President Trump is stepping in to the dispute over EU proposals for digital taxes. That raises important questions. What do the US tech giants owe to foreign governments that they do not already pay through existing taxes? How exactly do these obligations and liabilities arise?

If existing taxes do not cover the obligations and liabilities owed to governments, the shortfalls are not just from the US tech companies but must also be owed by other companies operating in foreign territories generally - companies with property portfolios, for example. It indicates the need for a broad-based review of taxation based on sound principles. Sound principles are not being followed by EU measures such as General Anti-Avoidance Rules, which flout several of the basic foundations of good law, and other steps the EU has taken to crack down on offshore companies - which are bound to fail.

The proposal for a digital tax illustrates the cluelessness of the EU Commissioners. There is a real issue, but they come up with a gut reaction which plays to a certain gallery and fails to look at underlying principles. In the words of Adam Smith,

"The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." In other words, tax paid should be related to benefits received." Ability to pay arises from those benefits.

As regards digital taxes, there are many ways of capturing revenue, based on sound economic principles, which are worth exploring. Digital businesses require physical offices and plant, and use physical resources in physical locations - radio spectrum and cable wayleaves, for example, which in economics are classified as 'land'. The taxable value of these businesses can be captured through leasing of radio spectrum, which already happens through a system of auctions, and the taxation of wayleaves, which is also feasible through a leasing system. Revenue might also be generated from domain names, since these have some of the characteristics of land. Names with just a few letters, or are easily remembered, are not in unlimited supply and are effectively trade marks. A digital tax would cut into the potential revenue from these sources. It is a pity that politicians, especially EU politicians, are not on the ball when it comes to land and other natural resources.