

A common EU digital tax

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Digital taxes

Digital taxes look attractive on two counts:

1. Feeling that digital economy escapes taxation.
2. Digital sector dominated by US firms; taxing them was attractive already before Trump, now even more so.

Different types of digital taxes and taxation mechanisms:

- Digital Services Tax (DST)
- Digital Permanent Establishment (DPE) tax
- Destination-Based Cash Flow Tax (DBCFT)
- VAT on digital services
- OECD's Pillar One reforms

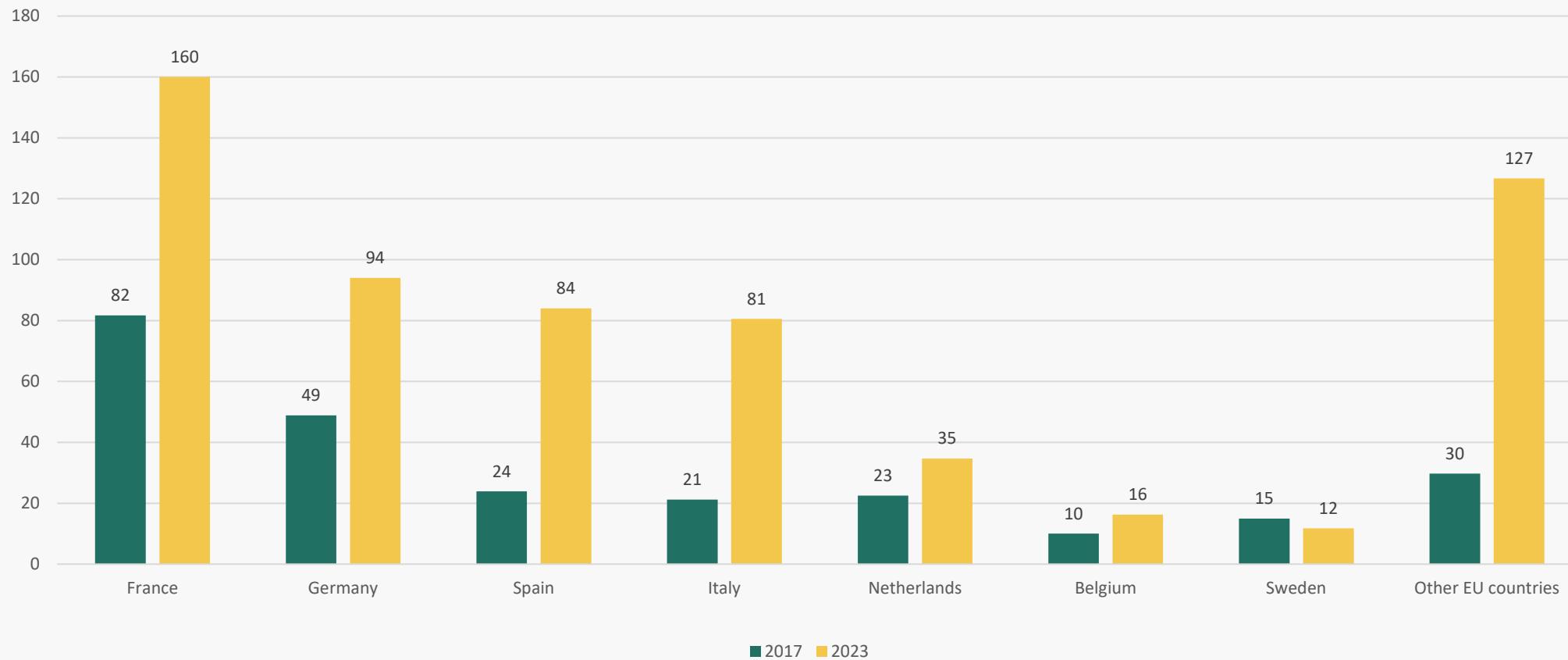
Strategic context: why now?

- OECD Pillar One is delayed: Ongoing political uncertainty, progress unlikely in 2026.
- Patchwork of national DSTs persists in France, Italy, Spain, Austria, etc.
- Digital giants still undertaxed: Effective tax rates for large digital firms remain far below EU corporate averages.
- EU needs revenue autonomy: New own resources are essential to reduce overreliance on GNI-based contributions.

