



(REVIEW ARTICLE)



# The Digital Economy and Tax Justice: Evaluating the Effectiveness of Digital Services Taxes (DSTs)

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## Abstract

The rapid expansion of the digital economy has profoundly transformed global business models, enabling multinational technology firms to derive substantial profits from markets where they maintain little or no physical presence. Traditional international tax frameworks, rooted in the principle of physical nexus, have proven ill-equipped to address these new realities, resulting in significant base erosion and profit shifting (BEPS). In response, Digital Services Taxes (DSTs) have emerged as unilateral or regional measures aimed at ensuring that value created within jurisdictions through digital activities is appropriately taxed. This review critically examines the effectiveness of DSTs as instruments of tax justice and revenue mobilization. Drawing on empirical studies, policy reports, and case evidence from Europe, Asia, Africa, and Latin America, the paper evaluates whether DSTs mitigate tax avoidance by digital giants, promote fairness in tax burdens, and strengthen fiscal sovereignty. It also considers the political economy of DST adoption, the tensions between national initiatives and multilateral negotiations at the Organization for Economic Co-operation and Development (OECD), and the challenges posed by trade disputes and compliance complexities. While DSTs represent an important interim step in rebalancing the allocation of taxing rights, their fragmented adoption raises risks of double taxation, trade retaliation, and administrative inefficiencies. The review concludes that DSTs, though imperfect, have accelerated momentum toward global tax reform and have contributed to reshaping debates on equitable taxation in the digital era. Policy recommendations emphasize the importance of coordinated approaches, integration with OECD's Pillar One and Pillar Two initiatives, capacity-building for developing economies, and safeguarding against regressive impacts on consumers and small enterprises. By situating DSTs within the broader discourse on tax justice, this paper contributes to understanding their role as transitional tools in the evolving landscape of international taxation.

**Keywords:** Digital Services Taxes; Tax justice; Digital economy; Base erosion and profit shifting; OECD Pillar One; Tax sovereignty; Revenue mobilization

## 1. Introduction

### 1.1. Background: Digitalization and the Tax Justice Problem

The rise of the digital economy has fundamentally altered patterns of value creation, business organization, and cross-border economic activity. Digital platforms, e-commerce firms, social media companies, and online service providers operate with global reach, often extracting significant revenues from user participation, data exploitation, and intangible assets. These business models frequently lack physical presence in the jurisdictions where they generate profits, creating challenges for tax administrations that rely on traditional nexus and permanent establishment rules. As a result, multinational technology firms have often been able to minimize their tax liabilities by channeling profits through low-tax jurisdictions, exacerbating base erosion and profit shifting (BEPS) and undermining domestic resource mobilization efforts worldwide [1,2].

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The scale of this challenge is significant. The OECD has estimated that corporate tax revenue losses attributable to BEPS range between USD 100–240 billion annually, representing between 4% and 10% of global corporate income tax revenues [3]. Within this figure, digital firms constitute some of the most aggressive users of intangible assets, intra-group licensing arrangements, and profit-shifting strategies. High-profile cases involving global technology giants such as Google, Apple, Facebook, and Amazon have galvanized public and political attention, with civil society organizations framing the issue as one of tax justice, equity, and state sovereignty [4,5].

The digital economy's disruptive impact on tax systems poses profound questions of fairness. Traditional brick-and-mortar firms, bound by physical presence rules, often face higher effective tax rates compared to digital platforms that can operate across borders with minimal infrastructure. This asymmetry undermines competitive neutrality, distorts market dynamics, and erodes public trust in taxation. For developing countries, which rely heavily on corporate income tax due to narrower tax bases, the inability to capture fair revenue from digital activities deepens fiscal vulnerabilities and limits the ability to finance sustainable development [6,7].

## 1.2. The Emergence of Digital Services Taxes

Against this backdrop, a number of jurisdictions have introduced Digital Services Taxes (DSTs) as interim measures to address the taxation of highly digitalized businesses. DSTs are generally designed as turnover-based taxes levied on revenues generated from specific digital activities, such as online advertising, provision of digital marketplaces, streaming services, and the sale of user data. Unlike corporate income tax, which targets net profits, DSTs tax gross revenues derived from local user participation, irrespective of where companies declare profits [8].

France was among the first movers, introducing a 3% DST in 2019 targeting large digital companies with global revenues above €750 million and French revenues exceeding €25 million [9]. The United Kingdom, Italy, Spain, Austria, India, and several other jurisdictions have since adopted similar measures, with tax rates ranging from 2% to 7.5%. In Africa, Kenya and Nigeria have pursued DSTs as a means of protecting fiscal sovereignty and mobilizing revenues from rapidly growing digital markets [10,11]. Latin America has also seen the spread of DSTs, with countries like Mexico and Chile enacting taxes on non-resident digital platforms [12].

