Booking.com avoided 715 million euro of tax in the EU.

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Booking.com avoided 715 million euro of tax in the EU

It turns out once more that the rules of corporate taxation do not, or not fully, apply to digital companies. Last September, we looked into the effective tax contribution of Google and Facebook[1]. Now, we shed light on the world's largest online-travel company Booking.com (Priceline Group Inc.). The outcome is again bewildering: Booking.com avoided approximately 715 million euro of tax in the EU over 2012-2016.

There is a huge mismatch between where revenues are booked and where users are located. For instance, large digital platforms interact online with their users all over Europe, while booking (almost) all their revenues in low-tax Member States such as Ireland or Luxembourg.

Today, Booking.com, a Dutch online platform that aggregates hotel inventory, has the world's largest supply of hotel accommodations. The online travel company, founded in 1996, has grown exponentially and already makes more profits than some large companies that have existed for decades. It fits the pattern of a winner-takes-it-all mentality in the sharing economy of today, at times with monopolistic elements. Hoteliers complain about the conditions they have to meet if they go into business with Booking.com. They may not offer hotel rooms below the price on the Booking-site, and have to pay 15-18% as a commission fee.

As an ever faster-growing large company, Booking.com does of course plan its taxes. It operates their international website all over Europe, generating vast amounts of revenues. The bulk of these revenues are, however, recorded in the Netherlands where the company resides. Almost no revenues are booked in the other EU countries where the online-travel company has most of its customers. As a result, Booking.com manages to pay much less tax on their profits, around 16 percent, compared to traditional businesses in Europe, who pay on average around 23 percent.

How much corporate tax has Booking.com actually avoided across Europe due to this tax planning? We estimated the expected tax revenue loss in the EU over the period 2012-2016 as follows. First, we aggregated the revenues, profits and taxes paid of the two operating companies in the Netherlands and their subsidiaries in the other EU countries (see Figure 1). Thereafter, we applied the EU effective average tax rate to the sum of profits to get an estimate of the 'taxes that should have been paid'. Finally, we took the difference with taxes actually paid to obtain an estimate of the amount of tax 'avoided' by Booking.com: approximately 715 million euro (see Table 1).

[1] http://www.paultang.nl/wp-content/uploads/2018/03/EU-Tax-Revenue-Loss-from-Google-and-Facebook.pdf

Table 1. Estimated taxes avoided by Booking.com in the EU, 2012-2016

Company	Period	Revenue (m EUR)	Profits (m EUR)	Tax (m EUR)	ETR (%)
BOOKING.COM (Priceline Group Inc.)	2012-2016	23,556	10,107	1,629	16.1%
	2012-2016	23,556	10,107	2,345	23.2%
Total (2012-2016)				**(715)**	

Source: *Based on profit/loss-account data from Orbis database, own calculations; Note: The underlying data and calculations are retrievable via email: paul.tang-office@europarl.europa.eu.*

Such tax planning is possible because the online-travel company, like many other digital companies, are footloose, that is: they have no permanent physical presence in most countries. This is needed to become liable to corporate tax in a particular country. The main feature of digital companies is, however, that services are provided digitally with minimal or no physical presence. There is an urgent need to ensure that also permanent digital presence in a country triggers a tax liability. This is necessary to restore a level-playing field between digital companies and traditional businesses *and* to stop the deprivation of tax revenues belonging to other countries.

To tackle this problem, the European Parliament has proposed that digital platforms should constitute a 'permanent establishment', and thus become liable to tax, if they have economic activity in a country. This is part of a more far-reaching proposal for a European corporate tax base (3CTB) to stop profit shifting and base erosion in general. Throughout the EU, corporate profits will be consolidated and allocated to countries where real economic activity takes place, including countries where only digital activity takes place.

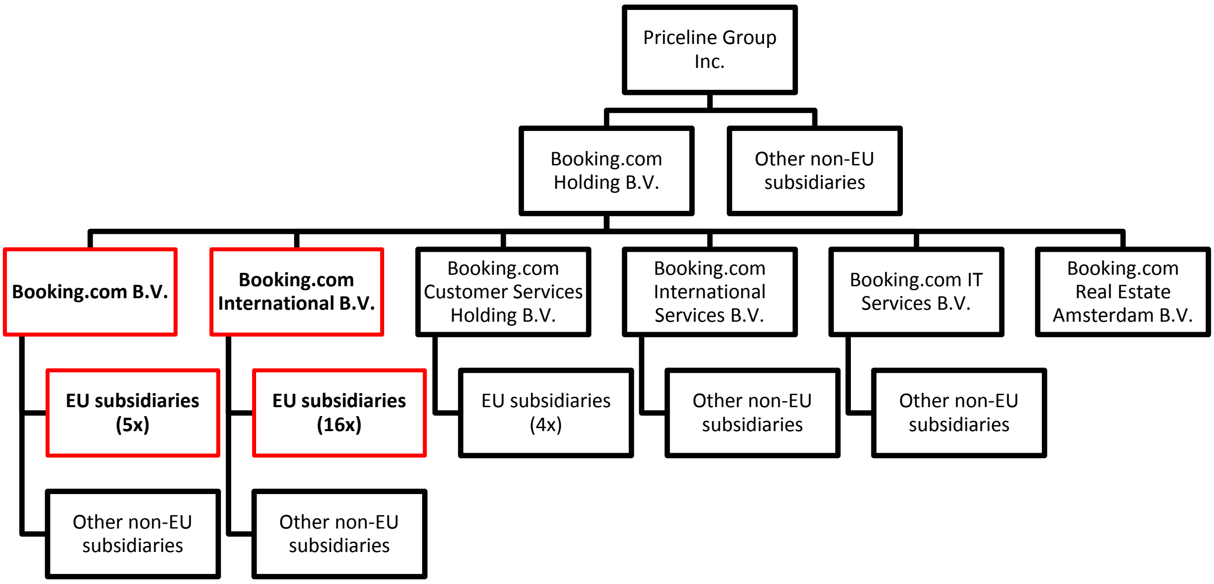
Box 1: France demands 356 million euro in tax from Booking.com

In 2015, the French tax authorities demanded 356 million euro in unpaid corporate income and value-added taxes from Booking.com. The tax authorities concluded this after an audit of Booking.com's accounts from 2003 to 2012. Tax officials say Booking.com had a permanent base in France, and were therefore liable to tax. The lawsuit is still ongoing.

Box 2: The European Commission proposes a tax on digital activities

In March 2018, the European Commission will propose a Directive on a common system for a tax on certain digital activities. It is a tax levied on gross revenues of digital companies. There will be a single rate across the EU yet to be set in the range of 1-5%. For Booking.com this would have resulted in an extra tax payment of between 236 million and more than 1 billion euro. Even if the aim of this digital tax is to compensate for the loss due to profit shifting, it should be closer to 5% than to 1%.

Figure 1. Corporate structure Booking.com (Priceline Group Inc.)



***Source**: Based on ownership data from Orbis database, own projection*