TOWARDS A EUROPEAN DIGITAL SERVICES TAX: RENEWING THE MOMENTUM FOR A FAIR CONTRIBUTION

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SUMMARY

The rapid growth of the digital economy has disrupted traditional tax frameworks, which rely on physical presence. Many digital firms generate substantial revenues across borders while paying relatively low taxes, raising concerns over fairness and lost public revenues. Addressing this challenge has been a policy priority for the EU, leading to the European Commission's 2018 proposal for a digital services tax (DST) – a 3% levy on certain digital revenues. However, negotiations at the OECD level under Pillar One stalled progress, leaving the EU without a unified approach to digital taxation.

Since then, the EU's financial needs have escalated due to global crises, including the COVID-19 pandemic, Russia's invasion of Ukraine, and shifting US policy. The bloc must secure funding for defence, economic resilience, and the green and digital transitions, making the reconsideration of a DST more relevant. Our estimates suggest that a 5% DST could generate EUR 37.5 billion in 2026, representing nearly 19% of the EU's 2025 budget and about 8% of corporate income tax revenue in 2023. These figures highlight the potential of a DST to provide a substantial source of revenue for the EU at a time of heightened fiscal pressure.

While a DST offers a significant revenue source, alternative digital taxation methods exist, including the digital permanent establishment tax, a destination-based cash-flow tax, and expanding VAT on digital transactions. Each presents challenges in implementation and enforcement, but the DST remains the most viable short-term option, given the Commission's prior work and Member States' experience with similar measures.

Moving forward, the EU must reassess its digital taxation strategy. A renewed push for an EU-wide DST could provide an immediate solution, but long-term reforms are necessary. With OECD negotiations stalled, the EU must strike a balance between fiscal autonomy and global tax cooperation to ensure digital firms pay their fair share without distorting markets.

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EXECUTIVE SUMMARY

The digital economy has grown rapidly, reshaping business models and challenging traditional tax frameworks, which are largely based on physical presence. Many highly profitable digital companies operate across borders while paying relatively low taxes in countries where they generate significant revenues. This has led to growing concerns about fairness, competition, and lost tax revenues for EU Member States. Addressing this gap has become a policy priority, as digital firms should contribute their fair share to public finances.

To tackle this issue, the European Commission proposed a digital services tax (DST) in 2018, setting a 3% levy on revenues from certain digital activities. However, this initiative was put on hold due to ongoing negotiations at the Organisation for Economic Co-operation and Development (OECD) level under Pillar One, which aimed to establish a global framework for taxing digital businesses. These discussions have now stalled, leaving Europe without a comprehensive approach to digital taxation.

Since the Commission's proposal in 2018, a series of global crises – including the COVID-19 pandemic, Russia's invasion of Ukraine, and a shift in US policy with the return of the Trump administration – have significantly increased Europe's financing needs. The EU faces mounting budgetary pressures as it seeks to enhance defence, security, and economic resilience while also accelerating the twin transitions towards a more sustainable and digital economy. Additionally, ensuring sufficient financing for European companies, particularly in strategic sectors, has become a key priority. In this context, reconsidering the option of a DST has become increasingly relevant, potentially at a higher rate than the 3% originally proposed.

Our estimates suggest that a 5% DST would have generated approximately EUR 11.9 billion in 2020 (equivalent to 5.3% of corporate income tax revenue and 7.1% of the EU budget that year). By 2026, this amount could rise to EUR 37.5 billion, which represents about 7.8% of corporate income tax revenue in 2023 and 18.8% of the EU's budget in 2025). These figures highlight the potential of a DST to provide a substantial source of revenue for the EU at a time of heightened fiscal pressure.

However, a DST is not the only option for taxing the digital economy. Alternative approaches include the digital permanent establishment tax, a destination-based cash-flow tax, and the broadening of the VAT base for digital transactions. Each option presents advantages and drawbacks in terms of implementation, enforcement, and political feasibility. Among them, the DST appears to be the most practical short-term solution, given the Commission's previous proposal and the experience of Member States that have already introduced similar measures.

Moving forward, the EU must reassess its digital taxation strategy. A renewed push for an EU-wide DST could provide an immediate response to the challenges posed by digital business models, although longer-term solutions should also be explored. Given the stalled OECD discussions, the EU must balance its fiscal autonomy with global tax cooperation, to ensure that digital firms contribute fairly to public finances without creating undue market distortions.

1. INTRODUCTION

The digital economy has experienced rapid growth over the past decade, fundamentally reshaping global economic dynamics. Major digital corporations, commonly known as tech giants, now dominate key sectors such as e-commerce, social media, cloud computing, and online advertising. Within the EU, these companies generate substantial revenues by capitalising on their vast consumer base, advanced infrastructure, and a supportive regulatory environment provided by the single market. However, the EU is facing significant difficulties in adapting its taxation framework, which was designed for a pre-digital era, to the realities of this transformed economy.

Unlike traditional businesses that are taxed based on their physical presence and assets in specific jurisdictions, digital corporations can operate seamlessly across borders with a minimal physical footprint. This ability to transcend national boundaries has exposed significant gaps in the EU's tax collection mechanisms. As a result, a structural imbalance has emerged: traditional businesses, which depend on tangible assets and local operations, often face higher effective tax rates, while digital corporations exploit loopholes, profit-shifting strategies, and discrepancies in national tax regimes to minimise their tax liabilities.

Currently, the top digital firms in the EU pay an average effective tax rate of just 9.5%, compared with 23.3% for traditional businesses. This disparity distorts competition and deprives EU Member States of crucial tax revenue, hindering their ability to finance essential public goods and services. The scale of this issue is underscored by the fact that in 2024, enterprises in the EU generated 7.3% of their total turnover from web sales, highlighting the increasing economic importance of the digital sector.

The Organisation for Economic Co-operation and Development (OECD) has estimated that base erosion and profit shifting (BEPS) by multinational enterprises, including digital giants, result in annual global tax revenue losses of 4-10% of global corporate income tax (CIT) revenue, amounting to USD 100 to 240 billion annually. This highlights the magnitude of revenue at stake and the pressing need to address tax avoidance in the digital economy. Tackling this issue is not only crucial for restoring fair competition, but also for ensuring that the EU can sufficiently fund the public goods and services necessary to meet urgent societal needs and support its long-term strategic goal.

As Mario Draghi and Enrico Letta have pointed out, the EU is struggling to keep pace with other major economies, with a significant gap in investment needs. To maintain economic relevance and achieve ambitious growth targets, the EU and its Member States require an estimated EUR 800 billion in public and private investment. A well-designed digital tax

could play a key role in boosting public revenue and supporting strategic investment in emerging technologies, infrastructure, and key sectors that will drive future growth.

Moreover, recent geopolitical developments have added complexity to the digital taxation debate. The reintroduction of aggressive measures by the Trump administration to counter European digital tax initiatives has reignited transatlantic tensions. A memorandum issued in February 2025 underscores US concerns about digital services taxes (DSTs) and other EU measures, highlighting the broader geopolitical dimensions of digital taxation. Hence, it is vital for the EU to renew its efforts to establish a fair and sustainable digital taxation framework. This framework should ensure that digital businesses contribute their fair share to the economies in which they operate, providing EU Member States with the public funds necessary to support the development of crucial sectors, such as sustainability, digital transformation, and defence. This will be pivotal for advancing the EU's strategic goals amid global competition and rising geopolitical uncertainty.

2. GLOBAL AND EU EFFORTS TO REFORM DIGITAL TAXATION

The reform of international tax rules has gained momentum. The OECD-led BEPS initiative has made incremental progress, particularly through its Two-Pillar Solution. Pillar One aims to reallocate taxation rights to ensure that multinational corporations, including digital giants, pay taxes where they generate profit. Meanwhile, Pillar Two introduces a global minimum corporate tax of 15%. However, despite broad political agreement, implementation has been slow due to complex negotiations and diverging national interests.