DSTs have been introduced both as unilateral responses to perceived inequities in international taxation and as bargaining tools to accelerate global consensus on reform through the OECD's Inclusive Framework on BEPS. Policymakers have justified DSTs on grounds of equity and fairness, arguing that highly digitalized firms derive value from user participation and market access in ways not adequately captured by existing tax rules. Critics, however, argue that DSTs risk creating trade disputes, double taxation, and distortions by targeting a narrow set of firms, most of which are U.S.-based multinationals [13,14].

## 1.3. Rationale for the Review

Nearly a decade after the first DST proposals, there is now a growing body of evidence regarding their fiscal, economic, and political impacts. Empirical studies suggest that DSTs have generated modest but significant revenues for adopting jurisdictions, with France and the UK reporting hundreds of millions of euros annually [15,16]. For developing countries, DSTs represent a potentially important, though administratively challenging, revenue source. Yet questions remain as to whether DSTs truly advance tax justice, given that turnover-based taxes may disproportionately affect low-margin firms, risk being passed on to consumers, and remain vulnerable to tax treaty challenges [17].

At the same time, DSTs have catalyzed broader reform efforts at the OECD and G20, culminating in the 2021 agreement on a two-pillar solution. Pillar One reallocates taxing rights to market jurisdictions by establishing a new nexus based on sales rather than physical presence, while Pillar Two introduces a global minimum corporate tax rate of 15% [18]. Many countries have agreed to suspend or phase out DSTs once these reforms are implemented. However, uncertainties remain regarding the scope, timing, and enforceability of the OECD agreement, particularly given U.S. domestic political opposition and the complexity of implementation across diverse jurisdictions [19].

This review seeks to provide a comprehensive synthesis of the literature, policy reports, and empirical evidence on the effectiveness of DSTs, with specific objectives that include evaluating their fiscal impact on revenue mobilization across different jurisdictions, assessing their role in advancing tax justice by addressing asymmetries in the taxation of digital and traditional businesses, examining administrative and political challenges such as trade tensions, compliance burdens, and risks of double taxation, situating DSTs within the broader trajectory of international tax reform with particular reference to their interaction with the OECD's Pillar One and Pillar Two initiatives, and offering policy recommendations on how DSTs can be integrated into equitable and sustainable global tax governance.

## 2. Conceptual Foundations of Digital Services Taxes

### 2.1. Evolution of the Digital Economy and Tax Challenges

The global economy has undergone a profound digital transformation over the past three decades. Information and communication technologies, cloud computing, and internet-enabled platforms have enabled the rise of digital business models that transcend geographic boundaries. Today, e-commerce platforms, social media networks, online marketplaces, and software-as-a-service providers play central roles in global commerce. By 2025, the digital economy is projected to account for nearly a quarter of global GDP, reflecting both its economic importance and its disruptive potential for public finance [20].

This transformation has challenged the foundational principles of international taxation. Historically, taxing rights were allocated based on two core concepts: residence (the jurisdiction where a company is headquartered) and source (the jurisdiction where economic activity takes place). These principles were codified in the early 20th century under bilateral tax treaties that emphasized the requirement of a permanent establishment (PE) to establish taxing nexus [21]. Digitalization undermines these rules because companies can generate substantial revenues in a jurisdiction without physical presence. For example, a U.S.-based digital streaming service can earn millions in Nigeria or India through subscription fees without owning servers, offices, or employees there.

The OECD's Base Erosion and Profit Shifting (BEPS) project, launched in 2013, acknowledged these challenges but stopped short of redefining nexus rules at the time. Instead, Action 1 of the BEPS project ("Addressing the Tax Challenges of the Digital Economy") identified the need for new approaches to capture value created by user participation, data, and network effects [22]. However, the lack of consensus among member states delayed substantive reform. In this vacuum, unilateral measures such as Digital Services Taxes emerged as practical, if temporary, tools to address the revenue gap.

### 2.2. Defining Digital Services Taxes

Digital Services Taxes (DSTs) are typically gross revenue-based taxes applied to specific categories of digital services, and unlike corporate income tax, which targets net profits, they are levied on revenues derived from digital activities linked to users in a particular jurisdiction. The most commonly taxed activities include online advertising services such as targeted advertisements on social media, intermediation services provided by digital marketplaces that connect buyers and sellers, the transmission or monetization of user data for commercial purposes, and subscription or streaming services offered digitally across borders.

Most DST regimes apply only to large multinational enterprises that exceed global and domestic revenue thresholds. For instance, the French DST applies to companies with global revenues exceeding €750 million and French revenues above €25 million [23]. This design reflects an intention to target highly digitalized firms, primarily large U.S.-based multinationals, while minimizing compliance burdens on smaller domestic enterprises.

