

Italy's Digital Services Tax: Navigating Economic Necessities and Geopolitical Complexities

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The increasing relevance of the digital economy, which in just a few years has reached 15.5% of global gross domestic product (GDP), has exposed significant limitations in traditional taxation systems based on a company's physical presence in a region or country. In the past decade, the OECD have been attempting to negotiate a set of rules with more than 130 countries to change how and where large digital companies pay taxes. The initiative, led by the OECD, has opened the door to attempts by national countries to introduce a digital services tax at national level, with several geopolitical and economic consequences. Against this backdrop, after addressing the OECD initiative and the EU's efforts to adjust taxation in such a market, this paper focuses on the case of Italy, which has recently attempted to reframe its digital services tax to address not only digital giants but possibly also small and medium-sized companies.

- ▶ Italy introduced a Digital Services Tax (DST), also known as "web tax", back in 2019, to target major digital service providers. The recent proposal for a new web tax aimed also to tackle small and medium-sized companies (SMEs).
- ▶ The idea of taxing SMEs, which are considered the backbone of the Italian economy, has raised multiple concerns at the national level and should eventually be dropped, leaving the new DST to address only multinational companies.
- ▶ Nonetheless, with or without the inclusion of SMEs, the Italian web tax is set to impact trade and political relations with the US, where the majority of multinational digital giants are based.

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1 Introduction

The rapid growth of the digital economy, which now accounts for 15.5% of global GDP and, over the next decade, is set to represent 70% of any new value created in the economy, has been pressuring governments to update their traditional taxation systems.¹ Taxes are indeed normally related to a company's physical presence in a region or country but that approach is virtually useless when it comes to multinational digital enterprises able to generate cross-border revenue. Back in 2013, the G20 countries and the Organisation for Economic Cooperation and Development (OECD) started negotiations to develop a fair and efficient taxation framework for the digital economy. The OECD's Base Erosion and Profit Shifting (BEPS) Inclusive Framework, published in 2015, was indeed an attempt to curb tax avoidance techniques by mapping them and ensuring that profits are taxed where value is created. Building on the BEPS, the OECD has since been developing a two-pillar strategy to help countries facing such a taxation challenge. Under this strategy, Pillar 1 addresses the issue of reallocating taxing rights to market jurisdictions for highly profitable digital companies, while Pillar 2 attempts to introduce a global minimum tax to limit tax competition between countries.

The European Union has been actively supporting the initiative, implementing a Directive on minimum corporate taxation inspired by Pillar 2. Similarly, since 2019, EU Member States have been adopting national digital services taxes (DSTs), with Austria, France, Italy and Spain agreeing to align their laws to the OECD's Pillars 1 and 2, once these have been agreed and ratified. The implementation of national DSTs, which would primarily affect American multinational companies, has, however, been subject to US criticism and the threat of retaliatory tariffs. In 2020, the US reached agreements with the aforementioned countries to modify their DSTs once the OECD Pillar 1 was ratified and became operational. Yet, since June 2024, with formalization at the OECD level still outstanding, countries, such as Italy, have started developing plans to expand or modify their DSTs. At first, the proposal of a new Italian DST aimed at broadening its target, by addressing not just big multinational digital companies but also small and medium-sized enterprises (SMEs). While this decision was as an Italian attempt to appease the US while raising its fiscal revenue, it was refused by the Italian government coalition party: Forza Italia (FI). For the party, tackling small medium enterprises would be economically inconvenient, and it would not suffice to avoid American retaliation under the incoming Trump administration. Against this backdrop, we examine the key international and European developments in digital services taxation, with a focus on Italy's approach, to provide an insight into the economic and geopolitical challenges facing the introduction of a tax system capable of tackling the digital economy.

2 An international system of taxation for digital companies? The OECD negotiations

The idea of introducing taxes for the digital economy is based on the fact that digital activities are often not taxed in a market jurisdiction because tax normally presumes a physical presence. To address these concerns, the Organisation for Economic Co-operation and Development (OECD) has, in recent years, been holding negotiations with more than 130 countries to develop an international system of taxation to help promote sustainable growth. According to the OECD, multinational companies can find ways to minimize their tax obligations, for instance through offshore companies, companies in different

¹ World Economic Forum. (2023). [Why we need to ramp up tech diplomacy to harness opportunities of the digital economy](#)

jurisdictions with no employees, or through licensing.² This does not mean that countries should opt for aggressive tax planning, but they should try to optimize their fiscal systems to avoid the loss of income tax revenue, which is a pressing issue particularly for developing countries.