At the same time, the EU is confronting mounting fiscal worries. Funding ambitious initiatives such as the European Green Deal, the Digital Decade, and the post-pandemic recovery – partly financed through the EUR 800 billion NextGenerationEU instrument – requires substantial and sustainable revenue sources. Relying solely on Member States' contributions is neither sufficient nor politically feasible in the long term.

A digital tax could serve as a reliable and politically viable revenue stream to boost the EU's budget. It would complement other proposed own resources, such as revenues from the Emissions Trading System and the Carbon Border Adjustment Mechanism, further diversifying the EU's funding base while ensuring that digital corporations contribute their fair share to the economies in which they operate.

3. OBJECTIVES OF A EUROPEAN DIGITAL TAX

A well-designed digital tax aims to modernise taxation in the digital economy, ensuring fairness, revenue sustainability, and economic sovereignty. Large digital corporations benefit significantly from the EU's single market, yet contribute far less in taxes than traditional businesses due to tax optimisation strategies and outdated frameworks. A digital tax would address this imbalance, ensuring that all companies pay their fair share while preventing tax distortions that undermine competition.

Beyond revenue generation, such a tax would provide a stable funding source for EU-wide priorities, including the European Green Deal and digital transformation initiatives, while easing financial pressure on Member States. It would also strengthen the EU's economic sovereignty by enhancing its ability to generate internal revenues, reducing reliance on external financing and aligning fiscal policies with strategic objectives.

Moreover, implementing a digital tax would restore public trust in the tax system by addressing concerns about corporate tax avoidance. By fostering transparency and accountability, the EU could reinforce the principle of social equity and ensure that digital businesses contribute fairly to the economies in which they operate. Ultimately, a digital

tax is not just a fiscal tool but a broader mechanism for economic resilience and fair competition in the 21st century.

4. Key design considerations

To achieve these goals, the tax should target large digital corporations that generate significant revenues from digital services within the EU, such as online advertising, e-commerce, and social media. Clear revenue thresholds would ensure that the tax applies only to major market players, thus preventing undue burdens on smaller businesses and startups.

The tax should be levied on revenues from key digital activities, including user data monetisation, online transactions, and digital advertising. To ensure fairness, revenue distribution among Member States should reflect user engagement and sales patterns. The tax rate must be carefully calibrated to generate meaningful revenues without discouraging innovation or investment. Additionally, aligning the tax with global initiatives, particularly the OECD's BEPS framework, could help mitigate the risks of double taxation and trade tensions. If a global agreement emerges, the EU should treat its digital tax as a temporary measure that could be adapted to broader multilateral solutions.

Minimising compliance burdens is equally important. Standardised reporting, digital tools, and alignment with existing EU regulations could simplify administration and enhance transparency. Clear compliance guidelines and dispute resolution mechanisms would improve business certainty. Finally, safeguards should prevent corporations from shifting the tax burden to consumers or distorting market competition. Ensuring that the digital tax fosters fairness while maintaining incentives for innovation remains a key priority.

5. DIGITAL SERVICES TAXES: WHAT IS THE CURRENT SITUATION?

The EU has several options when designing a digital tax, each with different implications for fairness, efficiency, and enforcement. The choice of structure, scope, and tax base will determine its effectiveness in ensuring that large digital corporations pay their fair share while avoiding unintended economic consequences.

A DST is a levy imposed on revenues generated from specific digital activities, rather than on corporate profits. Unlike traditional corporate tax systems, which depend on where a company is headquartered or where profits are reported, a DST applies directly to revenues earned in the jurisdictions where digital services are consumed.

The primary objective of a DST is to address the tax issues posed by large multinational digital businesses operating across borders with minimal physical presence. These companies, which often rely on intangible assets and digital platforms, can shift profits to low-tax jurisdictions, minimising their contributions to public finances in countries where they generate economic value. By taxing revenues at the point of user engagement, a DST seeks to ensure a fairer distribution of tax liabilities.

5.1. DIRECT DSTS

EU Member States have taken different approaches to taxing digital services (see Table 1). While some countries have chosen to rely solely on indirect taxation measures at the EU level while awaiting a global agreement on a DST, others have moved ahead with national DSTs. The countries that have implemented a DST include Austria, France, Italy, Poland, and Spain, each with distinct structures, tax rates and thresholds.

Table 1. Main features of the EU Member States that have implemented a DST

Country	Effective from	Services under scope	Tax rate	Annual thresholds (in million)		DST revenue (in million, 2023)
				Global revenue	Domestic revenue	
Austria	Jan 2020	- Online advertising services	5%	EUR 750	EUR 25	EUR 103[(a)]
France	Jan 2019	- Suppliers of a digital interface - Suppliers of advertising services based on users' data	3%	EUR 750	EUR 25	EUR 680[(b)]
Italy	Jan 2020	- Online advertising services - Multisided digital interfaces - Data transmission services	3%	EUR 750	(-)[(c)]	EUR 434[(d)]

Spain	Jan 2021	- Online advertising services - Online intermediary services - Data transmission services	3%	EUR 750	EUR	EUR 303[(e)]

Notes: [(a)] Federal Minstry Republic of Austria, [(b)] French draft Finance Bill for 2024, [(c)] The 2025 Italian Budget Law, [(d)] IstaData, [(e)] Tax Collection Report, November 2024.
Source: Own elaboration based on national official sources.

France was the first EU country to introduce a DST, enacting a 3% levy in 2019. The tax applies to gross revenues from digital interfaces that facilitate transactions between users and from targeted advertising services, including the collection and transmission of user data for advertising purposes. Companies subject to the tax must generate at least EUR 750 million in global revenue and earn at least EUR 25 million from taxable services in France. These thresholds are applied at the consolidated group level, ensuring that multinational corporations cannot avoid the tax by fragmenting their operations. France subsequently expanded its taxation of digital services, passing a law in 2023 to introduce a 1.2% tax on streaming music services, which took effect in 2024. The new tax applies to both paid and free-access streaming platforms offering recorded or in-game music, provided that they generate at least EUR 20 million in revenue from streaming services.

Austria followed this trend, with its own 5% DST in 2020, targeting revenue from digital advertising services within the country. The tax applies to gross receipts from digital advertising if a company meets at least one of two conditions: exceeding EUR 750 million in global revenue or earning at least EUR 25 million from Austrian digital activities. The tax is assessed based on whether advertisements are received on devices with an Austrian IP address and are specifically targeted at Austrian users.