A coordinated approach (e.g. EU DST) can serve as a transitional tool, build pressure for global reform, and generate meaningful revenues now.

Size of digital market in the EU

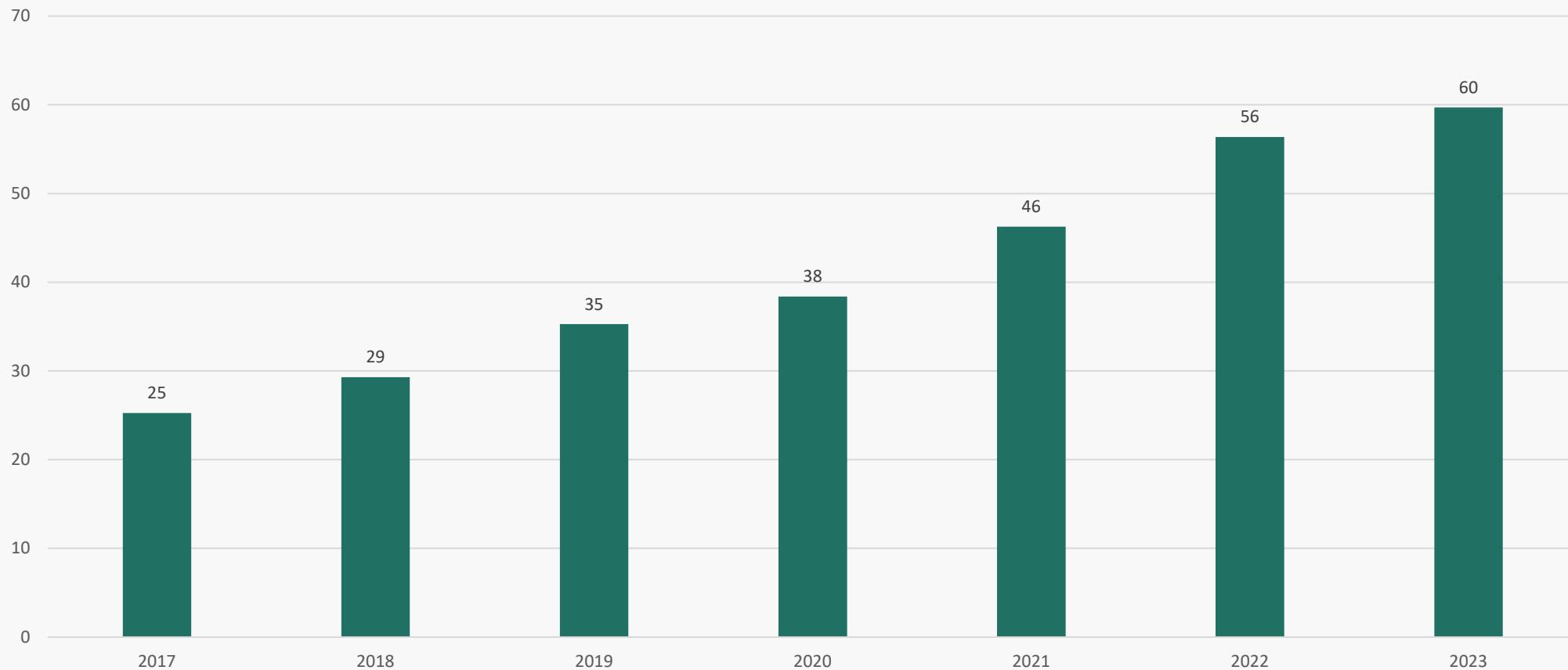
Figure: B2C e-commerce turnover (EUR billion, 2017 and 2023)



Source: Own elaboration based on data from Ecommerce Europe.

