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Emerging trends: Digital platform companies

Tax insights and actions

Digital platform companies (DPCs) connect individuals to one another and to businesses, and they've changed the commerce landscape irrevocably. The use case possibilities include digital identities, product recommendations based on preferences, and social connections to friends, services, and products. Many traditional companies are incorporating digital platforms into their business models to enhance customer engagement and open new sales channels.

5 insights you should know

1. **New scenarios.** Many goods and services may be obtained through digital platforms. Examples include travel services, e-books, or NFTs purchased within a game. Historically, tax law was not written for digital transactions, so these applications come with a high degree of uncertainty.

2. **Pinpoint locations.** Subscription media and gaming services can be accessed anywhere, by anyone, using a variety of devices. Tax and compliance requirements are evolving to shift the tax burden to the location where value is derived (i.e., the user base). Tax jurisdictions continue to assess who should be taxed; who should be responsible for collecting, reporting, and remitting tax; and in which location.

3. **Unpack bundles.** Companies are bundling the sale of different types of assets, whether digital assets, services, data, or physical assets. Taxation is different depending on the nature of the item sold, the classification of buyer and seller, and the jurisdiction of the transaction. There are different tax consequences and information reporting requirements in various jurisdictions around the globe.

4. **Evolving business models.** The description of what is sold, as well as the nature of the legal transaction, can have very different tax consequences. Companies are offering digital-based intellectual property or services as add-ons to transactions. Tax should be closely involved with the development of new business models as these may force changes in historic tax treatment or taxable jurisdiction.

5. **Update software.** Many ERP systems are not set up to capture, track, and report the information necessary to analyze taxation or supply compliance data. New regulations require businesses to report the sales and personal information of their sellers at a granular level. ERP systems and customer contracts may not be set up to source this information currently or in an automated fashion.

5 actions to take now

1. **Substance and form.** Terms and conditions of sale should clearly outline what is being bought and sold. There are different tax consequences depending on whether the item sold is a service, license, right, property, or other classification, and whether the business is acting as an agent or principal. The tax department and business development team need to work together to evaluate the impact of agreements.

2. **Analyze guidance.** Once new business models/transactions are identified, taxpayers should analyze the guidance in each relevant jurisdiction to determine taxability. Understanding the classification of buyers and sellers, location of benefit derived, and location of shipment or service performed are critical considerations.

3. **Understand digital service taxes and proposed legislation.** Many jurisdictions have adopted digital service tax (DST) regulations which require detailed reporting of consumer-facing digital sales, including user location. Taxpayers should evaluate their global DST obligations and the ability to address current and proposed compliance obligations.

4. **Evaluate location of value creation.** Taxpayers should evaluate and understand where value is created as part of the business model supply chain and model the intercompany and intracompany payments that need to be made to reimburse for such value. Tax departments should work closely with business development to understand emerging technologies and map tax results into modeling.

5. **Identify and remediate ERP system gaps.** Taxpayers should identify data and reporting requirements for tax computations and compliance. Once requirements are understood, enterprises should evaluate gaps in data and remediate ERP system data needs. This is one of the most important steps in planning any business model change, given that changes to ERP systems after implementation can be extremely costly.

TMT + Tax series

Tax planning for emerging trends

Digital trends are impacting every industry. Regardless of vertical, every company is now a tech company. Whether you’re modernizing IT, moving to the cloud, exploring blockchain, or expanding into the metaverse, technology creates exciting opportunities, and raises critical questions. Technological advances are outpacing guidance from regulators and tax authorities, and challenge even the most advanced companies. Deloitte's TMT + Tax series applies a tax lens to emerging trends to help you identify potential benefits as technologies evolve, while preparing for tax and regulatory developments.

Emerging trends

- SaaS and XaaS
- Digital Platform Companies (DPCs)
- Metaverse and shoppable media
- Semiconductor and digital infrastructure
- Blockchain and digital assets

Business imperatives

- Anticipate marketplace and supply chain shifts
- Know your products
- Know your customers
- Keep up with evolving guidance and compliance requirements
- Document the right data elements at the right level of granularity

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