DSTs thus represent a departure from traditional tax principles in two ways: they establish nexus based on user location rather than physical presence, and they apply to turnover rather than profit. While these features make DSTs relatively easy to administer and resistant to profit-shifting, they also raise concerns about fairness, double taxation, and potential pass-through of costs to consumers [24].

### 2.3. Theoretical Rationale: Tax Justice and Market Access

The introduction of DSTs is often justified through the lens of tax justice. Advocates argue that digital firms derive significant value from user participation, data generation, and market access in jurisdictions where they operate. This value, they contend, should be reflected in tax liabilities. Under current international rules, however, much of this value remains untaxed in market jurisdictions, creating inequities between digital and traditional businesses [25].

From a normative perspective, DSTs can be viewed as instruments of distributive justice. They aim to align taxing rights with the location of value creation rather than the location of corporate headquarters or intangible assets. This is particularly salient for developing economies, which often serve as large markets for digital services yet capture little tax revenue from them [26]. DSTs, therefore, embody a claim to fiscal sovereignty: the right of states to tax economic activities within their borders, even when those activities are mediated digitally.

DSTs also serve pragmatic purposes. They generate immediate revenue for cash-strapped governments, create bargaining leverage in international negotiations, and respond to public demands for fairness in taxing multinational

corporations. The European Commission, for example, has explicitly framed DSTs as both revenue measures and political signals, designed to push the OECD toward faster global consensus [27].

#### **2.4. Legal and Institutional Frameworks**

The legal basis for DSTs varies across jurisdictions. Some countries have introduced DSTs through standalone legislation, while others have integrated them into broader tax codes. In the European Union, early attempts to establish a harmonized EU-wide DST failed due to opposition from member states such as Ireland and Sweden, which feared negative impacts on competitiveness and trade relations with the United States [28]. As a result, several member states adopted unilateral DSTs.

The United States has consistently opposed DSTs, arguing that they unfairly target U.S. technology firms and contravene international trade rules under the World Trade Organization (WTO). In response to France's DST, the U.S. threatened retaliatory tariffs on French exports, prompting temporary suspensions of the tax during OECD negotiations [29]. These disputes illustrate the precarious legal position of DSTs, which occupy a grey area between domestic taxation powers and international trade obligations.

In developing countries, the legal frameworks for DSTs are often adapted from existing consumption taxes. Kenya, for instance, introduced a 1.5% DST in 2021, building on its experience with value-added tax (VAT) on digital services. Nigeria's 2020 Finance Act similarly created provisions for taxing non-resident digital companies through "significant economic presence" rules [30]. These approaches highlight institutional pragmatism but also underscore the need for administrative capacity, digital infrastructure, and international cooperation.

#### **2.5. Scope and Coverage of DSTs**

By 2023, at least 25 jurisdictions had implemented or proposed DSTs, including France, the United Kingdom, Italy, Spain, Austria, India, Kenya, Nigeria, Mexico, and Chile [31], although the scope of these taxes varies considerably. European models generally target large multinationals and focus on online advertising, digital marketplaces, and data sales, while Asian approaches, most notably India's Equalization Levy, extend to a wider range of digital services such as e-commerce transactions and online streaming. In Africa, DSTs are designed to capture revenue from non-resident firms providing services to local users and are often applied at relatively low rates to balance fiscal needs with economic growth considerations. Latin American models, by contrast, frequently integrate DSTs within existing VAT frameworks, creating hybrid systems that capture both consumer-facing and business-to-business transactions.

This diversity reflects different policy priorities but also creates risks of fragmentation. Without harmonization, companies operating across multiple jurisdictions face overlapping compliance obligations, inconsistent thresholds, and potential double taxation [32].

#### **2.6. Policy Objectives and Expected Outcomes**

DSTs are designed to achieve several interrelated policy objectives that extend beyond their immediate fiscal role. To begin with, they function as instruments of revenue mobilization by taxing digital revenues at source, thereby broadening the tax base and securing new revenue streams. For instance, France reported revenues of €358 million from its DST in 2020, while the United Kingdom collected approximately £360 million in 2021 [33]. In developing countries, even modest revenues derived from DSTs can play a critical role in financing essential public services. In addition, they aim to enhance equity and fairness by leveling the playing field between digital and traditional businesses, ensuring that global technology firms contribute to domestic tax systems, and addressing widespread perceptions of unfair advantage while restoring public confidence in the integrity of tax regimes [34]. Equally important, DSTs allow states to assert sovereignty and bargaining power, reaffirming fiscal autonomy in the face of international deadlock while simultaneously serving as leverage in multilateral negotiations and demonstrating that countries are unwilling to wait indefinitely for consensus [35]. Moreover, they contribute indirectly to the deterrence of tax avoidance: although they do not directly target profit-shifting, their existence pressures multinational firms to engage more constructively with reform efforts and reduces the incentives for aggressive tax planning strategies [36]. Above all, DSTs act as catalysts for global reform by drawing attention to systemic deficiencies in existing international tax rules and accelerating initiatives such as the OECD's two-pillar solution, which was partly driven by the proliferation of DSTs and the risks of escalating trade disputes [37].