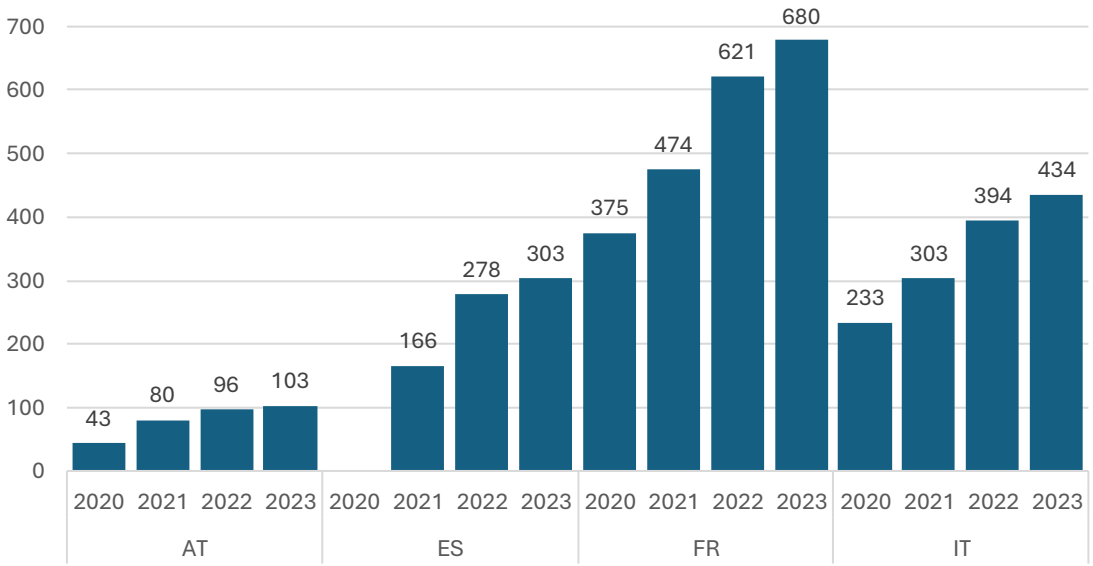
Italy introduced its 3% DST in January 2020, covering revenues from digital advertising, multilateral digital platforms that allow users to buy and sell goods and services, and the transmission of user data collected through digital interfaces. Initially, the tax applied to both resident and non-resident companies that exceeded an annual global revenue threshold of EUR 750 million and generated at least EUR 5.5 million in revenue from digital services in Italy. Yet, in January 2025, Italy eliminated this domestic revenue threshold, meaning that all companies exceeding the global threshold will be subject to the tax, regardless of how much revenue they generate in Italy.

Spain followed suit with its 3% DST, effective since January 2021. The tax covers revenues from digital advertising, online intermediation services, and the sale of user data collected through digital platforms. Like France and Italy, Spain applies the tax to companies with global revenues exceeding EUR 750 million, but it sets a lower threshold of EUR 3 million for Spain-based digital activities. This threshold is also applied at the consolidated group

level, ensuring that multinational firms cannot sidestep the tax by restructuring their operations.

The revenues generated from the implemented DSTs in Austria, France, Italy, and Spain have consistently grown from 2020 to 2023 (see Figure 1). Austria experienced the most notable increase, with a 140% rise in DST revenue, from EUR 43 million in 2020 to EUR 103 million in 2023. Despite this growth, Austria's total DST revenue remains significantly lower than that of France, which generated EUR 680 million in 2023, roughly six times higher than Austria's figure. Italy and Spain also saw substantial increases in DST revenue, reaching EUR 434 million and EUR 303 million, respectively, in 2023. This upward trend demonstrates that DSTs are becoming an increasingly important source of revenue for the countries that have implemented them. However, it also underscores the considerable disparities in revenue outcomes across these countries, driven by factors such as the size of their markets, the structure of their digital economies, and the breadth of taxable activities within each jurisdiction.

Figure 1. DST revenues (EUR million, 2020-2023)

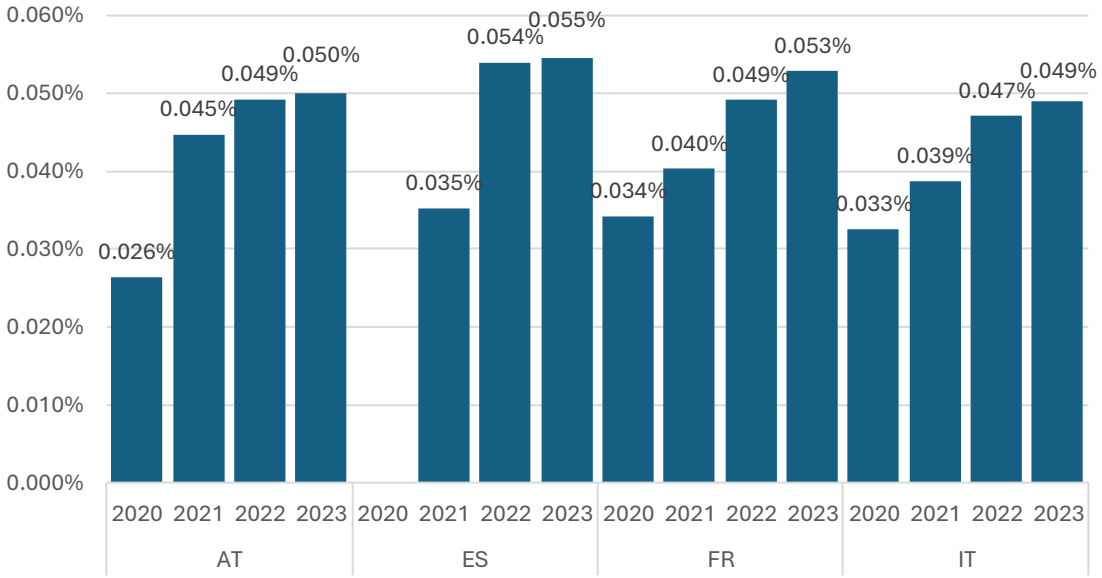


Note: The DST in Spain was not in effect in 2020.
Source: Own elaboration based on national official sources.

When examining DST revenue as a share of total tax revenue, the differences among countries appear to be relatively minor (see Figure 2). In 2020, DST revenues accounted for approximately 0.03% of total tax revenues in most implementing countries, gradually increasing to a peak of 0.05–0.06% by 2023. Despite the variation in absolute DST revenues between countries, their overall contribution to national tax collections remains modest.

A similar trend is observed when considering DST revenues as a percentage of CIT revenues (see Figure 3). While the overall contribution remained below 1% in all cases, Italy recorded the highest share, peaking at 0.88% in 2022. Austria and France followed a steadier trajectory, with DST revenues generally ranging between 0.5% and 0.8% of corporate tax revenues.

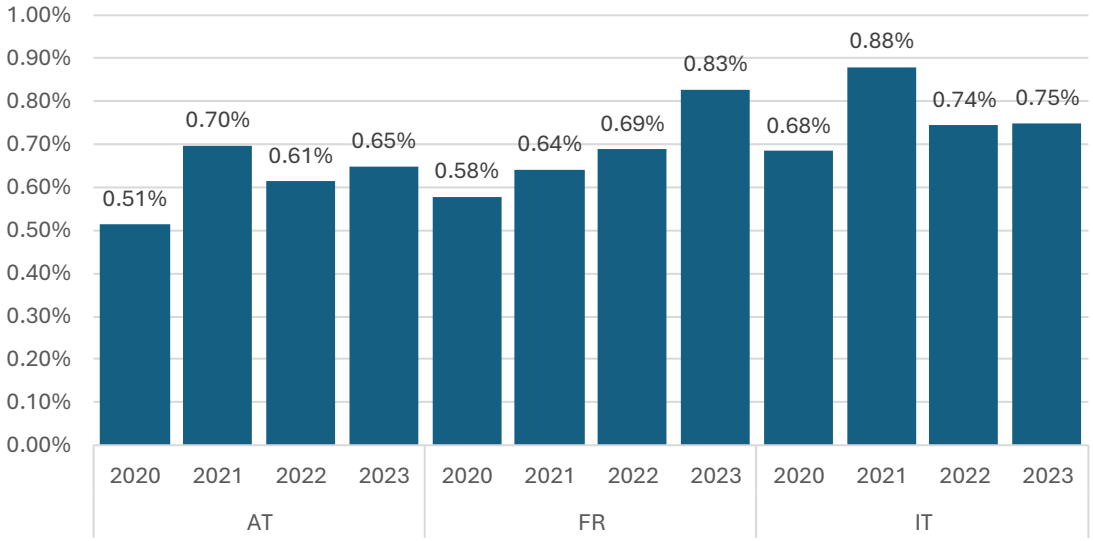
Figure 2. DST revenues as a percentage of total tax revenues (2020-2023)



Notes: Total tax revenues follow the ESA2010 statistical classification from the European System of Accounts applied by Eurostat, which includes total receipts from taxes and social contributions (including imputed social contributions), net of amounts assessed but unlikely to be collected. The DST in Spain was not in effect in 2020.
Source: Own elaboration based on national official sources and Eurostat.