Size of digital market in the EU

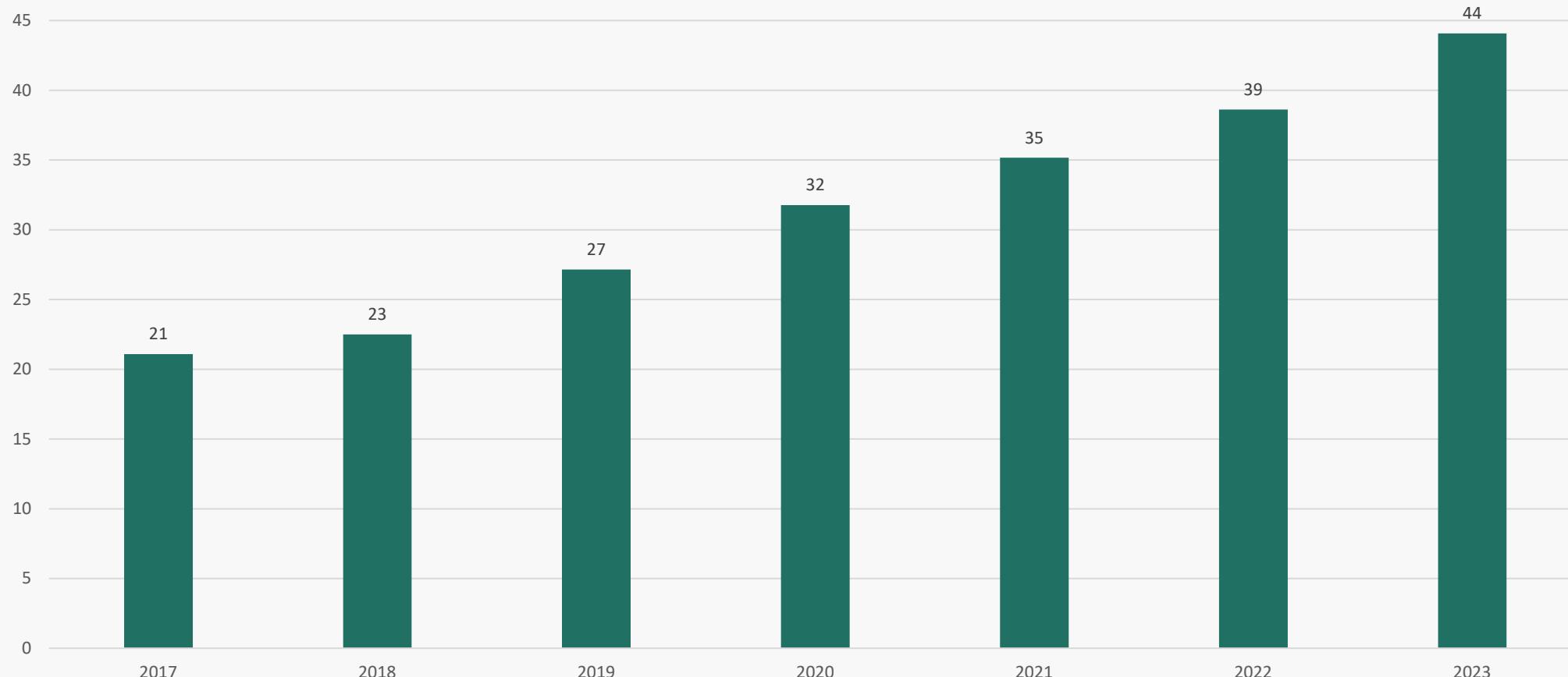
Figure: Digital advertising spending in the EU27 (EUR billion, 2017-2023)