Efforts to find a long-term global solution have been carried out by the G20/OECD through the development of an Inclusive Framework on Base Erosion and Profit Shifting (BEPS), formally presented in Tokyo in 2016. BEPS aims to provide governments with a set of policy tools and instruments for addressing tax avoidance and ensuring that profits are taxed where the economic activities generating them take place and where value is created.³ Indeed, the framework maps the strategies used by multinational companies to avoid paying taxes by exploiting loopholes and inconsistencies contained in tax regulations. Since the publication of the first BEPS Action 1 Report in 2015⁴, the initiative has brought together 140 countries and jurisdictions. Finally, in the 'October 2021 Statement of the OECD/G20 Inclusive Framework on BEPS', countries found common ground on key aspects of a reform of the international rules on taxation governing the profits of multinational companies.⁵ The agreement identified a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The first pillar refers to the idea that there is a need for large companies, with revenue exceeding €20 billion and a profitability rate above 10%, to pay taxes in the countries where they conduct their activities, not just where they are legally domiciled. The subsequent Multilateral Convention to Implement Amount A of Pillar One (the MLC) co-ordinates the reallocation, to market jurisdictions, of taxing rights over a share of the profits of the largest and most profitable multinational enterprises operating in their markets. The MLC was approved in October 2023 but is not yet open to signature. The second pillar, on the other hand, envisions a global minimum tax (at least 15% on large multinational groups with global revenue exceeding €750 million) aimed at reducing the possibilities for base erosion and profit shifting. By contrast with Pillar 1, which is a multilateral convention that is mandatory for participating countries, the idea of Pillar 2 is that its principles, agreed by the participating countries, would favour a 'common approach' to the issue. In other words, it is not mandatory for the Inclusive Framework members to adopt the principles of Pillar 2, but if they choose to do so, they will have to implement and administer national rules in a way that is consistent with the agreed outcomes under Pillar 2. This would increase global harmonisation of the international system through the introduction of digital services taxation at national level to be levied on selected gross revenue streams of large digital companies. As of 7 June 2024, 45 countries have either introduced draft legislation or adopted rules in line with Pillar Two's model.⁶

3 A European tax system for multinational digital companies?

The idea of a global minimum tax has already been included by the European Union in the Directive on minimum corporate taxation, approved in 2022⁷, which aims to ensure that all economic sectors pay

² Anzuini A., Pisano E., Rossi L., Sanelli A., Tosti E., Zangari E. (2023). [Clever planning or unfair play? Exploring the economic and statistical impacts of tax avoidance by multinationals](#), Banca d'Italia

Rigó, C. B., & Tóth, A. (2020). The Symbolic Significance of Digital Services Tax and its Practical Consequences. *Public Finance Quarterly*, 65(4), 515-530

³ OECD. (2016). [Base erosion and profit shifting \(BEPS\)](#)

⁴ OECD/G20. (2015). [Addressing the Tax Challenges of the Digital Economy, Action 1, Final Report](#)

⁵ OECD. (2021). [Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – 8 October 2021](#)

⁶ Bunn D., Bray S. (2024). [Global Tax Agreement: Details & Analysis | EU Global Minimum Tax](#)

⁷ Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union

a fair share of taxes and contribute to general social welfare and economic growth. The EU will be among the first to implement 'Pillar 2' rules agreed in 2021.⁸ As regards a European web tax, on the other hand, the European Digital Services Taxation Package⁹ planned, in March 2018, to introduce a 3% tax on revenue from online advertising, from seller/buyer fees transacted by online intermediaries and from the sale and transmission of data collected about users and generated by user activities on digital interfaces.¹⁰ The aim was to "establish a modern, fair, and efficient taxation standard for the digital economy." However, the proposal faced opposition from several EU countries, particularly Ireland, which hosted the headquarters of many digital giants. At the same time, the proposal was put on hold pending the outcome of the G20/OECD BEPS negotiations, as their conclusion and an agreement would render the proposal obsolete. Nonetheless, in March 2021, the European Council amended the European Directive on administrative cooperation (DAC) in the field of taxation, adopting a new set of rules (DAC7 and DAC 8). Under DAC7, from 2023 onwards, Member States' tax authorities automatically exchange information on income earned by sellers on digital platforms. This helps authorities to prevent tax evasion and tax avoidance, enhance tax fairness and foster a level playing field for both platforms and sellers.¹¹ Under DAC 8, introduced in October 2023, administrative cooperation among tax administrations was strengthened by enlarging the scope of registration and reporting obligations to cover transactions in crypto assets. Finally, on 5 November 2024, the Council reached an agreement on the 'VAT in the Digital Age' package, to assist administrations in tackling VAT fraud, support businesses and promote digitalisation.¹²