Figures 2 and 3 indicate that although DSTs represent a growing revenue stream, their fiscal significance remains limited compared with broader tax categories. The differences across countries likely reflect variations in corporate tax bases, the scale of the digital economy, and national tax policies. Still, beyond their revenue-generating function, DSTs play a strategic role in promoting tax fairness within the digital economy.

Figure 3. DST revenues as a percentage of corporate income tax revenues (2020-2023)



Note: Eurostat does not provide data on corporate income tax for Spain.
Source: Own elaboration based on national official sources and Eurostat.

5.2. INDIRECT DSTS

Beyond the four countries that have implemented a direct DST to tax a wide range of digital services, others have either introduced narrow-scoped forms of a DST targeted at a specific service or opted for alternative approaches to taxing digital revenues (see Table 2).

Poland's DST differs significantly from those of Austria, France, Italy, and Spain, in both its structure and purpose. While the DSTs in the latter four countries were introduced as a broad tax on digital services – primarily targeting large multinational tech companies and ensuring they contribute fairly to national tax revenue – Poland's tax is focused only on video-on-demand providers. The tax is not integrated into the general public budget but is directly allocated to the Polish Film Institute as a compensation mechanism for the revenue losses experienced by the domestic film industry during the COVID-19 crisis.

In Denmark, the government has introduced a cultural contribution levy on on-demand audiovisual media services. The standard tax rate is set at 2%, provided that the company invests at least 5% of its revenue in Danish content. If the investment falls below this threshold, a surcharge of 3% is applied. The levy, however, includes exemptions for services generating less than DKK 15 million (about EUR 2 million) in revenue or those linked to public service activities.

Hungary took an earlier step by introducing a digital advertisement tax in July 2017, set at 7.5% of advertising revenues exceeding HUF 100 million (about EUR 250 000). Even so,

this tax has effectively been suspended, as it was not applied from 1 July 2019 to 31 December 2024.

Portugal has opted for a different approach by imposing an exhibition levy of 4% alongside an annual levy of 1%. Since changes were introduced in 2019, the 4% levy has applied to prices paid for audiovisual commercial communication, including revenue from video-sharing platforms operating in Portugal. Additionally, video-on-demand services are subject to a 1% levy on revenues from subscriptions or occasional transactions. This levy applies only if the annual revenue exceeds EUR 200 000 or comes from sources with a low audience base.

Beyond direct taxation, all Member States apply some form of indirect digital taxation in accordance with EU legislation. Some countries have nonetheless chosen to go beyond the EU's minimum requirements by introducing additional provisions to enhance tax collection from digital services.

Table 2. Other EU Member States that have implemented a DST

Country	Effective from	Services under scope	Tax rate	Annual thresholds (in million)	
				Global revenue	Domestic revenue
Denmark	Jan 2024	- On-demand audiovisual media services providers	2% (potential additional 3% surcharge)[a]	-	-
Hungary	Jan 2017	- Advertising revenue	7.5% reduced to 0%[b]	-	HUF 100 M
Poland	Jul 2020	- Audiovisual media service - Audiovisual commercial communication	1.5%	€750 M	€4 M
Portugal	Feb 2021	- (i) Audiovisual commercial communication on video-sharing platforms - (ii) Providers of subscriptions for video-on-demand services	(i) 4% (ii) 1%	-	-

Notes: [a] A 3% surcharge applies to entities that invest less than 5% of their revenues in the Danish market. [b] As a temporary measure, the advertising tax rate has been reduced to 0% until 31 December 2025.
Source: Own elaboration based on national official sources.

6. WHAT DOES THE EU DIGITAL MARKET LOOK LIKE TODAY?

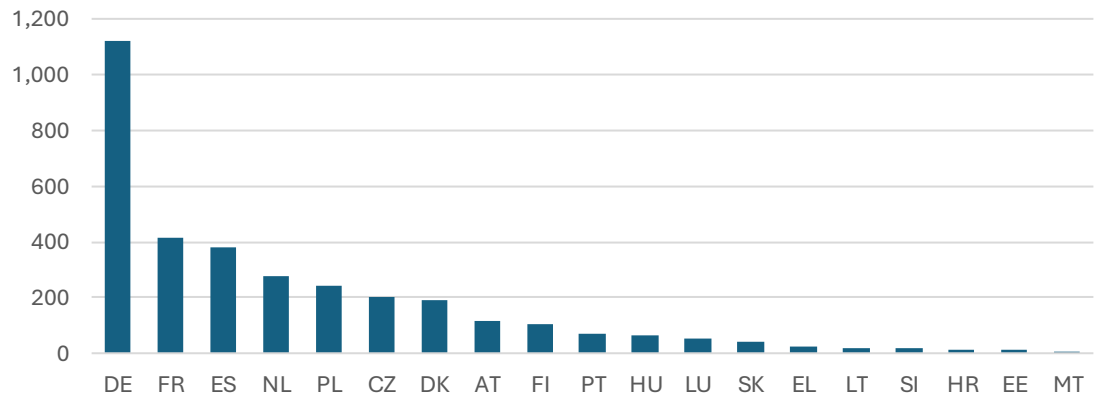
The digital economy has become a critical pillar of Europe's economic landscape, experiencing remarkable growth over the past decade. Driven by technological advancements, increasing digital adoption across industries, and evolving consumer preferences, the EU digital market has expanded significantly in both size and complexity. From e-commerce and digital advertising to cloud computing and digital media, various segments of the digital economy are shaping the future of Europe's competitiveness in the global arena.

Despite this rapid expansion, the EU digital market remains fragmented, with marketd disparities between Member States in terms of digital adoption, infrastructure and regulatory frameworks. While major economies such as Germany, France, and Spain lead in digital revenue generation, smaller economies are catching up, particularly in areas like e-commerce and digital services. At the same time, the EU faces growing competition from global digital powerhouses, particularly the US and China, which continue to dominate key digital sectors.

6.1. E-COMMERCE

Over the past few years, the European digital economy has expanded hugely. The total turnover from e-commerce sales – which includes business-to-business and business-to-customer (B2C) sales – in the EU increased by 24% between 2017 and 2023, reaching an all-time high of EUR 3.3 trillion (EUR 2.7 trillion in 2017). Among EU Member States, Germany generated the highest turnover, exceeding EUR 1 trillion in 2023 (see Figure 4). France and Spain followed as the second and third-largest contributors, albeit with only half of Germany's e-commerce turnover. At the other end of the spectrum, countries such as Malta, Estonia, and Croatia recorded the lowest turnover values over the period.