#### **2.7. Double Materiality in Digital Taxation**

The impact of DSTs can be understood through the lens of double materiality, which encompasses both financial and systemic dimensions. From the perspective of financial materiality, DSTs generate direct fiscal effects such as revenue

mobilization, compliance costs for multinational firms, and trade-related consequences. By contrast, impact materiality captures their broader systemic implications, particularly their influence on tax justice, global governance, and the perceived legitimacy of national and international tax systems. Although the revenues collected from DSTs are modest compared to corporate income tax, their symbolic value in advancing fairness and reaffirming sovereignty is considerable. In this sense, DSTs represent a paradigm shift in international tax discourse by elevating user participation and market access as legitimate bases for taxation [38]. This broader impact positions DSTs within the global agenda of reducing inequalities, enhancing fiscal sustainability, and rebalancing the allocation of taxing rights in an increasingly digitalized world.

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### **3. Fiscal, Governance, and Risk Implications of DSTs**

#### **3.1. Revenue Mobilization and Fiscal Impact**

One of the most immediate contributions of DSTs has been their role in revenue mobilization. For many governments, DSTs were introduced as pragmatic instruments to capture tax revenues from fast-growing segments of the economy that had previously contributed little to the tax base. France, a pioneer of DST adoption, reported collections of €358 million in 2020 and projected annual revenues of approximately €500 million once the measure reached maturity [39]. The United Kingdom's DST, implemented in 2020 at a rate of 2% on digital revenues, raised £360 million in 2021, exceeding government forecasts [40].

In developing economies, revenue gains have been smaller in absolute terms but symbolically significant. Kenya's 1.5% DST yielded approximately KSh 2 billion (USD 18 million) in its first year of implementation, while Nigeria projected modest collections from its significant economic presence rules [41]. For countries with limited tax bases and high fiscal deficits, these amounts represent meaningful contributions to public finance.

Nevertheless, critics argue that DSTs are unlikely to generate substantial long-term revenues compared to corporate income taxes. Since they apply to turnover rather than profit, their base is narrower, and effective rates are low to avoid excessive burdens. The OECD estimates that the collective revenue potential of DSTs across all jurisdictions amounts to less than 0.1% of global GDP, far below the revenue impact expected from the OECD/G20 Pillar One and Pillar Two reforms [42]. Thus, while DSTs fill an important gap, they should be viewed as transitional rather than permanent fiscal solutions.

#### **3.2. Compliance Behavior and Voluntary Adaptation**

The introduction of DSTs has influenced the compliance behavior of multinational digital firms. In several jurisdictions, firms have passed on the tax to consumers by increasing service fees or subscription costs. Amazon, for example, announced surcharges on UK-based sellers to offset the UK DST, while Google raised advertising prices in France, Spain, and the UK [43]. These responses indicate that companies perceive DSTs as unavoidable costs of doing business in market jurisdictions.

At the same time, DSTs have encouraged firms to engage more constructively in global tax negotiations. Facing the prospect of fragmented national DST regimes, digital giants have expressed support for a coordinated global solution under the OECD Inclusive Framework. This suggests that DSTs function not only as fiscal instruments but also as deterrents against corporate resistance to reform [44].

However, the extent of voluntary adaptation varies. Some firms have complied with DST reporting requirements without major resistance, while others have challenged the legitimacy of these taxes in domestic and international forums. Litigation risks remain high, particularly where DSTs overlap with bilateral tax treaties or are perceived as discriminatory against certain firms [45].

#### **3.3. Governance and Sovereignty Dimensions**

DSTs also carry significant governance implications. By asserting taxing rights over digital activities, governments reinforce the principle of fiscal sovereignty in an era of globalization. For countries in the Global South, DSTs represent a political statement: that value generated from local markets must contribute to domestic resource mobilization. Nigeria's Minister of Finance emphasized this point, framing DSTs as essential tools for reclaiming taxing rights from multinational corporations [46].

Beyond sovereignty, DSTs contribute to the legitimacy of tax systems. Citizens often view the under-taxation of multinational technology firms as emblematic of broader inequalities in globalization. By targeting these firms,

governments can demonstrate commitment to fairness, strengthening the social contract between taxpayers and the state. Public opinion surveys in Europe have consistently shown majority support for taxing digital giants, even where such taxes risk raising consumer prices [47].