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

Size of digital market in the EU

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

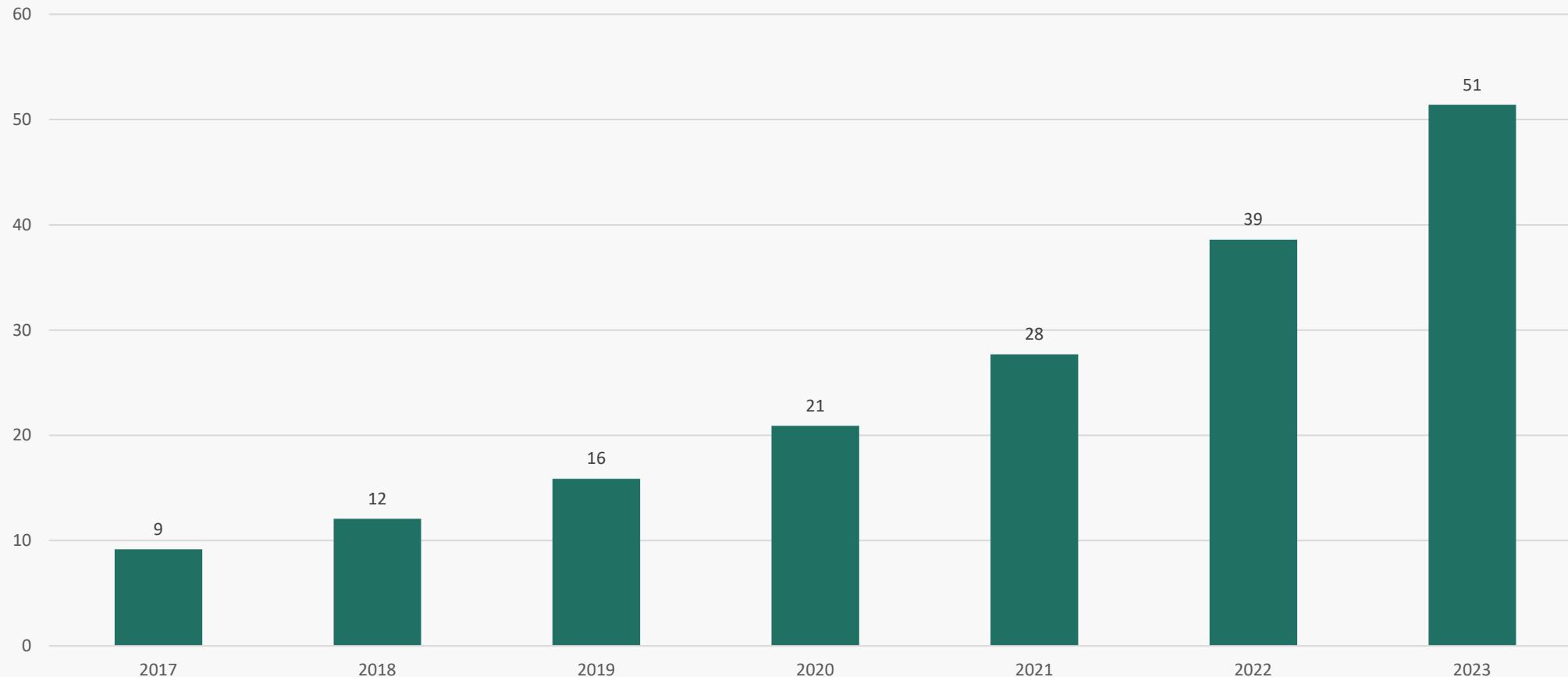


Notes: Digital media are defined as audiovisual media contents and applications that are distributed directly over the internet (i.e. video, music, games, eBooks, eMagazines or ePapers). The EU Member States included are AT, BE, CZ, DE, DK, EL, ES, FR, HU, IE, IT, LU, NL, PL and SE.

Source: Own elaboration based on data from Statista.

