 2nd October in Brno. Czech companies have vast experience with the use of grants from the European Structural and Investment Funds. However, with GDP growing in the Czech Republic, the companies should look for alternatives to ESIF funds and take advantage of other financial instruments. In addition, financial instruments will play a much bigger role in the coming Multiannual Financial Framework 2021-2027. So far, the Czech Republic has seen a surprisingly high rate of SMEs that are profiting from the financial instruments offered by the European Investment Bank and the European Investment Fund. On the other hand, large companies fall behind in this sense. While grants might seem a better option, financial instruments offer more flexibility regarding the use of the money. In addition, the administrative procedure can be much less burdensome than in the case of ESIF funds and all the paperwork can be done in up to 3 months.

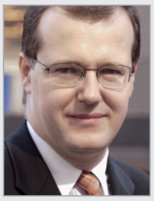
CEBRE – Czech Business Representation, protects the interests of the Czech business community in relation to EU institutions, informs Czech businesses about EU legislation affecting them, trains Czech entrepreneurs in Brussels and represents Czech business associations at European business federations. Contact: Avenue des Arts 19 AD, 1 000 Brussels, Tel:+ +32 2 502 0766/+32 2 502 8091, e-mail: brussels@cebre.cz, www.cebre.cz

CZECH BUSINESSES CALL FOR CONSIDERABLE PROGRESS IN BREXIT NEGOTIATIONS

The deadline for Brexit is slowly but steadily approaching and the negotiations are entering a crucial phase. The October summit of the European Council should be the decisive point in the talks that should bring more clarity about the future relationships. There is still no decision on the transition period and as the date of the summit approaches, the signals are still not very clear about which way the negotiations will go. With less than six months until the deadline businesses are becoming nervous. Great Britain is a very important market for Czech businesses. It is the fourth largest export market within the EU after Germany, Slovakia and Poland, and the tenth largest imports market. According to recent studies, the Czech Republic would be the fifth most severely hit EU country in the event of a "hard" Brexit. That's why Czech businesses are urging the chief negotiators to avoid a "hard" Brexit at all costs. One of the priorities of the Czech government has been to safeguard the rights of EU citizens in Great Britain after Brexit. There are around 100 000 Czech citizens living and working in Great Britain and according to the British Prime Minister, Theresa May, the conditions for Czech citizens shouldn't change after Brexit. Hopefully, the negotiators will do their best to also avoid any potential negative economic impacts of Brexit. Those could be very severe for the Czech Republic. Not surprisingly, the biggest negative impact would be on the automotive sector, automotive components and other engineering machines. Even with a deal in March and a transition period being applicable until the end of 2020, it is clear that eventually the relationship between the EU and Great Britain will have to change as it will become an external country. However, Czech businesses hope that the negotiators will find the best possible solution that will bring clarity and much needed legal certainty for businesses both in the EU and in Great Britain.

EESC CORNER: INVESTEU – AN ADDITIONAL SPACE OPENED FOR FINANCIAL INSTRUMENTS IN THE 2021 – 2027 EU FINANCIAL FRAMEWORK

The recent economic crisis significantly reduced the volume of investment activity in the EU and it has yet to recover. The aim of all the key elements of EU economic policy must be to find pathways to a sustained recovery in investment, including investment in the public interest. One way of achieving this aim is to strike a balance within the EU budget between investments in repayable financial instruments and those that are based on the subsidy principle. Repayable financial instruments exploiting the potential of the EU budget, at central and national level, have made significant advances, particularly for the 2014-2020 financial framework, and yet are not used as much as they ideally could be. Among the improvements needed are the systemic alignment of a large number of uncoordinated instruments at central level into a single management mechanism. InvestEU is an example of this. The InvestEU programme can be seen as a crucial contribution to the EU budget in line with recent changes to ensure European added value, greater flexibility, synergies between chapters and simplified procedures. This contribution should result, in the case of InvestEU, in increased investment activity over the long term (with a total of EUR 650 billion being mobilised by 2027), a strengthening of the role of the financial market, including in relation to projects of public interest, and a more effective allocation of EU budget resources, which are subject to a natural market test thanks to the return on investment element. InvestEU builds on the so far well-regarded practice of the European Fund for Strategic Investments (EFSI) and the Investment Plan for Europe and takes this much further forward. The progressive principle on which the EFSI is based should be used in merging the spectrum of all centrally established financial instruments at the EU level. The fact that the package of regulations on the future multiannual financial framework includes a proposal to strengthen investment activity in the EU, including long-term investment projects that are of high public interest, while also respecting the sustainable development criteria (in line with the EU's commitment to adhere to these as part of the 2030 Sustainable Development Agenda) is certainly welcomed. We appreciate the European Commission's efforts to create an umbrella financial instrument and also agree with the focus of its content. Its unified management, enhanced transparency and potential for synergies provide a greater opportunity to achieve the desired effects compared with the current situation. We stress the need to carry out a thorough market test of projects with a view to ensuring the adequacy of specific projects that are suitable for the application of financial instruments. We appreciate the fact that, in addition to promoting sustainable infrastructure, small and medium-sized enterprises (SMEs) and research and innovation, the InvestEU programme also focuses on social investment and skills. We also appreciate the expected positive impact of the InvestEU programme on the development of financial markets in the Member States; in this regard, it stresses the considerable need for an appropriate structure for the implementing partners, especially at national level.



Petr Zahradník,
EESC Member,
Group I – Employers

CEBRE CALENDAR:

- 16th November – CEBRE founders meet Czech MEPs (Prague)

CEBRE was founded in 2002 by the three most important Czech business organizations – Czech Chamber of Commerce, Confederation of Industry of the Czech Republic, Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic with kind support of the Ministry of Industry and Trade via its Trade promotion agency CzechTrade.