However, governance gains are not uniform. In some contexts, the complexity of administering DSTs has strained tax administrations and diverted resources from other compliance priorities. Developing economies, in particular, face challenges in monitoring digital revenues and enforcing compliance from non-resident firms. Without adequate capacity-building, DSTs may deliver limited governance benefits while imposing disproportionate administrative burdens [48].

### **3.4. Risks of Double Taxation**

One of the most cited risks of DSTs is the potential for double taxation. Since DSTs are levied on gross revenues rather than net profits, they are not generally creditable against corporate income tax under existing treaty frameworks. This creates the possibility that the same income could be taxed twice: once under DST rules in the market jurisdiction and again under corporate tax rules in the residence jurisdiction [49].

Multinational enterprises argue that this violates long-standing principles of international tax law and undermines investment certainty. The risk of double taxation has also heightened tensions between DST-adopting jurisdictions and the United States, which views DSTs as discriminatory measures targeting U.S.-based technology firms [50]. To date, temporary standstill agreements between the U.S. and several European countries have suspended enforcement of certain DST obligations pending OECD reforms. However, without multilateral consensus, disputes over double taxation will remain a structural risk of DST regimes.

### **3.5. Trade Retaliation and Political Economy Risks**

DSTs have triggered trade disputes, particularly between the United States and jurisdictions adopting unilateral measures. In 2019, the U.S. Trade Representative (USTR) launched investigations into French and other European DSTs under Section 301 of the Trade Act, concluding that these measures discriminated against U.S. firms. The U.S. threatened tariffs on French exports, including luxury goods, before both countries agreed to suspend escalation pending OECD negotiations [51].

This dynamic highlights a key political economy risk: that DSTs can become flashpoints in broader geopolitical tensions. For small and medium-sized economies, the risk of retaliation from larger trading partners may deter DST adoption, limiting their bargaining power in international tax reform debates. This risk also undermines the stability of DST revenues, as governments may suspend or modify taxes under external pressure [52].

### **3.6. Administrative and Operational Risks**

Implementing DSTs requires significant administrative capacity, including the ability to monitor digital revenues, enforce compliance on non-resident firms, and integrate data from multiple sources. For advanced economies with robust tax infrastructures, these challenges are manageable. The UK, for instance, requires detailed DST reporting from firms and has integrated DST administration into its broader corporate tax framework [53].

In developing economies, however, administrative risks are more pronounced. Kenya's DST initially faced low compliance rates as many non-resident firms resisted registration. Nigeria struggled with identifying significant economic presence thresholds and enforcing compliance across a fragmented digital economy [54]. Without effective enforcement, DSTs risk becoming symbolic measures with limited fiscal impact.

Another operational challenge concerns pass-through effects. Since many firms shift DST costs to consumers or small businesses (such as online sellers), the incidence of DSTs may fall disproportionately on end-users rather than multinational corporations. This raises questions about regressivity and fairness, particularly in developing economies where digital services are increasingly essential for participation in commerce and education [55].

### **3.7. Risk of Evasion Migration and Market Distortions**

DSTs also create incentives for evasion migration and market distortions. Since they apply to specific categories of digital services, companies may restructure business models to minimize exposure. For example, firms could bundle taxable and non-taxable services, alter contractual arrangements, or relocate operations to jurisdictions with lower or no DSTs. Evidence from Europe suggests that some firms have restructured advertising sales or data processing operations to reduce taxable revenues under DST rules [56].

Market distortions may also arise if DSTs create barriers to entry for smaller firms. While most regimes include revenue thresholds to exclude small businesses, turnover-based taxation can disproportionately affect low-margin firms, reducing their competitiveness relative to larger incumbents. This risk undermines the fairness rationale for DSTs and may have unintended consequences for digital innovation [57].

### **3.8. Strategic Role in Global Reform**

Despite these risks, DSTs have played a crucial strategic role in advancing international tax reform. Their proliferation increased pressure on the OECD and G20 to reach consensus on reallocating taxing rights in the digital economy. The 2021 agreement on Pillar One and Pillar Two was in large part a response to the risk of escalating trade wars driven by unilateral DST adoption [58].

DSTs thus serve as transitional tools: they provide immediate revenue, assert sovereignty, and accelerate multilateral negotiations. Their long-term effectiveness, however, depends on integration with global reforms. Without such integration, DSTs risk perpetuating fragmentation and inefficiency in the international tax system [59].

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## **4. Global Case Studies of DST Implementation**

### **4.1. France: A Pioneer in Digital Services Taxation**

France has been at the forefront of DST adoption, introducing its “GAFA tax” in 2019, named after Google, Apple, Facebook, and Amazon. The French DST imposes a 3% levy on revenues from online advertising, digital marketplaces, and the sale of user data, applying only to firms with global revenues above €750 million and French revenues exceeding €25 million [60].