Size of digital market in the EU

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

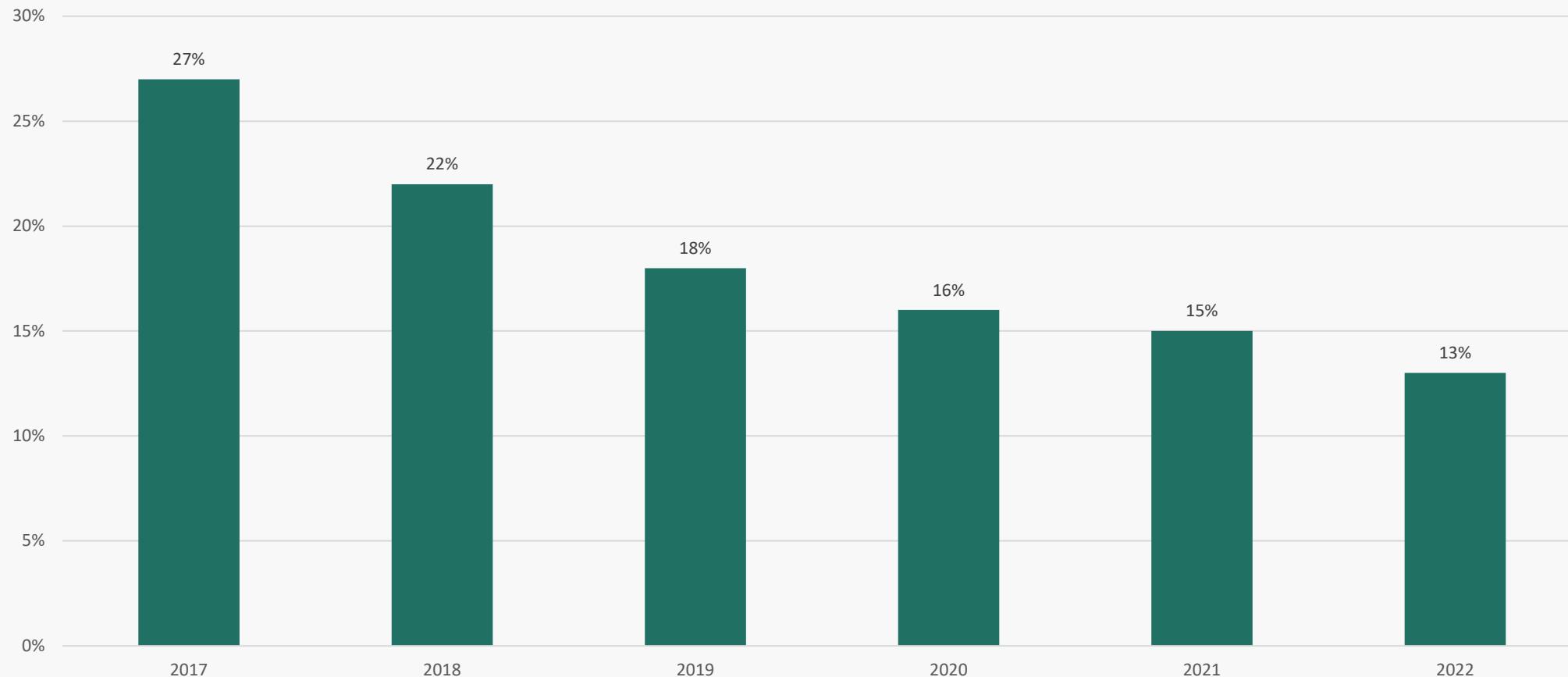


Notes: Services are defined as the digital infrastructure and computing resources managed by a service provider (including a public cloud and hosted private cloud). Figures include platform-as-a-service, infrastructure-as-a-service, and hosted private cloud. Software-as-a-service is not included.

Source: Own elaboration based on data from BDO.

Size of digital market in the EU

Figure: 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.

What is a Digital Services Tax?

- A tax levied on revenues generated from certain digital activities.
- Targets large digital firms with significant EU revenue and global turnover thresholds.
- Addresses tax base erosion where profits are generated without physical presence.

What is a Digital Services Tax?

Pros

- Targets clear cases of value creation without taxation.
- Can generate meaningful short-term revenue.
- Politically popular among few Member States and public opinion.
- Sends a signal about tax fairness in the digital economy.

Cons

- Risk of double taxation (revenue-based, not profit-based).
- Can trigger trade tensions (notably with the US).
- Distorts competition by disproportionately affecting certain business models.
- Difficult to define scope and enforce consistently.
- May disincentivise digital investment and innovation.

The CEPS study

Focus is not on why, but how and how much.

Main points:

- The digital economy is growing rapidly and under-taxed.
- Hence, a DST would be 'just' and could bring in large revenues.
- OECD negotiations unlikely to yield results, EU should go ahead alone, along the lines of the 2018 proposal of the Commission.
- Some Member States already have DSTs, better to consolidate at the EU level.
- Revenues from existing DSTs are growing, but remain modest.
- Contributions of different sectors 'unbalanced'.
- E-commerce is key, hence in reality DST = Digital Sales Tax

Existing example of DSTs

- Revenues generally modest
- Threshold 750 million in global revenues widely accepted.
- Widely different tax bases
- Rates in 3-5 % bracket.

