On July 24, France’s president signed into law a digital services tax (DST), which is a 3 percent gross receipts tax on receipts from certain digital services sourced to France. The French DST applies retroactively to taxable digital services receipts as of January 1, 2019. The French DST is broadly inspired by a European Commission proposal to implement an EU-wide DST. Because the European Commission proposal has stalled, France—alongside other EU Member States—has decided to take unilateral action. Other non-EU countries are also considering similar steps.

Overview of the French DST

Affected taxpayers are those who, on a group basis, have gross receipts from services in the scope of the DST (i) exceeding €750 million worldwide and (ii) exceeding €25 million in France in the previous year.

The French DST applies to three categories of taxable services:

1. Digital intermediary services that allow users to enter into contact and interact with one another
2. Advertising services with the aim to advertise on digital interfaces and based on user data, including related data sales and services
3. Sales of data collected or generated from users located in France.

The DST only applies to taxable receipts that are sourced to France. However, the rules for identifying taxable receipts and application of the sourcing rules are challenging. The French government is expected to issue a decree on the new DST in the coming weeks.

Taxpayers liable for the DST are required to make advance DST payments in two installments, one in October (for the reporting period following the year of enactment) with the balance of the tax liability due April of the following year. Taxpayers that are members of a group may appoint another group member to comply with the DST on their behalf. The law provides for transitional rules for 2019, with the first DST installment due in November 2019.
Affected taxpayers should consider the potential impact of the French DST. Among the areas to consider are:

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<th>Planning and reporting</th>
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<td>Companies should identify “in-scope” activities and source those receipts to determine “taxable amounts.” This may require new facts and data sources to estimate and plan for these new taxes. Reporting the financial statement impact can be even more complex due to interaction with existing rules such as treaty implications and whether the taxes are creditable or deductible.</td>
<td>Knowledgeable KPMG LLP (KPMG) professionals who understand the technical issues that exist in the crossover among domestic and foreign tax law, treaty law, and financial accounting rules can help you plan to achieve the appropriate reporting outcomes.</td>
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<th>Compliance with the French DST</th>
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<td>Taxable receipts should be identified by mapping complex elements of the sourcing rules to financial accounting records. Examples include (i) mapping receipts to geolocation data, (ii) mapping taxable events (e.g., ad impressions) to recognized revenue (e.g., ad click-throughs), and (iii) reconciling receipts to how revenue is recognized. These rules are different than VAT “place of supply” rules and can require building technology tools to identify new data elements and processes to help compute and support necessary tax computations.</td>
<td>KPMG has created a multidisciplined team of international tax and indirect tax professionals—including specialists from KPMG International's member firm in France—that can assist with the development and execution of a workable compliance plan.</td>
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<th>Global tax landscape</th>
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<td>How other countries’ tax laws treat the French DST may vary, which raises potential implications, including the deductibility of any DST taxes paid, the applicability of foreign tax credits, the applicability of double tax treaties, and the impact of trade law.</td>
<td>Professionals from KPMG International’s network of member firms can assist in evaluating the new law’s potential impact across your group.</td>
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<th>More DSTs on the horizon</th>
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<td>France is not the only country taking unilateral steps. In the absence of global solutions, other countries are considering similar measures. Austria, the Czech Republic, Italy, Slovenia, Spain, and the United Kingdom, among others, have similar DST proposals under consideration.</td>
<td>KPMG can help your company track and comply with these new laws as they are enacted.</td>
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Visit KPMG’s website on taxation of the digital economy for more insights on this evolving development at [read.kpmg.us/digital-economy](read.kpmg.us/digital-economy). Among the resources you will find is KPMG’s Development Summary, which summarizes how various countries are responding to the challenges presented by trying to tax the digital economy.

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