

State of play of Digital Services Taxes (DSTs) and other similar measures

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In brief

What happened?

In the absence of a multilaterally agreed approach to taxing the digital economy, many countries have adopted unilateral tax measures, including digital services taxes (DSTs), to address the perceived shortfall in tax revenues. This has prompted international tensions and policy responses, notably from the United States.

Why is it relevant?

The taxation of the digital economy remains a central yet unresolved focal point for global policymakers. While Amount A of Pillar One of the OECD's two-pillar tax reform attempted to address these challenges and curb the proliferation of unilateral measures such as DSTs, it is highly unlikely to be implemented in the foreseeable future. However, the drivers behind Amount A (e.g., to expand the taxing rights of market jurisdictions regardless of physical presence) have not gone away.

Actions to consider

Companies should assess the extent to which DSTs and other unilateral taxes (as described below) apply across their group structure. Revenue needs in many jurisdictions, along with the political appeal of taxing large foreign-owned technology companies, will likely lead to an increase in the number of DSTs globally. Tax functions will need to remain agile in their approach to DST compliance. A good data extraction and reporting process will be necessary. Companies may also need to revisit their transfer pricing of impacted subsidiaries to reflect the impact on value creation, as well as broader pricing and profitability impacts.

In detail

DSTs and other unilateral measures

DSTs are not corporate income, sales, or VAT taxes. They typically impose tax based on gross revenues of MNEs from specific digital activities, departing from traditional profit-based models. These activities often include online advertising, digital marketplaces, search engines, social media, and user data transmission. DSTs aim to ensure that companies pay taxes in countries where they have substantive economic activities, even without a physical presence. DSTs are implemented unilaterally, so rules including scope, tax rate, and reporting deadlines may vary per country. Tax rates on in-scope activities typically vary between 2% and 5%, with outliers like Turkey's 7.5% tax rate.

In lieu of a DST, some countries have adopted Significant Economic Presence (SEP) rules, which broaden the definition of taxable nexus to include sustained digital engagement or user participation, rather than traditional physical presence criteria.

DSTs, SEP rules, and similar measures tie profits to specific locations, taxing them where user value is created. This shifts taxation rights from payment locations and physical assets to where users are deemed to create value.

In most countries, DSTs only apply if certain global and local thresholds are met. Generally, DSTs apply for MNEs with a global revenue of at least EUR 750 million (USD 875 million). The local thresholds differ from approximately EUR 0 to EUR 25 million. Exemptions typically include the sale of goods, regulated financial services, and some business-to-business transactions.

Country examples and recent developments

France was the first country to introduce a 3% DST in 2019, drawing inspiration from a proposed EU Directive that ultimately failed to gain consensus among Member States. France's DST set a precedent for other countries and was intended as a temporary measure pending Pillar One. Other countries in the EU with DSTs include Austria, Italy, and Spain. Notably, in December 2024, Italy amended its 3% DST by eliminating one of the two original thresholds - the EUR 5.5 million in-country digital service revenue threshold - thereby expanding its scope to include more non-resident digital service providers.

Observation: On 17 June 2025, the French Administrative Supreme Court (Conseil d'État) referred a preliminary question on the constitutionality of the French DST to the French Constitutional Court (Conseil constitutionnel). If the Constitutional Court finds the French DST provisions to be unconstitutional, the provisions would, in principle, cease to apply, and such a ruling might influence similar digital tax measures in other EU Member States.

Beyond the EU, countries such as Turkey, Kenya, Nepal, and the United Kingdom have adopted their own versions of DSTs, each tailored to local policy goals and market contexts. This has created a patchwork of digital tax measures worldwide.

DSTs are increasingly intersecting with international trade policy. Modern free trade agreements like the US-Mexico-Canada Agreement (USMCA) include provisions on non-discrimination and digital trade, which have been invoked in DST-related disputes. Canada's government announced in June 2025 that the country's DST, which came into force in 2024 with retroactive application to revenues earned from 2022 onward, would be withdrawn to resume trade negotiations with the United States.

In 2025, several other countries reconsidered or reversed their DST plans amid global political shifts, including New Zealand, Pakistan, and Brazil. Similarly, in the lead-up to the US-UK trade framework deal announced in May 2025, the UK signaled it could revisit its DST to ease trade tensions. Despite trade tensions causing some countries to withdraw their DST, other countries are still enacting and proposing digital tax measures, including but not limited to DSTs. In 2025, Belgium's new government pledged to implement a DST by 2027 as part of its coalition agreement. Australia announced its own 3% "Big Tech Tax." Poland and Slovakia recently announced intentions to adopt new DSTs. The African Tax Administration Forum (ATAF) has also urged its members to consider interim digital taxation measures until a global solution is in place.