The rationale behind France’s DST was twofold: to secure revenues from digital giants that were perceived as undertaxed, and to exert pressure on the OECD to accelerate consensus on international reform. In its first year, the tax raised €358 million, despite temporary suspension during negotiations with the United States [61]. By 2021, revenues approached €500 million annually, demonstrating the fiscal significance of the measure.

Politically, the French DST sparked intense trade tensions. The U.S. Trade Representative (USTR) launched a Section 301 investigation, concluding that France’s DST unfairly discriminated against U.S. firms. Washington threatened retaliatory tariffs on French wine, handbags, and luxury goods before both countries agreed to suspend escalation pending OECD negotiations [62]. France’s experience illustrates the dual character of DSTs: effective in raising revenues and signaling sovereignty, but vulnerable to geopolitical backlash.

### **4.2. United Kingdom: Integration into a Broader Compliance Framework**

The United Kingdom introduced its DST in April 2020, applying a 2% tax on revenues from search engines, social media platforms, and online marketplaces. Similar to the French model, it only applied to large multinationals with global revenues above £500 million and UK revenues exceeding £25 million [63].

In its first year, the UK DST raised £360 million, surpassing initial forecasts. The UK Treasury integrated DST administration into its broader compliance ecosystem, requiring detailed reporting from firms and leveraging existing audit mechanisms. Unlike France, the UK faced less direct trade retaliation from the U.S., though it agreed to suspend its DST once the OECD’s Pillar One is implemented [64].

The UK experience demonstrates that DSTs can be effectively embedded within advanced tax administrations, yielding significant revenues without major compliance disruptions. However, concerns remain regarding cost pass-through to consumers, as Amazon and Google adjusted service fees to offset their UK DST liabilities [65].

### **4.3. India: Expanding the Scope through Equalization Levies**

India has been an innovator in digital taxation, introducing an “Equalization Levy” in 2016 at 6% on online advertising revenues earned by non-resident firms. In 2020, this levy was expanded to cover e-commerce transactions, imposing a 2% tax on revenues from digital marketplaces and online sales to Indian users [66].

The Indian model is notable for its broad scope, extending beyond advertising and data monetization to include digital commerce more generally. Revenues from the Equalization Levy have grown steadily, exceeding INR 4,000 crore (USD

540 million) annually by 2022 [67]. India has defended the levy as a necessary assertion of fiscal sovereignty, emphasizing that digital firms derive significant value from access to its large consumer market.

At the same time, India's DST has sparked disputes with the U.S., which launched a Section 301 investigation and concluded that the levy discriminated against American firms. India has resisted U.S. pressure to repeal the measure, citing its alignment with domestic fiscal priorities [68]. The Indian case illustrates the growing assertiveness of emerging economies in digital taxation and the role of DSTs in rebalancing global taxing rights.

#### **4.4. Kenya and Nigeria: Fiscal Sovereignty in Africa**

In Africa, DSTs have been introduced as tools for protecting revenue bases and asserting fiscal sovereignty. Kenya implemented a 1.5% DST in 2021, applied to gross revenues from digital services provided by non-resident firms. This measure built on earlier VAT reforms targeting digital services. In its first year, the DST raised approximately KSh 2 billion (USD 18 million), contributing modestly to Kenya's domestic revenues [69].

Nigeria adopted a different approach, introducing significant economic presence (SEP) rules in its 2019 and 2020 Finance Acts. These rules extend corporate tax obligations to non-resident digital companies with significant user bases or revenue streams in Nigeria, even without physical presence. Firms providing streaming, advertising, or digital intermediation services are subject to Nigerian corporate tax once they meet specified thresholds [70].

Both Kenya and Nigeria face enforcement challenges, including limited digital infrastructure, difficulties in tracking revenues of non-resident firms, and resistance from global technology companies. Nonetheless, these measures represent important steps toward fiscal self-determination. They also highlight the need for capacity-building and international cooperation to ensure effective implementation in developing economies [71].

#### **4.5. Mexico and Chile: Latin America's Hybrid Approaches**

Latin America has taken a hybrid approach to digital taxation, integrating DST-like measures into existing value-added tax (VAT) frameworks. Mexico introduced VAT on non-resident digital services in 2020, requiring foreign firms providing streaming, ride-hailing, or marketplace services to register with the Mexican tax authority. Revenues from this measure have exceeded MXN 10 billion (USD 500 million) annually [72].

Chile introduced a 19% VAT on digital services in 2020, applying to non-resident firms offering streaming, software, and digital platforms. By leveraging existing VAT systems, both Mexico and Chile avoided some of the administrative complexities associated with standalone DSTs [73].

