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The French Internet Tax: pretension and delusion
What is the right form of fiscality for the digital economy ?

Executive Summary

In July 2012, the newly elected French Government asked Pierre Collin (from the Conseil d'Etat) and Nicolas Colin (from the Inspection Générale des Finances) to write a **report on the taxation of the digital economy**. This report was delivered in January 2013 to four Ministers including the Economy Minister (Pierre Moscovici) and the Budget Minister. The Government approved its content and recommendations and currently promotes them at various levels: G20, OECD, EU. At the national level, the new Conseil National du Numérique (a commission for digital technology) is expected to work on a "thorough technical analysis" of these proposals.

We consider this report to be **wrong and dangerous**.

Wrong, because it paints an alarmist view of the impact of the digital revolution, without any credible economic analysis, and comes up with **a mind-blowlingly complicated fiscal policy regarding the "taxation of free work"**, the cost of which would eventually be borne by French digital companies and web users.

Dangerous, because its only true purpose is to enlarge the scope of France's tax base. The Colin-Collin report suggests implementing additional taxes on digital services, which will only slow down French digital entrepreneurship.

Overall, **this report only reproduces all the shortcomings of French taxation, which has become the enemy of prosperity**: instability and unpredictability, inextricable complexity of the concepts, special regimes, statist management, unilateral decision-making. In perfect line with another regrettable tradition, we also note the **absence of any quantified cost-benefit analysis** or attempt to put numbers behind concepts.

The authors failed to perceive the **real issue: the sluggish development of digital technology in France due to a lack of available capital**. Indeed, digital technology has high capital needs and hence suffers directly from barriers to investment, a specialty in France.

In a clear contrast with Pierre Collin and Nicolas Colin, we recommend the implementation of a fiscal policy based on incentives rather than repression, and drawing from successful international experiences. We deeply need a French "Angel Law"!

Conclusion

Faced with the crucial issue of digital technology expansion, the French administration's brains are working hard to produce sophisticated doctrines only to justify new taxes. Behind an apparently intelligent framework, they display a fundamental misunderstanding of economic mechanisms. Moreover, a detailed analysis allowed us to demonstrate the weaknesses of their argumentation, biased for obvious ideological reasons. In fiscal policy, seeking to incorporate the sheer interaction of individuals, without any monetary or contractual basis, into the fiscal base is nothing but a pure sophism.

We call the Government to reject the conclusions of the Colin-Collin report and to show enough courage to tackle the issue of under-investment in the digital sector.

International comparisons do not leave any room for doubt. The countries which turned out to be most successful are those that implemented strongly incentivising policies, such as Israël ("Go for it, we'll double your gains") or the United States of America ("Go for it, you won't pay any tax."). It is nearly impossible to find any economic or social benefits in France's over-complicated fiscal policy.

A thorough analysis shows us that, all other things being equal and only by applying the fiscal mechanisms of each country, **an investor in a high-tech SME will obtain a return on investment of on average 20% in the US, UK and Israël – but only 5% in France**. Anticipating how global capital allocation will be done seems rather obvious in such a context.

The French Government should think about drawing inspiration from two recent measures, particularly simple and effective:

- **The Jobs Act in the US**, initiated by President Obama, which authorizes and regulates new on-line financing schemes to favour the creation of start-ups.
- **The Angel Law in Israël**, which offers significant tax benefits to investors in start-ups.

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Key figures

Those estimates have been produced by GenerationLibre's teams.

Average return on investment for a start-up

(only by applying the fiscal mechanisms of each country)

		Israel	US	UK	France
Initial Investment		-300,000			
Entry tax return		+135,000	0	+80,000	+45,000
Probability	Sell price after 5 years of investment				
10%	Flamboyant success	+4,000,000			
40%	Moderate success	+800,000			
50%	Loss	0			
Probabilité	Tax on capital gains				
10%	Flamboyant success	-1,000,000	0	0	-1,806,000
40%	Moderate success	-200,000	0	0	-516,000
50%	Loss	0	0	0	0
Expected gains		+375,000	+420,000	+500,000	+78,000
Annualized return on investment		**18%**	**19%**	**22%**	**5%**