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THE LANDSCAPE OF DIGITAL SERVICE TAXATION

The rapid expansion of the digital economy has fundamentally altered global business landscapes, compelling governments to reconsider traditional taxation frameworks. The Digital Services Tax (DST) has emerged as a pivotal policy tool designed to address the unique tax challenges posed by digitalization. DST specifically targets revenues generated by digital services, such as online advertising, social media platforms, and digital marketplaces, which often evade traditional tax regimes because of their intangible nature and cross-border operations. By focusing on large multinational corporations that derive substantial profits from user data and digital interactions, DST aims to ensure these companies contribute their fair share of taxes in the jurisdictions where they operate. However, implementing DST is fraught with challenges. Critics argue it may lead to double taxation, trade tensions, and compliance complexities. The unilateral adoption of DST by individual countries has raised concerns about fragmentation and the potential for retaliatory measures, particularly from nations hosting major digital firms. To address these issues, there is a growing call for a coordinated international approach, such as the OECD's efforts to develop a global framework for taxing the digital economy. Despite these challenges, DST offers significant opportunities for governments to modernize their tax systems and secure revenue streams in an increasingly digitalized world. By fostering international cooperation and aligning tax policies with the realities of the digital economy, DST can play a crucial role in promoting tax fairness and sustainability. In conclusion, DST represents a critical step towards addressing the tax challenges of the digital era, and while its implementation poses notable hurdles, a balanced and coordinated approach can harness its potential to ensure a fair and effective taxation system for the digital economy, which this research will examine.

Keywords: economy, technology, digitalization, taxation, compliance.

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1. INTRODUCTION AND KEY FEATURES OF DST's

In response to global tax avoidance, the international community recognized in the 2010s that the fair taxation of digital and large corporations is a global issue that can only be addressed through broad cooperation (Saez & Zucman, 2021). The application of the current corporate tax rules to businesses operating in the digital economy has led to a misalignment between the place where profits are taxed and the place where value is created. Many of these digital businesses derive value from their interaction and engagement with a user base. Under the current international tax framework, the value businesses derive from user participation is not considered when allocating the profits of a business between different countries. This measure will ensure the large multinational businesses in scope make a fair contribution to supporting vital public services. Domestic tax base erosion and profit shifting (BEPS) due to multinational enterprises exploiting gaps and mismatches between different countries' tax systems affect all countries. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately. Business operates internationally, so governments must act together to tackle BEPS and restore trust in domestic and international tax systems. BEPS practices cost countries 100-240 billion USD in lost revenue annually, which is the equivalent of 4-10% of the global corporate income tax revenue (OECD, 2025).

In recent years, several international organizations have developed programs specifically aimed at combating aggressive tax planning behaviors or strategies (Montenegro, 2021). The OECD has been at the forefront of the fight against tax avoidance and the shadow economy for decades. According to the OECD, businesses must adhere to the letter and spirit of the tax laws and regulations of the countries in which they operate. Compliance with the spirit of the law means recognizing and following the intent of the legislator (OECD, 2011). Multinational corporations should also refrain from lobbying for (excessively) favorable tax rules that disproportionately disadvantage other taxpayers (Gribnau, 2017). The organization launched the Base Erosion and Profit Shifting (BEPS) project in 2013, aimed at reviewing the global international tax framework. Working together in the OECD/G20 Inclusive Framework on BEPS, over 140 countries and jurisdictions implemented 15 Actions to tackle tax avoidance, improve the coherence of international tax rules, ensure a more transparent tax environment, and address the tax challenges arising from the digitalisation of the economy (OECD, 2025). One of the proposed solutions was to advocate for implementing DSTs, which have visible results, as many countries have already introduced them in some form.

Digital Service Taxes have been permeating the trade environment since 2018, but COVID-19 and the OECD's digitalization of the economy project, commonly referred to as BEPS 2.0, have accelerated the focus on DSTs. The stated aim of DSTs is to ensure that "market" countries get increased taxing rights over the profits of tech-based multinational companies that sell into their local market, and collect data from and target advertisements at local audiences, regardless of their physical presence (PWC, 2025).

DST targets companies that provide digital advertising and digital interface services whose revenues largely derive from user data generated within the territory of imposing

countries. Second, instead of following the permanent establishment rule, it chooses to target digital companies at the group level and collect on their worldwide revenues as long as they are "generated" within the imposing countries' territory. Third, DST is levied at a flat rate on the gross revenues of targeted companies, and no expenses are deductible for the purpose of calculating the tax base (Forsgren, Song & Horváth, 2020).

2. EXAMPLES FOR DSTs

Next to the international initiatives, countries like France, the United Kingdom, and Italy have been at the forefront of implementing DSTs. These taxes typically target revenues generated from specific digital services, such as online advertising, social media services, and the sale of user data. The rates and structures of these taxes vary by country, but they generally aim to tax a percentage of the revenue generated from local users (Tax Foundation, 2024).

