The Honorable Janet Yellen
Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

December 11, 2023

Dear Secretary Yellen,

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship. Thank you for the opportunity to provide feedback on the draft OECD/G20 Inclusive Framework Multilateral Convention to Implement Amount A of Pillar One (Pillar One MLC) and accompanying documents, and particularly, the opportunity to relay the potential impact digital services taxes (DSTs) may have on the startup ecosystem.

The startups in Engine's network provide novel, innovative solutions to global problems. They range in size from just one employee, not yet turning a profit, to companies that are on their way to becoming household names. Many of these businesses have vastly different needs and possess drastically different capabilities to handle the impacts of discriminatory tax frameworks. Though Engine does not take a particular stance on the bulk of the Organization for Economic Cooperation and Development (OECD)'s work on Pillar One, we are particularly concerned about the potential impacts of digital services taxes already implemented and those that may be implemented throughout the world. While most startups are not always the direct targets of DSTs, the current and potential imposition of these levies poses a significant threat to the U.S. startup ecosystem.

Despite the fact that DSTs generally target large technology companies, startups are not immune from the effects of these taxes, nor does it eliminate the fear that DST thresholds could eventually ensnare smaller American businesses. Most U.S.-based startups, while drivers of innovation and job growth, operate on shoestring budgets, at least in their initial stages. Even the average seed-stage startup—already a somewhat successful company that has attracted outside funding—has just $55,000 a month to cover all operating expenses, from payroll, to rent, to product development and more.[1] And many startups rely on free and low-cost digital tools provided by large technology companies, many of whom are directly targeted by DSTs.

[1] *The State of the Startup Ecosystem*, Engine (April 2021), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60819983b7f8be1a2a99972d/1619106194054/The+State+of+the+Startup+Ecosystem.pdf.

Startups fully anticipate the cost of the DSTs to be effectively passed on to the customers of large tech companies. As Engine has stated in the past, "the ecosystem is connected through symbiotic relationships—startups are customers of the taxed firms, who have historically responded to such taxes by increasing prices for their services."[2] As we've noted:[3]

> In the United Kingdom, Turkey, and Austria, Google announced that it would pass down the cost of the DST to advertisers.[4] Amazon similarly announced that it too would pass down the cost of the tax—to sellers on its platform.[5] And Apple implemented developer fees in Italy, France, the UK and Turkey.[6]

If digital services taxes are permitted to proliferate further, costs and fees are bound to increase for digital services across the board.

Importantly, these low or no cost tools ensnared by DSTs—online marketplace services, online ad services, social media, tools to process user data, and more—are critical to startups operating across the globe. As Engine affirmed in comments to the Canadian government in opposition to their soon-to-be-implemented DST:[7]

> A report issued by Engine and the Computer & Communications Industry Association on the tools the U.S. startup ecosystem uses to compete with large companies, underscores this importance—'Startups rely on dozens of services and tools—many times for free or at low-cost—to perform those basic business functions. . . These tools help startups compete and have reduced the cost of launching a startup by at least three orders of magnitude in just the past two decades.' . . . The study found that '100% of surveyed startups utilize three or more tools,' and 98% used 5 or more.[8] These tools covered many needs for startups, from web hosting, to marketing and digital advertising, to platforms and marketplaces, to cloud computing services.[9] Without these tools, cash-strapped startups struggle to grow. Launching a company used to take a significant investment, out of reach of most would-be founders.[10] But, 'Innovations in the infrastructure to build companies has brought the cost of starting a

[2] *Tools to Compete*, Engine and the Computer & Communications Industry Association (Jan. 2023), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63d2b8d5bec96f502264fd1f/1674754266044/FINAL_CCIA-Engine_Tools-To-Compete.pdf; The Engine Team, *Engine and CCIA Release Tools to Compete Report*, Engine, (Jan. 26, 2023), https://www.engine.is/news/category/engine-and-ccia-release-tools-to-compete-report.
[3] *See comments from Engine Advocacy in response to Canada's consultation regarding its digital services tax*, Engine (Sept. 8, 2023), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/64fb3272d5d466187702d32c/1694184050574/Engine+-+Canada+DST+comments+-+9_8_23.pdf.
[4] Mark Sweney, *Google's Advertisers will Take Hit from UK Digital Services Tax* (Sept. 1, 2020), https://www.theguardian.com/media/2020/sep/01/googles-advertisers-will-take-the-hit-from-uk-digital-service-tax; Isobel Asher Hamilton, *Apple, Amazon, and Google hike their developer and ad client fees to pass on the costs of paying new digital taxes in Europe* (Sept. 2, 2020), https://www.businessinsider.com/apple-amazon-google-pass-costs-digital-services-taxes-2020-9.
[5] *Id.*
[6] *Id.*
[7] Engine, *supra* note 3.
[8] Engine, *supra* note 2.
[9] *Id.*
[10] *Id.*