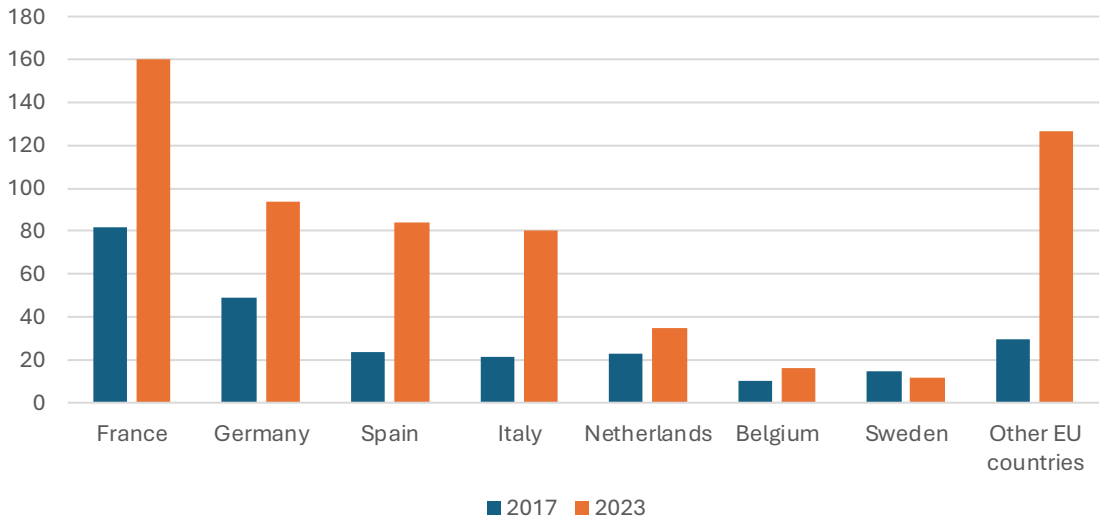
Figure 4. Total turnover from e-commerce sales across Member States (EUR billion, 2023)



Note. The figure refers to enterprises with 10 employees or more.
Source: Own elaboration based on Eurostat data.

Zooming in on B2C e-commerce turnover, the EU market grew by 114%, from EUR 284 billion in 2017 to EUR 608 billion in 2023. Yet, despite overall nominal growth, there are major regional disparities across Member States. On the one hand, Eastern European countries show higher growth rates in B2C e-commerce turnover than many Western European countries. On the other hand, Western European countries still hold the largest share of total turnover (see Figure 5), at 67% compared with Eastern European ones at 2%.

Figure 5. B2C e-commerce turnover (EUR billion, 2017 and 2023)



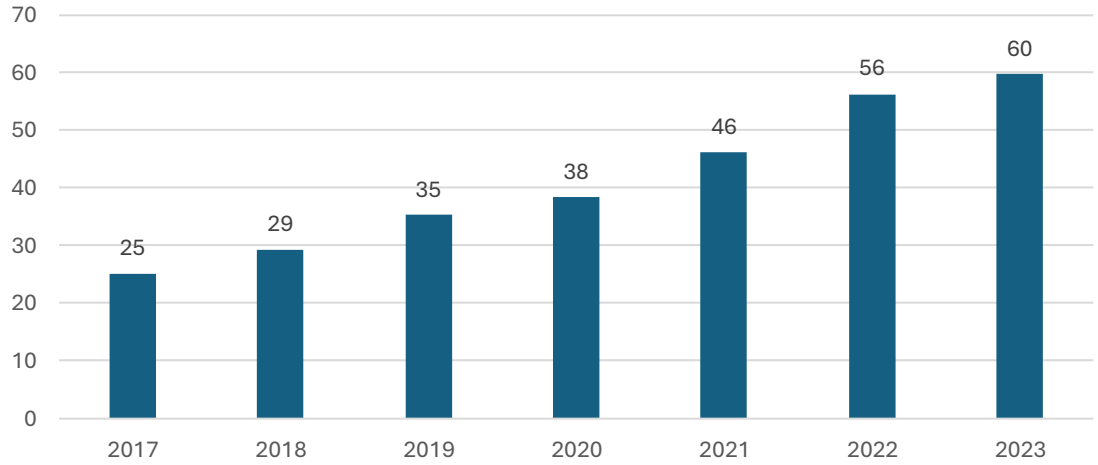
Source: Own elaboration based on data from Ecommerce Europe.

6.2. DIGITAL ADVERTISING

Revenue from digital advertising is a key indicator of growth in the digital economy and is closely tied to the rise in DST revenues. As businesses increasingly shift their marketing strategies to online platforms, digital advertising has become a primary revenue stream for large digital companies. This is reflected in the growing share of digital advertising in total global advertising spend, which has surged from 44% in 2017 to 71% in 2023, with projections suggesting it could reach 80% by 2030.

Delving into the EU27, between 2017 and 2023, digital advertising revenue grew at an average annual rate of 16%, reaching a total of EUR 60 billion by the end of 2023 – marking a 156% increase over the period (see Figure 6). This growth has been driven by several factors, including the expansion of e-commerce, the increased digitalisation of services, and the growing dominance of social media and streaming platforms as key advertising spaces. Additionally, the rise in digital advertising spending reflects shifting consumer behaviour, with more time spent on digital channels and mobile devices, prompting businesses to allocate greater resources to online advertising.

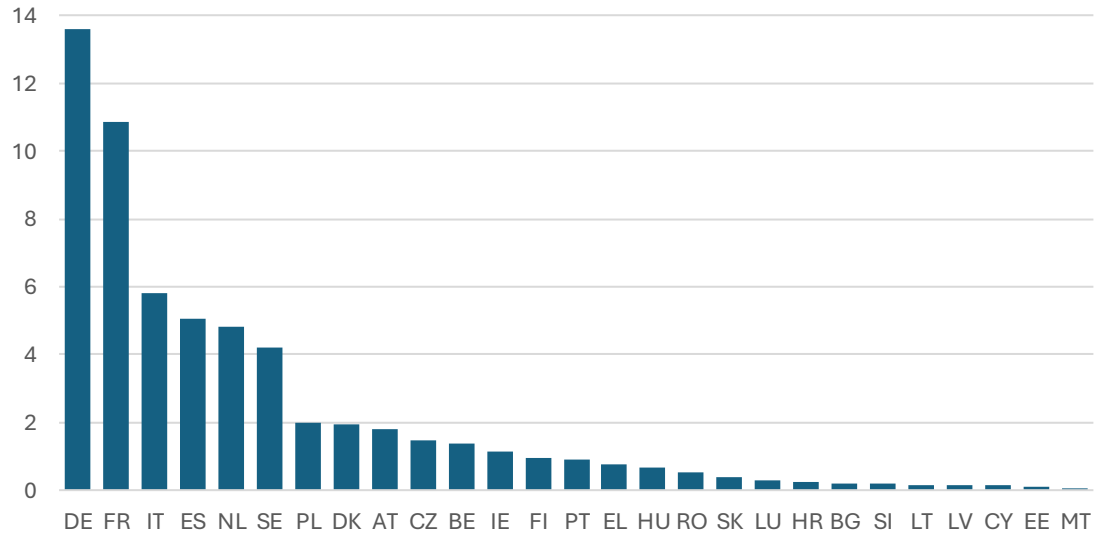
Figure 6. Digital advertising spending in the EU27 (EUR billion, 2017-2023)



Source: Own elaboration based on data from the IAB Europe Adex Benchmark Report and Statista.

At the country level, Germany led in digital advertising spending, followed by France and Italy (see Figure 7). Together, these three countries accounted for 51% of the EU's total digital advertising revenue. Their dominance reflects not only the size of their economies but also the concentration of major digital platforms and advertisers in these markets. By contrast, countries like Malta, Estonia, and Cyprus recorded the lowest digital advertising expenditures in the EU. This can be attributed to smaller domestic markets, lower levels of digitalisation, and reduced corporate spending on online advertising compared with larger economies. Despite this disparity, digital advertising continues to grow across all EU Member States, driven by the increasing reliance on digital channels for commerce, media, and consumer engagement.