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

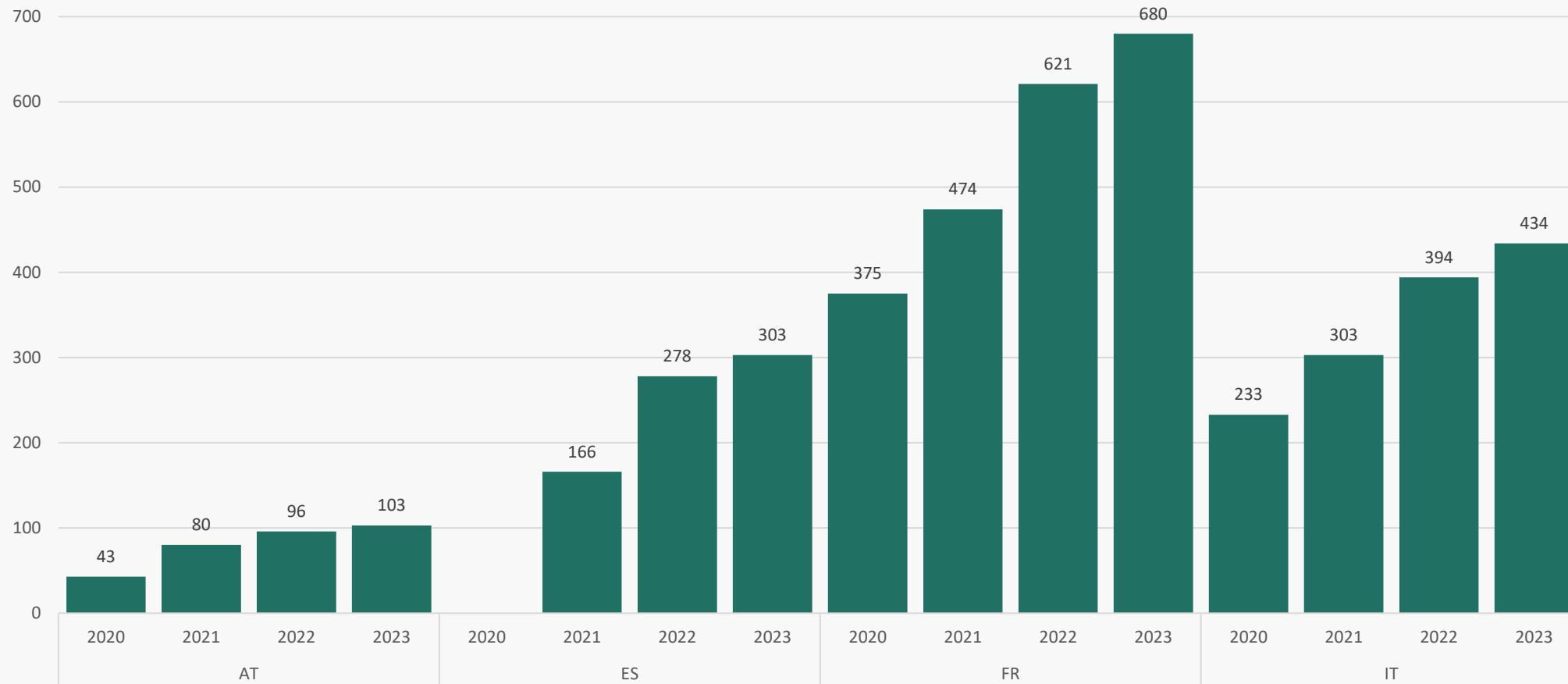
Country	Effective from	Services under scope	Tax rate	Annual thresholds (in million)		DST revenue (in million, 2023)
				Global revenue	Domestic revenue	
Austria	Jan 2020	- Online advertising services	5%	EUR 750	EUR 25	EUR 103 ^(a)
France	Jan 2019	- Suppliers of a digital interface - Suppliers of advertising 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 3	EUR 303 ^(e)

Notes: ^(a) [Federal Ministry 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.

Strong revenue growth in all cases

Figure: 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.

How much revenue can a DST generate?

Table: Estimated revenues from a 5% DST (EUR billion)

% of DST	Year	Digital advertising	B2C e-commerce	Cloud services	Digital media	Total revenue	as % of CIT revenue
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%*

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.

