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New ways of doing business often challenge tax rules written for a different model. That is a concern expressed for many years by several countries. The concern is that it looks like companies that make money by other than selling tangible goods are profiting by activity in the country, but have no permanent establishment in the country, so owe no income tax. For example, a search engine company makes money when someone uses its search engine because it provides data to the company. And if the user clicks on an ad, the search engine company makes money. But no tax revenues go to the user's country.

The OECD, European Commission and others have been studying this for many years. The AICPA recently released a policy paper that explains the topic, issues and lists what some countries are doing or proposing. See AICPA Policy Report – Taxation of the digitized economy: A policy paper designed to educate, enlighten and stimulate discussion (October 2018).

The UK has also studied this issue and solicited comments on its suggestions. It now proposes to start a Digital Services Tax (DST) in 2020. In November 2017, the UK government released a discussion paper – *Corporate tax and the digital economy: position paper*; later updated in 2018. The position is that "a multinational group's profits should be taxed in the countries in which it generates value." Also see the UK policy paper – Digital Services Tax: Budget 2018 brief. It states:

"The DST applies a 2% tax on the revenues of specific digital business models where their revenues are linked the participation of UK users. The tax will apply to: search engines; social media platforms; and online marketplaces. That is because the

"The United Kingdom's introduction of a new tax targeting cross-border digital services – which mirrors a similar proposal under consideration in the European Union – is troubling. Singling out a key global industry dominated by American companies for taxation that is inconsistent with international norms is a blatant revenue grab.

"The ongoing global dialogue on the digital economy through the OECD framework should not be pre-empted by unilateral actions that will result in double taxation. If the United Kingdom or other countries proceed, that will prompt a review of our U.S. tax and regulatory approach to determine what actions are appropriate to ensure a level playing field in global markets."

Spain has also proposed a DST of 3%. See DLA Piper Global Tax Alert 11/1/18.

Is a new tax the answer? Can existing income taxes be modified to address where income is generated? How easy it is to know where income is generated? I think technology makes it possible to know the location of the person clicking on a social media ad. The harder question might be where is that income generated for tax policy purposes. That has been a longstanding multistate question – where the costs of performance occur or at the destination, or perhaps some combination?

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