Figure 7. Digital advertising spending across Member States (EUR billion, 2023)



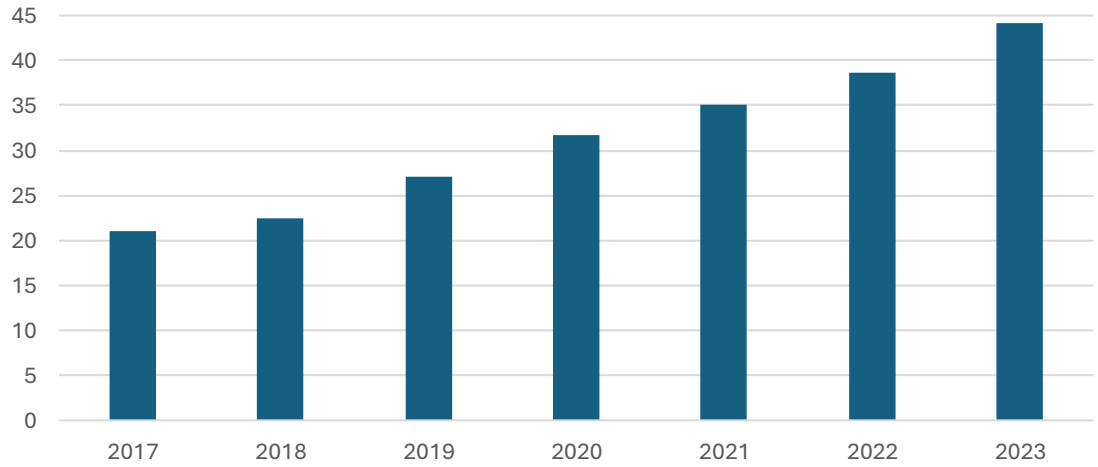
Source: Own elaboration based on data from the IAB Europe Adex Benchmark Report and Statista.

Despite the positive growth in digital advertising spending within the EU, the region's share of global digital advertising revenue has declined over the years. In 2017, the EU accounted for 11% of global spending, ranking third, behind the US (37%) and China (22%). By 2023, however, the EU's share had decreased to 9%, while the US's share had grown to 40%, and China's had increased to 26%. This shift may reflect several factors, including the rapid expansion of digital advertising in the US, driven by the dominance of major tech platforms such as Google and Facebook, as well as China's growing digital ecosystem, particularly in e-commerce and mobile advertising. Additionally, the EU's relatively slower pace of digitalisation in comparison with these regions, along with regulatory challenges like data protection laws, may have contributed to the region's shrinking share of global spending.

6.3. DIGITAL MEDIA

The digital media market in the EU doubled in size between 2017 and 2023, reaching approximately EUR 45 and accounting for about 10% of the global digital media market (see Figure 8). This growth reflects the increasing consumption of internet-based content across various formats. That includes streaming services for video and music, digital gaming, and online publications. The market's expansion has been driven by rising consumer demand for on-demand entertainment, the proliferation of subscription-based platforms, and improvements in broadband and mobile connectivity.

Figure 8. Digital media revenue in the EU (EUR billion, 2017-23)

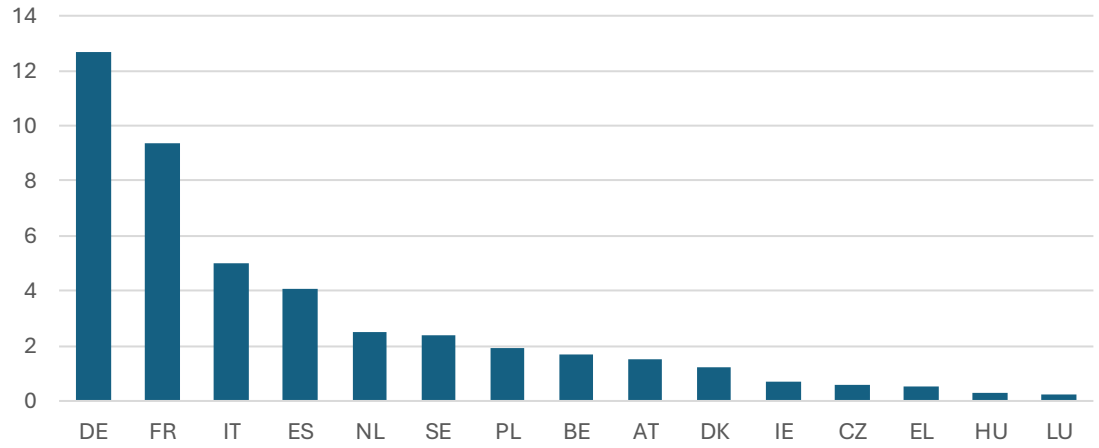


Notes: Digital media are defined as audiovisual media contents and applications that are distributed directly over the internet (i.e. video, music, games, eBooks, eMagazines or ePapers). The EU Member States included are AT, BE, CZ, DE, DK, EL, ES, FR, HU, IE, IT, LU, NL, PL and SE.
Source: Own elaboration based on data from Statista.

However, growth patterns vary across Member States, with larger economies such as Germany, France, and Spain generating the highest revenues (61% collectively of the EU total), while smaller markets exhibit slower but steady growth (see Figure 9). Additionally,

regulatory developments, including the EU's Digital Services Act and evolving copyright frameworks, are shaping the competitive landscape by influencing content distribution, platform responsibilities, and consumer protection measures.

Figure 9. Digital media revenue in selected Member States (EUR billion, 2023)

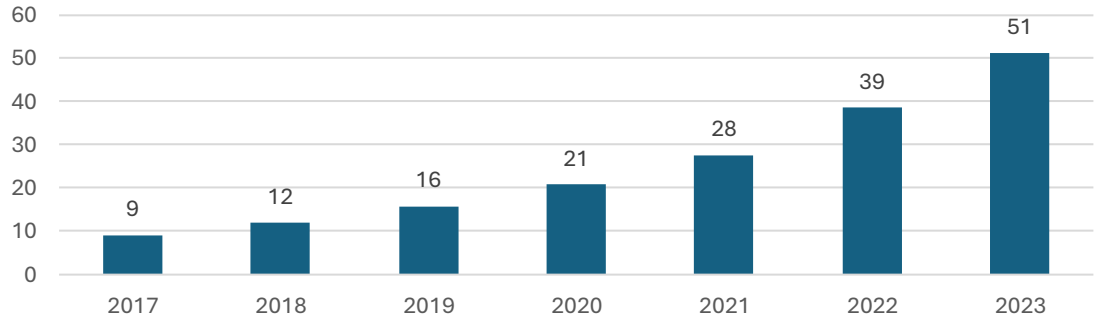


Note: Digital media are defined as audiovisual media contents and applications that are distributed directly over the internet (i.e. video, music, games, eBooks, eMagazines or ePapers).
Source: Own elaboration based on data from Statista.

6.4. CLOUD SERVICES

The European cloud services market has expanded significantly over the last few years, from an estimated EUR 9.2 billion in 2017 to EUR 51.4 billion in 2023 (see Figure 10). This substantial expansion reflects the widespread adoption of cloud-based solutions by businesses and public institutions, seeking enhanced scalability, cost efficiency, and security. The upward trend is particularly pronounced from 2021 onwards, mainly attributed to the increasing reliance on remote work, digital transformation strategies, and regulatory initiatives aimed at fostering data sovereignty within the EU. The demand for cloud services has also been bolstered by the rise of artificial intelligence, machine learning, and data-driven business models, further embedding cloud computing as a critical component of Europe's digital economy.