Kenya adopted a SEP tax in December 2024, replacing its 1.5% DST. Other African countries that impose taxes on digital services provided by non-resident companies include Tanzania (2%); Nigeria (profits taxed at the corporate tax rate), Zimbabwe (5%), Tunisia (3%), Sierra Leone (1.5%), and most recently, Rwanda (1.5%). Uganda modified its 5% DST in 2025, levying a 15% withholding tax for non-resident persons providing digital services in Uganda to related parties (but not abolishing the DST for other transactions).

In Latin America, there have been efforts to form a regional consensus on the reallocation of taxing rights, potentially leading to the emergence of various multilateral or unilateral measures. Brazil has recently proposed the Digital Social Tax which functions as a DST set at 7% levied on the gross revenue of major digital platforms. Colombia also imposed a SEP where non-residents are allowed to either pay a 10% withholding tax or a 3% rate on digital services income.

DSTs considered discriminatory by the United States

The United States opposes DSTs, arguing they unfairly target American tech companies and breach international tax principles by taxing gross revenues. During President Trump's first term, the administration launched Section 301 investigations into DST policies in nine countries, threatening tariffs. These actions were paused in light of ongoing OECD discussions on Pillar One.

During President Trump's second term, issues related to DSTs have continued. The US Congress included Section 899 in draft tax legislation, although the provision was dropped before final passage of the law. Section 899 as originally proposed would have imposed retaliatory taxation against countries that adopted extraterritorial or discriminatory taxes, including DSTs. Most recently, on 25 August 2025, President Trump threatened to impose additional tariffs and certain export restrictions on countries with DSTs or other digital measures that discriminate against American tech companies.

Observation: While Section 899 was withdrawn in June 2025 following a diplomatic agreement with G7 countries (concerning Pillar Two of the OECD's two-pillar tax reform), it could be re-proposed with some modifications in future legislation if DSTs and other similar measures continue to proliferate. For more on how Section 899 could resurface, particularly if progress is not made quickly enough toward the G7 goal, see our [recent video](#).

UN Tax Framework Convention

The UN has also asserted its role in the taxation of the digital economy, having kicked off negotiations on the UN Framework Convention on International Tax Cooperation (Convention) in February 2025. One of the protocols to the Convention focuses on "taxation of income derived from the provision of cross-border services in an increasingly digitalized and globalized economy." Article 12AA of the UN Model Tax Convention, adopted by the UN Committee of Experts on International Cooperation in Tax Matters in March 2025, could serve as the foundation for these negotiations. Like DSTs, Article 12AA allows a

Contracting State to tax fees for services paid to a resident of the other Contracting State on a gross basis. As discussions at the UN unfold, Member States continue to express divergent views on the effectiveness and fairness of various approaches.

VAT

In the current landscape of digital taxation, a prevalent alternative to DSTs is Value-Added Tax (VAT) on digital services. VATs on digital services effectively broaden the tax base to incorporate digital services as part of general consumption taxes. This is also the main distinction between a DST and VAT, i.e., DSTs directly target revenue streams generated by digital companies, whereas VATs apply tax on goods and services at various stages to be levied on consumption. We note that several African countries have introduced both VAT and DSTs on the same transactions.

Conclusion

Many countries, cognizant of e-commerce-based business models and perceived under-taxation of multinational tech companies operating within their borders, have implemented DSTs. Challenges to reach and implement a global consensus on the taxation of the digital economy have led to a continued reliance on unilateral DSTs and a complex, uncertain environment for businesses and international trade. While a multilateral solution to taxing the digital economy seems to be the preferred option, companies will need to prepare for a range of possible outcomes of the OECD and UN negotiations.

Let's talk

For a deeper discussion on how DSTs and other similar measures might affect your business, please contact:

Tax policy leadership

Will Morris, *United States*
+1 (202) 213 2372
william.h.morris@pwc.com

Edwin Visser, *Netherlands*
+31 (0) 88 7923 611
edwin.visser@pwc.com

Tax policy specialists

Phil Greenfield, *United Kingdom*
+44 7973 414 521
philip.greenfield@pwc.com

Stewart Brant, *United States*
+1 415 328 7455
stewart.brant@pwc.com

Keetie Jakma, *Netherlands*
+31 6 18565973
keetie.jakma@pwc.com

Edna Gitachu, *Kenya*
+254 795 737 709
edna.gitachu@pwc.com

Chloe Fox, *Ireland*
+353 87 721 1577
chloe.fox@pwc.com

Nangel Kwong, *Ireland*
+353 87 280 8575
nangel.kwong@pwc.com