Next steps: What the EU should do on DST

- Fiscal impact: A 5% DST on key digital services (ads, e-commerce, cloud, media) could raise over €37.5 billion in 2026, ~19% of the EU budget.
- Fairness principle: Ensures digital platforms contribute proportionately to public finances in the countries where they operate and profit.
- Strategic timing: With OECD Pillar One stalled, the EU needs a stop-gap solution, consider acting independently, and lead global tax reform.
- Implementation focus: Target platforms with substantial EU revenues and keep the DST simple, fair and adaptable to evolving digital models.
- Purpose: Strengthen EU revenue autonomy and policy coherence (fund social services, defence, green transition and inclusive digital growth).

We look forward to your feedback



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What are the alternatives?

Digital Permanent Establishment (DPE) Tax

- Concept: Expands tax nexus to include significant digital presence.
- Goal: Tax based on where value is created, not physical presence.
- Challenges: Difficult to define and measure digital presence. Legal fragmentation & risk of double taxation. Requires cross-border coordination and investment in digital infrastructure. High political resistance, especially without global consensus.

Destination-Based Cash-Flow Tax (DBCFT)

- Concept: Taxes revenues based on where goods/services are consumed.
- Benefits: Avoids 'digital presence' disputes. Aligned with trade principles; reduces risk of double taxation.
- Challenges: Revenue loss for export-heavy Member States. Complex cash-flow tracking and inconsistent digitalisation across EU. Needs clear definitions of 'destination' and strong implementation framework. Politically difficult to harmonise across Member States.

What are the alternatives?

Broadening the VAT Base

- Concept: Expand VAT to cover more digital services (e.g. streaming, cloud, ads).
- Benefits: Builds on existing, harmonised VAT infrastructure. Easier for authorities and businesses to implement.
- Challenges: Shifts burden to consumers (regressive impact). Potential compliance burden on SMEs. Risk of inconsistencies in implementation across Member States (rates, exemptions).

What are the alternatives?

Digital Sales Tax (DST)

- Concept: A revenue-based tax imposed on certain digital activities (e.g. online advertising, digital intermediation, data monetisation) earned within a country, regardless of physical presence.
- Goal: Ensure digital companies contribute tax in jurisdictions where they generate substantial economic activity and user engagement.
- Benefits: Quick to implement. Generates visible revenue from large digital multinationals. Captures value not taxed under traditional corporate tax rules. Can act as a stop-gap measure pending broader tax reform.
- Challenges: Risk of double taxation (on top of corporate taxes). Often hits foreign firms disproportionately, leading to trade tensions. Uncoordinated national DSTs fragment the Single Market. Legally and politically sensitive within WTO and OECD frameworks.

What are the alternatives?

Digital Duty on Imported Software

- Concept: Applies a levy on software and digital goods/services imported from non-EU jurisdictions.
- Goal: Level the playing field between EU-based and foreign digital providers; recover lost VAT/customs revenue; support digital sovereignty.
- Benefits: Targets revenue leakage from cross-border digital consumption. Can incentivise domestic alternatives and ensure fair competition. Relatively easier to administer through customs/tax systems.
- Challenges: Risks violating WTO rules on non-discrimination of digital goods. Difficult to define the scope (e.g. SaaS vs downloadable software). May provoke trade retaliation, especially from the US. Potential to increase costs for consumers and SMEs.

What are the alternatives?

Digital Fee for Using Network Infrastructure

- Concept: A levy imposed on large digital platforms or content providers (e.g. streaming services, social media, cloud providers) for their use of national telecom and internet infrastructure.
- Goal: Compensate network operators for the rising costs of data traffic and infrastructure maintenance. Promote fair cost-sharing between digital content providers and telecom carriers.
- Benefits: Could help finance broadband rollouts and 5G infrastructure. Promotes the “fair share” principle in digital ecosystems. May reduce financial pressure on telecoms.
- Challenges: Highly controversial—raises concerns about net neutrality, double payment (users already pay ISPs), and potential pass-through costs to consumers. Difficult to define taxable thresholds or beneficiaries. Could trigger regulatory disputes and distort cross-border digital competition. Opposed by many tech companies and consumer advocates.