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THE DIGITAL TAX WRENCH IN U.S.-U.K. TALKS

The prospect of a trade deal between the U.K. and U.S. has “dimmed” after British Chancellor of the Exchequer Rishi Sunak included plans for a big digital services tax in his recent budget, a former USTR official told our colleagues at POLITICO Pro Europe.

Harry Broadman, who served as an assistant U.S. trade representative in the George H.W. Bush and Bill Clinton administrations, said the plan for a 2 percent digital services tax, which will be targeted at multinational giants like Google and Amazon, would not fly with the White House. It comes as other nations — France chief among them — have backed off the idea as the OECD negotiates a global approach, leaving London “sticking out like a sore thumb,” Broadman said.

“It would be one thing if this was on shipped merchandise, but this is a digital service, which makes it very difficult, if not impossible and irrational, to tax on a country-by-country basis. On the face of it you would almost think that, by tabling this, the U.K. is saying to the U.S., ‘We are not really interested right now in moving forward with this negotiation,’” Broadman told POLITICO.

Still, British officials have said they do not intend to start collecting the tax until 2021, even though it started accruing on April 1. That still provides time for countries to work out a multilateral solution to the tax issue at the OECD.

Broadman said COVID-19, which is crippling governments around the world, should not be a “showstopper” for trade talks, at least as far as the U.S. is concerned.

“Under current conditions there is not a loss of capacity to think about these things,” he said. “At this point, I don’t see that those kinds of conversations would not be able to proceed in some fashion, but it depends just how serious [the virus] becomes on both sides.”

He added that using tech solutions like videoconferencing — which officials in London are considering after Donald Trump imposed a travel ban on European countries, including the U.K. — could work. He said it was “surely a second best [to face-to-face talks] but it’s a hell of a lot better than doing it by telephone or email. It’s conceivably doable.”