In the United Kingdom, from 1 April 2020, the government introduced a new 2% tax on the revenues of search engines, social media services, and online marketplaces that derive value from UK users. The tax applies to a group's businesses that provide a social media service, search engine, or an online marketplace to UK users (PWC, 2020). These businesses are liable to the tax when the group's worldwide revenues from the mentioned digital activities are more than £500 million and more than £25 million of these revenues are derived from UK users. If the group's revenues exceed these thresholds, its revenues derived from UK users will be taxed at a rate of 2%. The taxable revenues will include any revenue earned by the group that is connected to the social media service, search engine, or online marketplace, irrespective of how the business monetizes the service. If revenues are attributable to the business activity and another activity, the group will need to apportion the revenue to each activity on a just and reasonable basis (, HM Revenue & Customs, 2020).

Italy introduced its DST as part of Law No. 160/2019, effective from January 1, 2020. The tax aims to capture revenues from large multinational digital companies that benefit from Italian users and digital markets but may not otherwise be fully subject to the traditional corporate tax regime because of the intangible and cross-border nature of their services. The Italian DST applies to revenues derived from the following specific categories of digital services. Online advertising services: revenue from placing targeted advertising on a digital interface based on data gathered from users. Multi-sided digital interfaces: revenues from the provision of a digital platform facilitating interaction between users, which may result in the supply of goods or services. Transmission of user data: revenues derived from selling or transferring data collected about users and generated through their activities on digital platforms. The taxable base includes gross revenues, excluding VAT and other indirect taxes. Importantly, the DST is levied on the revenues that companies derive specifically from Italian users, making it a turnover-based tax rather than a profit-based one (Vatcalc, 2025).

With the approval of the 2025 Italian Budget Law (n. 207 of December 30th), the Italian government removed the €5.5m threshold for annual revenue from qualified digital services taking place in the Italian territory. This change means that any level of revenue

generated in Italy will now be subject to the DST, provided the global threshold of €750m in worldwide revenue is met. Additionally, the Law introduces new payment terms. An advance payment equal to 30% of the DST owed for the previous year will be due by 30 November of the same calendar year. The balance will be due by 16 May of the year following the reference year (EY, 2025).

France introduced a tax in 2020 with a tax rate of 3% after the provision of a digital interface and advertising services based on users' data. Retroactively applicable as of January 1, 2019. The 2020 DST collection was delayed to the end of 2020 (Ministre de l'Économie et des Finances, 2019). The DST is calculated on the gross turnover of digital services providers. The "GAFA" tax, as it was initially abbreviated, is now "GAFAM" and is an income-based tax that primarily affects the most impactful digital services companies with clients worldwide and significant market share. GAFAM tax, a summary of initials from companies with the largest market share in this business sector, i.e., Google, Amazon, Facebook (now Meta), Apple, and Microsoft, is applicable in France if the likes of the companies above and others in conditions when the registered global turnover of taxable services is above EUR 750 million, and in France above EUR 25 million for certain digital services that are deemed to be placed in the country (1stopvat, 2024).

Also in France, a Finance Act from 2025 introduced a new flat rate of 5% for digital service providers that surpass the threshold indicated by the French General Tax Code starting from January 1, 2025. Also in France, with a tax rate of 1,2% on the revenues paid and free access to recorded music and online music videos implemented January 1, 2024 due to amounts exceeding EUR 20 million.

3. CRITICISMS OF A DIGITAL SERVICE TAXES

Although DSTs are considered a good initiative for addressing the taxation challenges of the digital economy, several criticisms have been raised regarding their implementation. Some contend that their high revenue thresholds result in only very large, and predominantly foreign, companies being subject to digital taxes. This creates a situation where smaller domestic firms, which may also benefit from digital platforms, are largely exempt from these obligations. Furthermore, the narrow scope of these regulations ensures that only businesses operating in specific targeted sectors, often deemed disfavored or controversial, face taxation. This selective approach raises concerns about fairness and equity in the tax system, as it disproportionately affects certain industries while allowing others to operate without similar financial responsibilities. Critics argue that such a framework not only undermines the principle of a level playing field but also limits the potential revenue that could be generated from a broader base of companies benefiting from digital services. Ultimately, this raises important questions about the effectiveness and sustainability of current digital tax policies in addressing the challenges posed by the evolving digital economy (Mason & Parada, 2018).

In the context of international tax law, companies have the ability to contest the DST by invoking bilateral income tax treaties. The specific tax treaty that applies and the claims that can be made are contingent upon the country of residence of the challenging company.

While it is probable that the DST does not fall under the category of "taxes covered" by the most pertinent tax treaties, companies can still mount a challenge by leveraging the non-discrimination clause included in these agreements. This clause typically prohibits countries from imposing tax burdens on foreign entities that are more onerous than those applied to domestic companies, providing a potential avenue for companies to argue that the DST unfairly discriminates against them. As the global landscape of taxation continues to evolve, the interplay between DSTs and existing tax treaties will likely become a focal point for legal disputes and negotiations among nations (Forsgren, Song & Horváth, 2020).

4. FINAL THOUGHTS

In conclusion, the DST represents a significant step towards addressing the unique taxation challenges posed by the digital economy. While it offers opportunities for governments to modernize their tax systems and secure revenue streams, its implementation is fraught with complexities and criticisms. A balanced and coordinated international approach is essential to harness the potential of DSTs, ensuring that they promote tax fairness and sustainability without leading to fragmentation or retaliatory measures. As the global landscape of taxation continues to evolve, the interplay between DSTs and existing tax treaties will likely remain a critical area for legal disputes and international negotiations.

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