However, in the absence of a European framework for a Digital Services Tax, individual Member States have been adopting their own solutions. For instance, as highlighted by Bunn, while Austria and Hungary only tax revenue from online advertising, France has a much broader tax base, encompassing revenue from digital interfaces, targeted advertising, and the use of user data for advertising purposes. Tax rates vary, ranging from 1.5% in Poland to 7.5% in Hungary and Turkey (though Hungary's rate is temporarily reduced to 0% until December 31, 2024.). Overall, these digital services taxes have largely been viewed as temporary measures, pending a global agreement at the OECD level.¹³

4 Digital Services Tax: Italy

The first Italian Digital Services Tax was introduced in 2019 and imposed a 3% levy on gross taxable revenue generated by digital targeted advertising services, data transmission services and digital interface services. Those businesses, either individually or as a group, are subject to the Italian DST if they generate worldwide revenue of more than €750 million and, simultaneously, revenue in Italy of more than €5.5 million. As early as 2019, the law came in for harsh criticism from the US. Italy was indeed accused of selectively discriminating against US digital companies because the law was not aimed at small enterprises but mainly multinationals. Moreover, according to the US, the tax was

⁸ European Commission (2024). [A new era for corporate taxation in the EU enters into force today](#)

⁹ European Commission. (2018). [Questions and Answers on a Fair and Efficient Tax System in the EU for the Digital Single Market](#).

¹⁰ Lips, W. (2020). The EU Commission's digital tax proposals and its cross-platform impact in the EU and the OECD. *Journal of European Integration*, 42(7), 975-990. <https://doi.org/10.1080/07036337.2019.1705800>. Næss-Schmidt H.S., Thelle M., Basalisco B., Sørensen P., Modvig Lumby B., (2018). [The Proposed EU Digital Services Tax: Effects on welfare, growth and revenues](#), CEPS

¹¹ Agenzia delle Entrate. (2023). [Scambio automatico di informazioni comunicate dai Gestori di Piattaforme \(DAC7\) - Che cos'è](#)

¹² Regis K. (2023). [Dac8: i vantaggi della regolamentazione anche fiscale dei crypto-asset](#)

¹³ Bunn, D., & Asen, E. (2022). [What European Countries Are Doing about Digital Services Taxes](#). Tax Foundation.

inconsistent as it applied to revenue (rather than income), thereby adopting an extraterritorial nature. Finally, by encompassing 62% of the digital companies operating in Italy (mainly American ones) it would impose burdens and restrictions on US trade.¹⁴

In 2021, with the start of the Biden administration, the US reached bilateral agreements with Italy as well as countries such as Austria, France, the UK and Spain, on a transitional approach to the application of the web tax. The agreement led to a temporary suspension of punitive tariffs that the US could have imposed on Italian goods. In exchange, Italy would harmonise its web tax with OECD Pillar 1 once it came into effect and an interim credit would be provided if Italian taxes exceeded those due under Pillar 1.¹⁵ The agreement was then extended until June 2024, when Pillar 1 should have taken effect.¹⁶ Currently, however, OECD negotiations on Pillar 1 are still ongoing and, with the new Trump Administration, a final agreement on the Pillar might take even longer than expected. With that in mind, countries have been implementing or even modifying national legislation, even with retroactive effect. In June 2024, for example, Canada authorized the implementation of a Digital Services Tax with retroactive effect to 1 January 2022. In the case of Italy, as part of its budget for 2025, the country was set to introduce a significant revision of its web tax (Digital Services Tax) to tackle not just digital multinational companies but also small digital businesses by eliminating revenue thresholds. The proposal to tax also small medium companies, however, has been harshly criticised by many political forces, in particular coalition party's Forza Italia and it has been abandoned.

