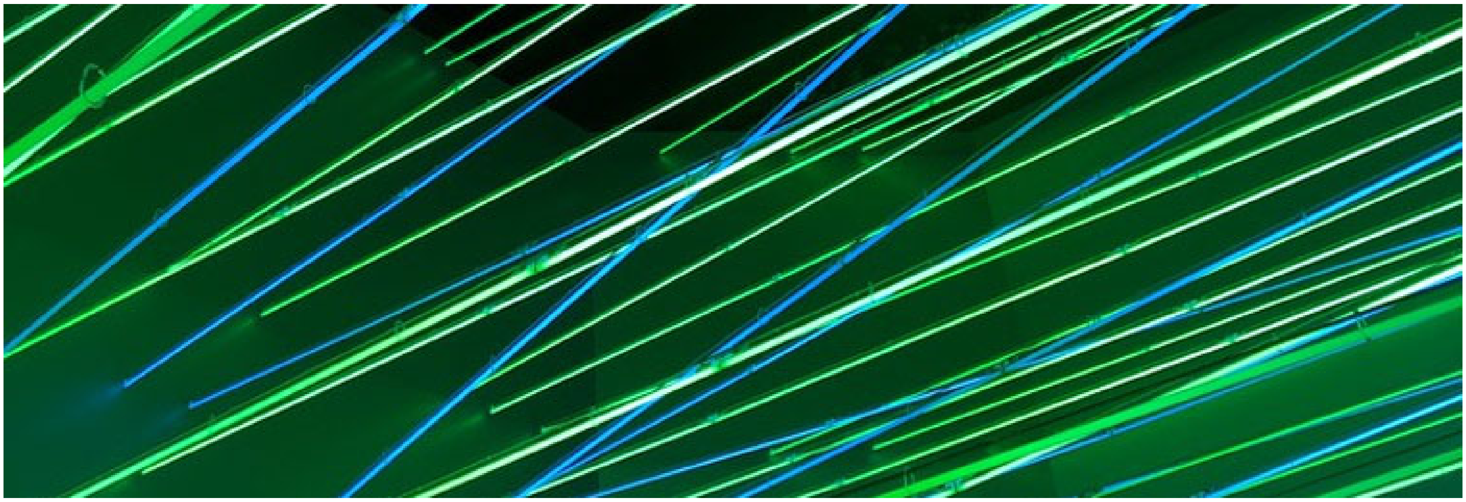

Announced, proposed and implemented: Developments in Digital Services Tax in key European jurisdictions

Global Tax Alert

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By: Antonio Tomassini | Carlos Rodríguez | Marica De Rosa | Raphaël Béra

The Organization for Economic Cooperation and Development (OECD) has identified the tax challenges arising from the digitalization of the economy as one of the main areas of focus of the Base Erosion and Profit Shifting (BEPS) Action Plan.

This concern led directly to 2015's BEPS Action 1, *Addressing the Tax Challenges of the Digital Economy*. At the request of the G20, the Inclusive Framework continued to work on this concern, aiming to reach a global consensus on concrete proposals – Pillar One addressing the broader challenges of the digitalization of the economy and focusing on the allocation of taxing rights, and Pillar Two addressing remaining BEPS concerns by introducing a minimum tax rule.

In October 2020, the OECD and the OECD/G20 Inclusive Framework on BEPS released a series of documents in connection with the BEPS 2.0 project, including detailed reports on the blueprints of Pillar One and Pillar Two. A public consultation was held on these blueprints on January 14 and 15, 2021. The goal of the OECD member states is to resolve the political and technical issues around these tax challenges and to bring the process to a successful conclusion by mid-2021.

In the meantime, the European Commission has also published a roadmap, including a public consultation for the introduction of a digital levy. The roadmap highlights that the EU is still committed to reaching a global agreement in relation to the digitalization of the economy. The roadmap and consultation should be seen as supplementing ongoing work at the G20/OECD level on a reform of the international corporate tax framework. The European Commission is, however, committed to publishing a draft directive by June 2021 at the latest, given its proposed introduction in January 2023.

Despite these ongoing multilateral negotiations, several countries have decided to move ahead with unilateral measures targeting the digital economy. These unilateral measures have largely taken the form of a Digital Services Tax (DST).

These proposed and implemented DSTs share a number of features in common regarding affected taxpayers, applicable territorial rule, and exempt activities, as well as significant differences in their structure and the applied methods for collection and compliance.

While some countries, such as Austria and Hungary, target only tax revenues from online advertising, the French, Italian and Spanish DST tax base is much broader, encompassing revenues from the provision of a digital interface, targeted advertising, and the transmission of data collected about users for advertising purposes. The tax rates range from 2 percent in the United Kingdom to 7.5 percent in Hungary (this rate at present has been reduced to 0 percent).

In general, these DSTs are considered to be interim measures until an agreement is reached at the OECD level. But, based on current legislation, it remains unclear whether all of them will be repealed at that point.

To discuss the ramifications of the implementation of the DST for your international business, please contact the authors or your usual DLA Piper advisors.

To review the key features and country-specific developments of the DST in France, Italy, Spain and the United Kingdom, please click on the following links:

Key features of France's DST

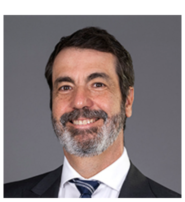
Key features of Italy's DST

Key features of Spain's DST

Key features of the United Kingdom's DST

AUTHORS

Antonio Tomassini
Partner
Milan | T: +39 02 806181
Rome | T: +39 06 68 88 01
antonio.tomassini@dlapiper.com



Carlos Rodríguez
Partner
Madrid | T: +34 91 319 12 12
carlos.rodriguez@dlapiper.com

Marica De Rosa
Managing Director

New York | T: +1 212 335 4500
marica.derosa@dlapiper.com

Raphaël Béra
Partner
Paris | T: +33 1 40 15 24 00
raphael.bera@dlapiper.com