These hybrid models illustrate how consumption tax frameworks can be adapted to capture revenues from digital services, reducing risks of double taxation and trade disputes. However, critics argue that VAT-based models shift the tax burden primarily to consumers, raising concerns about regressivity and fairness [74].

#### **4.6. OECD Inclusive Framework: Multilateral Negotiations**

The spread of unilateral DSTs intensified pressure on the OECD to deliver a coordinated response, culminating in the October 2021 agreement in which more than 135 jurisdictions endorsed a two-pillar framework under the Inclusive Framework on BEPS. Pillar One redefines taxing rights by establishing a new nexus based on sales in market jurisdictions rather than physical presence, applying to large multinational enterprises with global revenues above €20 billion and profitability exceeding 10 percent, and reallocating a portion of residual profits to market jurisdictions. Pillar Two complements this approach by introducing a global minimum corporate tax rate of 15 percent, designed to curtail profit-shifting incentives and foster greater tax equity across borders [75]. As part of the agreement, countries that had implemented DSTs committed to suspend or withdraw them once Pillar One entered into force. However, implementation has been hampered by technical complexities and political resistance, particularly in the United States, leaving many countries in a transitional phase where DSTs continue to operate as temporary instruments pending the realization of global reform [76]. The OECD process illustrates the strategic role of DSTs: although inherently imperfect, they served to accelerate multilateral negotiations and reshape the discourse on international taxation. At the same time, the persistent delay in operationalizing Pillar One underscores the fragility of global consensus and the inherent risks of relying on interim unilateral measures [77].

#### **4.7. Comparative Lessons from Case Studies**

The case studies highlight several important lessons regarding the design, implementation, and impact of DSTs. In terms of revenue outcomes, these taxes have generated meaningful inflows in both advanced and emerging economies,

although the amounts collected remain modest when compared to corporate income tax. From a political economy perspective, trade tensions with the United States have emerged as a recurring risk, with DSTs often functioning as bargaining instruments in wider international negotiations. In relation to administrative feasibility, advanced economies have generally succeeded in integrating DSTs into their compliance systems, whereas developing economies continue to grapple with significant enforcement challenges due to limited institutional and technological capacity. The diversity of design approaches is also evident, ranging from standalone revenue-based DSTs in countries such as France and the United Kingdom, to broader equalization levies in India, and VAT-linked adaptations in Latin American jurisdictions such as Mexico and Chile. On a global scale, DSTs have played an instrumental role in accelerating OECD reforms, yet their long-term sustainability remains uncertain given the complexities of international consensus and the transitional nature of these measures. Taken together, these experiences suggest that although DSTs are inherently imperfect instruments, they have nevertheless reshaped global debates on tax justice and provided states with valuable leverage in negotiations over the future of international taxation.

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## 5. Challenges and Limitations of DSTs

### 5.1. Risk of Double Taxation

A central criticism of DSTs is their potential to generate double or multiple taxation of the same income. Because DSTs are levied on gross revenues rather than net profits, they are not typically creditable against corporate income tax under bilateral treaties. As a result, a digital platform could face DST obligations in market jurisdictions while simultaneously paying corporate tax in its residence country. This dual burden undermines the principle of avoiding double taxation, which has been a cornerstone of international tax law since the early 20th century [78].

Multinational enterprises argue that this unpredictability increases the cost of doing business globally and deters cross-border investment. Trade partners, particularly the United States, have framed DSTs as discriminatory measures targeting U.S.-based firms, citing violations of national treatment obligations under World Trade Organization (WTO) rules [79]. Without harmonization or clear crediting mechanisms, the risk of double taxation remains one of the most significant structural weaknesses of DST regimes.

### 5.2. Trade Conflicts and Geopolitical Tensions

DSTs have frequently provoked trade disputes. The U.S. Trade Representative (USTR) has conducted Section 301 investigations into multiple DSTs, including those of France, India, and several European states, concluding that they disproportionately affect American firms such as Google, Amazon, Facebook, and Apple. In retaliation, the U.S. threatened or imposed tariffs on goods ranging from French luxury products to Indian textiles [80].

Although many of these tariffs were suspended pending OECD negotiations, the threat of trade retaliation creates uncertainty for governments and firms alike. Smaller economies may be particularly vulnerable to political and economic pressure, limiting their ability to sustain unilateral DSTs. These disputes illustrate how digital taxation intersects with broader geopolitical struggles over technology dominance, trade, and economic sovereignty [81].

### 5.3. Administrative Capacity and Enforcement Gaps

Implementing DSTs requires significant administrative capacity, including digital infrastructure for monitoring revenues, legal frameworks for enforcing compliance, and skilled personnel to audit multinational corporations. Advanced economies such as the UK and France have managed these demands by integrating DSTs into their existing compliance systems. However, many developing economies lack comparable resources.