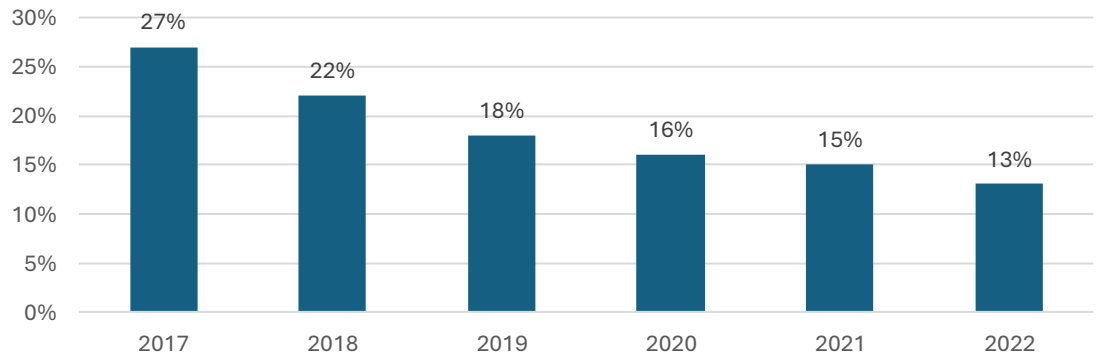
Figure 10. Size of the European cloud services market (EUR billion, 2017-2023)



Notes: Services are defined as the digital infrastructure and computing resources managed by a service provider (including a public cloud and hosted private cloud). Figures include platform-as-a-service, infrastructure-as-a-service, and hosted private cloud. Software-as-a-service is not included.
Source: Own elaboration based on data from BDO.

Nevertheless, despite this impressive growth, the market share of Europe-based cloud service providers within the European market has declined sharply, dropping from 27% in 2017 to just 13% in 2022 (see Figure 11). This decline is primarily due to the dominance of large non-European cloud providers, particularly from the US, which benefit from economies of scale, extensive global infrastructure, and advanced service offerings. The competitive landscape has been shaped by the strong presence of hyperscalers such as Amazon, Microsoft, and Google, which have increasingly captured market share by providing integrated cloud ecosystems, vast data storage capabilities, and AI-driven services. These three providers accounted for 72% of the European cloud market in 2022 in terms of customer spending. Despite their extensive market reach, these companies have faced criticism for contributing very little or no significant revenue to national tax authorities in the regions where they generate substantial income.

Figure 11. Market share of European cloud service providers in the European market (2017-2022)



Notes: Figures include platform-as-a-service, infrastructure-as-a-service, and hosted private cloud.
Source: Own elaboration based on data from BDO.

7. HOW MUCH REVENUE COULD THE EU GENERATE FROM A DST?

In its 2018 impact assessment, the European Commission forecast for 2019 that a 3% tax on revenues from digital advertising and services provided by online marketplaces/intermediaries within the EU28 could yield approximately EUR 4.7 billion annually for Member States[1]. This amount represented 1.1% of the CIT collected in the EU28 in 2015. For a DST of 1%, the estimated revenue was EUR 1.6 billion (or 0.4% of 2015 CIT revenue), while for a 5% DST the revenue was EUR 7.8 billion (or 1.9% of CIT revenue).

To estimate the potential revenue from a DST today, we follow the Commission's original assumptions. Specifically, we consider that a DST would apply to companies with a global consolidated turnover exceeding EUR 750 million, ensuring that only large multinational corporations are subject to the tax. This threshold would capture around 2% of EU entities, which collectively account for 64% of total EU turnover.

For this analysis, we assume that the DST would be levied at a single rate (e.g. 5%, 3%, or 1%) and applied to revenues derived from digital advertising services and services provided by online marketplaces/intermediaries (see

Table 3). To refine our projections, we focus on key segments of the digital economy that are particularly relevant to the DST framework: (i) B2C e-commerce (i.e. revenues from online retail sales to consumers), (ii) digital advertising (i.e. revenues from targeted online advertisements), (iii) digital media (i.e. revenues from streaming services, digital content platforms, and subscriptions), and (iv) cloud computing (i.e. revenues from cloud-based services and storage solutions).

Table 3. Estimated revenues from a 5%, 3% and 1% DST (EUR billion)

% of DST	Year	Digital advertising	B2C e-commerce	Cloud services	Digital media	Total revenue	as % of CIT revenue
5% DST							
5% DST	2017	1.3	9.1	0.5	1.1	11.9	5.3%
	2020	1.9	15.4	1.0	1.6	20.0	9.2%
	2023	3.0	16.8	2.6	2.2	24.5	6.6%
	2026	3.7	23.4	4.4	2.8	37.5	7.8%*

[1] The Commission states: 'Without the UK all estimates would decrease by about 30%, but this high figure might be related to the underlying data being allocated to jurisdictions according to either where the company providing the service is located or where the revenue payment originates from.'

3% DST							
3% DST	2017	0.8	5.4	0.3	0.6	7.1	3.2%
	2020	1.2	9.3	0.6	1.0	12.1	5.5%
	2023	1.8	10.1	1.5	1.3	14.7	3.9%
	2026	2.2	14.1	2.6	1.7	20.6	4.3%*
1% DST							
1% DST	2017	0.3	1.8	0.1	0.2	2.4	1.1%
	2020	0.4	3.1	0.2	0.3	4.0	1.8%
	2023	0.6	3.4	0.5	0.5	4.9	1.3%
	2026	0.7	4.7	0.9	0.7	6.9	1.4%*

Notes: * Assuming that CIT revenue in 2026 will increase at the same annual average growth rate as in the last 10 years (i.e. 8.9%). Statista forecasts for 2026 were used.
Source: Own elaboration based on data from Statista.

The estimates suggest significant growth in potential DST revenues, nearly tripling from 2017 to 2023. Specifically, a 5% DST would have generated EUR 11.9 billion in 2017 (or 5.3% of CIT revenue), while in 2026, it could yield up to EUR 37.5 billion (or 7.8% of CIT revenue). Among the different segments, B2C e-commerce is the largest contributor, consistently generating the highest revenues and accounting for about 60-70% of total DST proceeds. Meanwhile, cloud computing is expected to experience the fastest growth, increasing from EUR 0.5 billion in 2017 to EUR 4.4 billion in 2026, reflecting the accelerating shift toward cloud-based digital services. Both digital advertising and digital media also show steady growth, driven by the expansion of targeted online advertising and the rising popularity of subscription-based digital content.

In terms of fiscal impact, the projected EUR 37.5 billion in DST revenues by 2026 would represent approximately 18.8% of the EU's 2025 budget of EUR 199.4 billion. This highlights the substantial fiscal potential of the tax, positioning it as an important revenue source for the EU. As digital services continue to permeate every aspect of business and consumer activity, the tax base for such a levy is expected to expand, offering the EU a major opportunity to raise additional tax revenue.

8. WHAT ARE THE ALTERNATIVES?

The ongoing debate over how to best tax digital businesses has led to several proposals aimed at addressing the unique challenges posed by digital transactions. The three primary alternatives to a DST are the digital permanent establishment (DPE) tax, the destination-based cash-flow tax (DBCFT), and the broadening of the VAT base. Each offers distinct advantages and drawbacks, especially at the EU-wide level, where diverse national interests and legal complexities must be navigated.

8.1. DIGITAL PERMANENT ESTABLISHMENT TAX

Traditionally, businesses with physical offices were taxed based on their physical presence in a jurisdiction. However, digital businesses that generate significant revenue without a physical presence present obstacles in applying this model. In response, many jurisdictions have expanded the definition of 'permanent establishment' to include substantial digital activities. While DSTs offer an interim solution, they risk double taxation and create trade tensions, especially with the US. The DPE tax could provide a long-term resolution by enabling taxation based on where digital businesses generate value, rather than where they are physically located, thereby addressing BEPS risks.

Despite its potential, implementing a DPE tax would be problematic for numerous reasons. Defining a 'digital presence' remains difficult, as jurisdictions must determine how to measure value generation – whether by user interactions, market share, or revenue. Additionally, discrepancies between national tax rules, the absence of a common framework, and legal inconsistencies would make cross-border implementation complex. Without a unified approach, countries may face conflicting interests that hinder tax coordination, which could lead to disputes over revenue allocation. Furthermore, the risk of double taxation could persist, as digital businesses may be taxed not only in the jurisdictions where they create value but also in their home country.