> company to below $5,000, down from $5 million in 2000,' with one Engine network member noting, 'that the costs of launching a startup have come down from the tens of thousands when he started his first company to just a few thousand when he started his latest company.'[11]

And while we recognize that not all startups rely on digital services provided by large technology companies (though most do), those that do not will still likely suffer the squeeze of increasing costs. As we told the Canadian government, these companies "could be tangentially impacted because they have a business relationship with or rely on infrastructure from an impacted company, and therefore cost increases could be distributed across broader business lines, covering even more services on which startups rely."[12]

There is also a significant concern that global innovation and startup investment will lag as technology companies continue to face the discriminatory tax frameworks. As we've previously stated in comments regarding the soon-to-be implemented Canadian DST:[13]

> Because affected companies that develop novel tools for startups to use and rely on will face significant increases to their taxes owed, their ability to innovate will likely be similarly slowed. And more broadly, the tax fails to acknowledge the significant expenses technology companies have, namely in the form of research and development. If innovators face increased costs in the form of new levies, they may be less inclined to direct capital to R&D, impacting the innovation ecosystem not just in the U.S., but globally.[14] The companies subject to the DST also serve as direct startup investors, operating funds and accelerators that support the next generation of innovators. If they have to divert funds to pay discriminatory taxes, that could leave less money available for supporting new companies.

Because of both the threats DSTs pose to the ability of startups to afford to operate and use needed digital tools and the broader threat to innovation, elimination of DSTs is paramount.

While we commend the effort to craft a global tax framework and efforts to pause and eliminate DSTs, we still remain concerned that DSTs will continue to proliferate across the globe. As written, the Pillar One Multilateral Convention draft is not a total elimination of DSTs. While it does explicitly provide for a handful of DSTs and similar measures to be replaced by Pillar One, countries are not obligated to eliminate their DST in favor of the Pillar One's redistributed tax revenues, nor is the measure fully inclusive of all DSTs.[15] Instead, countries can decide if their domestic DST is more

---

[11] *Id.*
[12] Engine, *supra* note 3.
[13] *Id.*
[14] *See Engine's comments to USTR*:
https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5e14ce96fc7fc83d5fe0f48f/1578421910563/Engine+Comments+USTR+France+DST.pdf.
[15] Adam N. Michel, *OECD's Pillar One: A Step Towards Chaos Rather Than Stability, Cato Institute* (Oct. 30, 2023), https://www.cato.org/blog/oecds-pillar-one-step-towards-chaos-rather-stability; Daniel Bunn, Five Takeaways from the New Pillar One Documents, Tax Foundation (Oct. 18, 2023), https://taxfoundation.org/blog/pillar-one-us-treasury-consultation/.

beneficial to their coffers than their share of tax revenue from Pillar One.[16] Moreover, countries may still be able to enact measures that skirt the provided definition of a DST or similar measure, by reworking their levies and to whom they are applied.[17] Simply put, it is unclear that all discriminatory DSTs will be eliminated by the framework.

Digital services taxes represent a threat to global innovation and the U.S. startup ecosystem broadly. U.S. policymakers in working towards adoption of a global tax deal, should continue to push back against the imposition of all discriminatory digital services taxes. Thank you for the opportunity to provide this feedback, Engine remains available to answer any questions regarding the role of digital services in the startup ecosystem.

Sincerely,

Engine Advocacy

[16] *Id*; and The Multilateral Convention to Implement Amount A of Pillar One, Part VI, Section 1, Article 38 and 39.
[17] *Id*.