



# The Price of Going Digital: Digital Service Tax

Center Forward Basics

July 2025

## Overview

In the evolving landscape of the global digital economy, governments have increasingly struggled to devise a fair tax system for multinational enterprises, including but not limited to tech companies, generating substantial revenues within their borders without maintaining a significant physical presence. This challenge has led to the rise of the digital services tax (DST), a policy tool adopted to target certain digital firms. However, the U.S. has consistently maintained that these unilateral measures should be addressed through comprehensive, consensus-based global tax reform that considers all sectors and industries. In place of such consensus, multiple countries have adopted DSTs—measures that many U.S. policymakers view as discriminatory and trade-distorting. While not currently implemented at the federal level in the United States, DSTs remain a point of contention between the U.S. and its international trading partners, raising essential questions about tax fairness, international trade, and the future of global taxation frameworks. In this Basic, we look further at digital services taxes, where they came from, and what the future holds.

## Where did Digital Service Tax Emerge From?

The emergence of digital services taxes (DSTs) can be traced to the growing frustration among governments over the inability of traditional tax systems to capture revenues from the digital economy. As more firms developed business models that generated revenue in countries without the need for physical presence or infrastructure, the conventional rules of corporate taxation became viewed as outdated. Others, however, cautioned against creating sector-specific tax regimes, emphasizing the importance of applying consistent tax principles across all industries. Many countries argued that multinational tech companies were generating substantial revenue from their citizens without paying a fair share of taxes locally. This led to the development of DSTs, which are typically applied to specific digital activities such as online advertising, digital marketplaces, and the sale of user data. 38 additional countries have proposed or enacted some form of a DST, including major economies such as France, the United Kingdom, and Italy. Existing DSTs range from 1% to 7.5% of a company's gross revenue in a jurisdiction. These taxes were seen as interim measures while a global consensus was being negotiated through the OECD, the Organization for Economic Co-operation and Development.

## Center Forward Basics

Center Forward brings together members of Congress, not-for-profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit [www.center-forward.org](http://www.center-forward.org)

## Comparison to Other Taxes

Digital services taxes differ significantly from traditional corporate income taxes, which are based on net profits and usually require a physical presence in the taxing jurisdiction. In contrast, DSTs are levied on gross revenues generated from digital interactions within a country, regardless of whether the company has an office or employees there. This revenue-based approach makes DSTs easier to administer in the short term. DSTs also differ from sales taxes, which are typically applied at the point of purchase and collected from consumers, not corporations. Unlike VAT (Value-Added Tax), which is widespread in Europe and charged at each stage of the supply chain, DSTs focus solely on certain digital services and usually target companies exceeding high global or domestic revenue thresholds. Thresholds have frequently been used to exclude domestic companies. Critics argue that this narrow scope disproportionately affects U.S.-based firms, raising concerns that DSTs function more like excise taxes or trade barriers rather than neutral tax instruments. These distinctions highlight the targeted nature of DSTs and the broader debate about modernizing international tax rules in a digital economy—a debate that many in the U.S. believe should be addressed through multilateral consensus, not unilateral action.

## Pillar One Consensus

While international negotiations over DSTs had increased in intensity and frequency over the past few years, the push for an international consensus had also increased. Pillar One of the OECD's two-pillar global tax agreements was meant to replace multiple DSTs with a single global agreement to reallocate a portion of the global profits of high-revenue, highly profitable multinational companies to the countries in which those companies operate. The goals of Pillar One were to reform nexus rules, roll back current DSTs, and prevent future DSTs from being implemented. This pillar only applies to multinational enterprises with global revenue exceeding 2 billion Euros and profit margins exceeding 10%.

Pillar One was directly relevant to the debate over digital services taxes because it was largely conceived as a global alternative to the patchwork of unilateral DSTs that have emerged in recent years. By offering a coordinated, multilateral solution for taxing the digital economy, Pillar One aimed to reduce international tensions and prevent trade disputes caused by countries independently imposing DSTs, many of which have targeted U.S.-based tech firms. The U.S. had previously supported Pillar One as a means to phase out these unilateral measures in favor of a unified approach. In fact, under the OECD framework, countries that agreed to adopt Pillar One would also commit to removing their DSTs and refraining from introducing similar measures in the future. While progress on implementing Pillar One has stalled and amid political complexity, it remains a key component of global tax reform efforts. A multilateral agreement is essential for creating a fair and stable international tax environment in the digital age.

## The Future Ahead

DSTs have introduced new complexities into international tax policy, especially for digital companies operating across multiple jurisdictions. While proponents argue that DSTs help address the mismatch between where digital value is created and where it is taxed, critics warn that they create inefficiencies, increase compliance costs, and risk double taxation. For businesses, navigating a patchwork of national DSTs can be burdensome. On the legal front, DSTs challenge longstanding norms of tax sovereignty and have sparked debates over their compatibility with World Trade Organization rules and bilateral tax treaties.

As the agreement faces political obstacles and practical challenges, more countries may consider DSTs a viable solution to collect revenue from large technology companies or even pressure negotiating countries to finish work on Pillar One. Many countries with DSTs currently in effect have made repeal contingent on Pillar One's implementation. A growing global interest exists in reforming and addressing nexus rules to account for economic changes. Lawmakers must consider the economic and political ramifications of the action or inaction of Pillar One and prioritize policies that balance growth, equity, and efficiency with a rapidly changing digital economy.

## Links to Other Resources

- Bipartisan Policy Center - [Taxation in the Digital Economy: Digital Services Taxes, Pillar One, and the Path Forward](#)
- Tax Foundation - [Digital Taxation around the World | Tax Foundation](#)
- Tax Policy Center - [A PRIMER ON DIGITAL SERVICE TAXES AND THE OECD'S TWO PILLARS](#)