5 The economic and geopolitical implications of the Italian Digital Services Tax?

The idea of taxing SMEs was harshly criticised not just by political forces but also by many national organisations. For instance, according to Assodigit, the national association promoting digitalization and technological progress for Italian SMEs, applying the tax to digital SMEs and startups would have undermined their capacity to compete in an increasingly digitalized environment. While the central state would have had an extra income of € 51.6 million, this would be at the expense of digital innovation by small and medium-sized companies. At the same time, the impact on SMEs would be particularly severe since the tax was set to be calculated on revenue and not on effective income, reducing their already limited investment capacities. To date, although the 4 million Italian SMEs are employing around 13 million people and generating more than 65% of the nation's added value, they are already struggling to compete with European counterparts, especially in the digital sector.¹⁷ Only 18%, compared to an average of 22% in the European Union, operate in the e-commerce sector and, when it comes to artificial intelligence, Italian SMEs are also below the EU average: only 6% use artificial intelligence, and only 8% analyse Big Data to implement marketing strategies.¹⁸ While the government is planning a fund of € 1 billion to stimulate digital innovation especially for start-ups and small companies, this would not be enough to potentially offset the potential effect of the web tax on their capacity to spend more on innovation and research. For the above reasons, Forza Italia, among

¹⁴ Office of the US Trade Representative (2019), Section 301 Investigation, Report on Italy's Digital Services Tax.

IRPA. (2021). [Digital Tax: l'Europa, gli USA e l'economia digitale. Quali le prospettive future?](#)

¹⁵ KPMG. (2024). [Taxation of the digitalized economy](#)

¹⁶ US Treasury. (2024). [Updated joint statement from the United States, Austria, France, Italy, Spain, and the United Kingdom regarding a compromise on a transitional approach to existing unilateral measures during the interim period before Pillar 1 is in effect](#)

¹⁷ Valentini V. (2024) [Empowering SMEs for digital transformation and innovation: The Italian way](#)

¹⁸ Milano Finanza (2024) [Le pmi italiane sono digitali? Uno studio di Webidoo colloca l'Italia al 19esimo posto in Ue](#)

other political parties, has been fighting to have the proposal removed from the law, which will be voted on in the coming weeks.

Yet, without the inclusion of SMEs, Italy may struggle even more to align with the US on the new DST. Indeed, the decision to extend the tax to small and medium-sized companies was a political move by the government to comply with one of the US criticisms of the 2019 law. The US has already invited Italy to reconsider its national digital services tax to avoid retaliation. Indeed with his slogan "Make America Great Again," newly elected President Donald Trump is not only aiming to win the trade war with China but also to reduce the negative US trade balance with Europe.¹⁹ As highlighted by Mario Draghi during the Budapest summit, the EU is dependent on the US for digital and technological goods, while the US remains the European export market of choice for more traditional industries. These are precisely the industries Trump wants to protect, eroding Europe's advantages.²⁰ Italy, as one of the main European exporters to the US market, may face challenges in this regard, especially since Trump is likely to deal with the problem by engaging directly with individual Member States to negotiate tailored approaches. In this context, the geopolitical consequences of the Italian DST might prove to be high.

6 Conclusions

Rapid evolution of the digital economy has highlighted the need to adapt traditional taxation systems. Without adopting a harsh or punitive approach towards the sector, countries are however attempting to develop a fair and equitable system to tax digital companies, and particularly the multinational ones. Yet, the problem with this approach is its geopolitical consequences. The majority of multinational digital companies are indeed American-based and, in the case of the European Member States, there is a risk of retaliation from the US. The EU does indeed have a positive trade balance with the US, particularly through the export of traditional goods, but is dependent on the US for technology. Since President Trump wants to tackle this negative US trade balance, he could adopt a harsh protectionist approach to push EU member countries into modifying their national DSTs to avoid losing access to the US market. At the same time, however, the OECD is developing a two-Pillar system to tackle the issue at global level. In particular, if Pillar 1 becomes operational, the US and the Trump administration will have less room to use retaliation, as the US is part of the negotiations.

In the case of Italy, the proposal to include SMEs in the new DST was an attempt by the government to increase its tax revenue whilst also adopting a more balanced approach to the US requests. In this way, the tax would not only address multinational digital companies, which are mostly American, but also SMEs operating in the country, which are mostly Italian or European. While this strategy seems to have not passed the political screening, with many political parties opposing the inclusion of SMEs in the DST, the Italian stance has so far not mollified the Americans. On the contrary, the Italian DST has still the potential to trigger US retaliation, which Italy cannot afford. In this respect, there is a need to push for an agreement at the global level, within the OECD and the EU, to find a harmonized and shared path for mutually beneficial digital tax solutions and thereby minimize trade disputes.

¹⁹ Poli E., Warhem V., Vopel H. (2024). [Harris vs. Trump: US Presidential Election and its Implications for the European Union](#)

²⁰ Politico (2024) [Draghi warns of 'greater' urgency to fix flagging EU economy after Trump election](#)



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