Implementing a DPE tax would also require robust systems for tracking digital activities, necessitating significant investment in digital infrastructure to ensure accurate reporting and compliance. This complexity could disproportionately affect small to medium-sized enterprises (SMEs), which may lack the resources to comply with the new tax requirements. Moreover, political resistance from Member States with differing economic priorities could further complicate the introduction of a unified DPE tax at the EU level. As it stands, the absence of a globally agreed definition of a DPE further adds to the uncertainty surrounding its implementation.

8.2. DESTINATION-BASED CASH-FLOW TAX

The DBCFT is another alternative to a DST, which aims to address the complexities of taxing cross-border digital services. A DBCFT differs fundamentally from traditional income-based taxes, focusing on taxing the cash flows generated within a country based on the destination of goods or services, rather than where the company is headquartered or where the production occurs. Under a DBCFT system, digital companies would only be taxed on the revenue they generate from sales within the jurisdiction, regardless of where their operations or headquarters are located.

Compared with a DST, the primary advantage of a DBCFT is that it is a more straightforward system for both businesses and tax authorities, particularly in cross-border transactions. By taxing firms based on destination rather than source, it avoids the complex issue of 'digital presence' that a DST faces, which can lead to disputes over where value is created. The DBCFT could also be seen as more aligned with international trade principles, reducing the likelihood of trade tensions, as it doesn't double-tax companies on the same income across multiple jurisdictions.

However, one potential disadvantage is that the DBCFT could lead to a reduced tax base in countries where a substantial portion of digital services are exported rather than consumed locally. For example, digital companies that primarily serve markets outside the EU might see a lower tax burden if their revenue is primarily derived from non-EU countries. This could result in less revenue for the EU compared with the DST, which is levied on revenue within the EU. Furthermore, the DBCFT could be complex to administer, especially for companies with multi-jurisdictional operations or those engaged in both digital and physical goods and services. The need for careful accounting of where cash flows are generated would require enhanced reporting systems and monitoring.

From an implementation point of view, a DBCFT at the EU level could face several challenges, particularly due to the varying levels of digitalisation and economic structure across Member States. Countries with strong digital economies might favour a higher rate, while others could be reluctant to adopt the tax due to concerns about its impact on domestic businesses. The political challenges of achieving consensus among EU Member States, each with different economic priorities, would be significant.

Additionally, one of the key hurdles in implementing a DBCFT is the need for a common framework to accurately determine the destination of cash flows. As digital transactions become increasingly complex, with services and products flowing across borders with little to no physical presence, defining the location of cash flows in a consistent and transparent manner would be a considerable undertaking. The EU would need to

establish clear rules and regulations to ensure uniformity in the application of the tax, which could take years to negotiate and implement.

On the positive side, a DBCFT could be implemented without the need for a complete overhaul of existing tax systems. It could be integrated into current VAT structures, providing a relatively straightforward way to tax cross-border transactions. Still, achieving EU-wide implementation would require close coordination and agreement on definitions and procedures, particularly regarding the complex issue of digital services.

8.3. BROADENING THE VAT BASE

The broadening of the VAT base is another potential alternative to a DST. Currently, VAT applies to most goods and services within the EU, but digital services have faced challenges in ensuring consistent application, especially across borders. By expanding the VAT base to include a wider range of digital services, such as online advertising, streaming, and cloud services, the EU could raise additional revenue while maintaining consistency with its existing tax structure.

The main advantage of broadening the VAT base is that it is a well-established and understood system, which would require less infrastructure development compared with implementing a new tax such as the DST. VAT is already widely applied across the EU, making it easier for businesses to comply with, especially those that are already VAT-registered. Expanding the VAT base to include digital services would also reduce the administrative burden on tax authorities, as the mechanisms for VAT collection are already in place.

All the same, broadening the VAT base could have several drawbacks. One issue is that VAT is a consumption tax, which means that it ultimately falls on consumers rather than businesses. This could lead to higher prices for digital services, potentially affecting the affordability of services like cloud computing, e-commerce, and online media. Additionally, the introduction of VAT on digital services could disproportionately impact smaller digital service providers, particularly SMEs, which may not have the same resources as larger multinationals to comply with new VAT rules.

Regarding its implementation, the main hitch in broadening the VAT base to cover digital services is the risk of creating inconsistencies in how VAT is applied across different EU Member States. While VAT is already harmonised within the EU, there are still differences in the rates and exemptions applied by different countries. Expanding VAT to cover digital services could create new administrative headaches, especially for businesses operating across multiple jurisdictions. To mitigate this, the EU would need to establish clear, consistent rules for digital services to ensure that there are no loopholes or inconsistencies in implementation.

9. NEXT STEPS: WHAT THE EU SHOULD DO

A well-calibrated DST could provide a practical, albeit temporary, solution to address tax avoidance while funding key EU priorities. Our estimates suggest that a 5% DST on digital advertising, e-commerce, cloud services, and digital media could generate over EUR 37.5 billion in 2026. This represents about 18.8% of the EU's 2025 budget and approximately 7.8% of CIT revenue. Such revenue could play a pivotal role in funding vital public services, including social infrastructure, sustainable development, security and defence initiatives, and ensuring that the benefits of the digital economy are shared equitably across European society.

One of the primary motivations for this initiative is the need for the EU to address concerns about how digital platforms contribute – or fail to contribute – to public finances in the Member States where they operate. These platforms generate substantial revenue from the EU market, and it is only fair that they contribute a proportionate share to the public finances of countries that enable their success. The DST serves not only as a fiscal tool but also as a necessary step in aligning digital businesses with their fiscal responsibilities, ensuring that they contribute to the well-being of the societies from which they profit.

Given the stalled progress of the OECD's Pillar One framework, it is crucial for the EU to act decisively to ensure that digital platforms contribute fairly to public finances. While international cooperation remains an important goal, the EU cannot afford to wait indefinitely for global agreements to materialise. The DST offers the EU an opportunity to lead the way in creating a fair, transparent, and effective tax framework for the digital economy. This would allow the EU to set the stage for broader global reforms while addressing its own immediate fiscal needs.

Moving forward, the EU should prioritise the introduction of the DST. Given that the proposal is already on the table, the next steps should involve finalising the details of the DST, ensuring its fairness and avoiding overly complex provisions that could hinder its implementation. It is essential to focus on targeting digital platforms that derive substantial economic benefits from the EU market, in order to pave the way for a level playing field and prevent large corporations from gaining an unfair advantage over more traditional businesses that already contribute to national tax systems.

Additionally, implementation of the DST should remain flexible to accommodate the rapid pace of digital innovation. As new services, platforms, and business models emerge, the tax structure must evolve accordingly. A forward-looking approach should be embedded into the DST design to ensure that it remains relevant amid ongoing digital transformation.

While the DST could be a standalone solution, it must also be part of a broader global framework. Digital businesses operate across borders, and without coordinated international action, there is a risk of fragmented regulation that could lead to inefficiencies, double taxation, or hamper innovation. The EU should continue engaging with global stakeholders, such as the OECD, and work towards a global consensus on digital taxation. In parallel, the EU must make sure that the DST does not disrupt international trade or create barriers to cross-border collaboration.

In conclusion, while implementing the DST presents challenges, it also offers significant opportunities. By making certain that the digital sector contributes fairly to public finances, the EU can support its broader goals of social equity, economic growth, and sustainable development. The revenue generated by the DST could be reinvested in key public sectors, driving investment in infrastructure, security, and sustainable projects. Most importantly, this approach ensures that the benefits of the digital economy are shared across all of EU society, thus aligning the digital sector's growth with the EU's long-term priorities.

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