Kenya's DST, for example, initially suffered from low compliance rates as non-resident firms resisted registration and local tax authorities struggled to monitor revenues. Nigeria faced challenges in operationalizing its significant economic presence rules, including difficulties in defining thresholds and enforcing compliance across diverse digital platforms [82]. Without adequate technical assistance, DSTs in developing economies risk becoming symbolic measures with limited fiscal returns.

### 5.4. Regressivity and Consumer Impact

Another limitation of DSTs lies in their incidence. Although designed to target large digital firms, evidence shows that many companies pass the cost of DSTs on to users. Amazon, for instance, imposed surcharges on UK-based sellers to offset its DST liabilities, while Google raised advertising prices in France, Spain, and the UK [83].

Such pass-through effects risk undermining the equity rationale of DSTs by shifting the burden to small businesses and consumers. In developing economies, where digital services are increasingly essential for education, commerce, and financial inclusion, higher costs may disproportionately affect low-income households. Critics argue that this regressive impact contradicts the principle of tax justice, which seeks to ensure fair contribution from corporations rather than end-users [84].

### **5.5. Fragmentation and Lack of Coordination**

One of the most significant challenges is the fragmentation of DST regimes across jurisdictions. Countries have adopted varying thresholds, rates, and scopes, ranging from narrow levies on advertising to broad taxes on e-commerce and streaming services. This diversity creates overlapping compliance obligations for firms operating in multiple markets and increases risks of double taxation [85].

The absence of an international consensus has also weakened the stability of DSTs. The European Union attempted to develop a harmonized DST but failed due to opposition from member states such as Ireland, Luxembourg, and Sweden, which feared trade retaliation and loss of competitiveness. As a result, individual states introduced unilateral DSTs, further contributing to global inconsistency [86].

### **5.6. Legal Vulnerability and Treaty Conflicts**

DSTs occupy a legally precarious position. Because they are not profit-based, they fall outside the scope of most double tax treaties, which are designed to allocate taxing rights over corporate income. This has led to disputes over whether DSTs are legitimate taxes or disguised tariffs. Legal scholars have debated whether DSTs violate international trade rules under the WTO or contravene the non-discrimination clauses of bilateral investment treaties [87].

Some firms have considered challenging DSTs in domestic courts, arguing that they violate constitutional principles of equal treatment or due process. Although most DSTs remain in force, the potential for legal challenges adds uncertainty and undermines their long-term viability.

### **5.7. Risk of Evasion Migration**

Just as the CRS faced the problem of “evasion migration,” DSTs also create opportunities for firms to restructure operations to minimize tax exposure. Companies may bundle taxable and non-taxable services, shift contractual arrangements, or reallocate revenues across jurisdictions with lower or no DSTs. Evidence from Europe suggests that some digital advertising firms restructured sales operations to reduce exposure to French and UK DSTs [88].

This migration undermines the effectiveness of DSTs and may distort market competition. Smaller domestic firms, which lack the flexibility to restructure, may face higher relative burdens, while large multinationals adapt their business models to minimize liabilities.

### **5.8. Limited Revenue Potential**

While DSTs generate meaningful revenues, their long-term fiscal impact is modest compared to broader tax reforms. The OECD has estimated that the revenue potential of DSTs globally amounts to less than 0.1% of global GDP, far lower than the projected gains from Pillar One and Pillar Two reforms [89].

Furthermore, reliance on turnover rather than profits creates distortions. Low-margin firms may face disproportionately high effective tax rates, while highly profitable firms pay relatively little. This structural limitation reduces the fairness and efficiency of DSTs as revenue instruments.

### **5.9. Transitional Nature and Policy Uncertainty**

Finally, DSTs are inherently transitional. Most jurisdictions adopting DSTs have committed to phasing them out once the OECD’s Pillar One is implemented. However, delays in reaching global consensus have prolonged the transitional period, creating uncertainty for governments and firms alike. Businesses must plan for compliance with DSTs while anticipating future shifts under multilateral frameworks [90].

This uncertainty weakens the credibility of DSTs as sustainable policy instruments. For governments, the challenge lies in balancing short-term revenue and sovereignty gains with long-term commitments to global reform. For firms, the risk of sudden policy reversals complicates investment planning and increases compliance costs.

## 5.10. Summary of Limitations

The challenges and limitations of DSTs are multifaceted and highlight their status as transitional rather than permanent solutions within the international tax landscape. A central concern is the risk of double taxation, which undermines established treaty principles and creates tensions with existing corporate income tax systems. These measures have also provoked significant trade disputes, most notably with the United States, where unilateral tariffs and retaliatory threats have complicated diplomatic relations. In many jurisdictions, particularly in developing economies, DSTs strain already limited administrative capacities, making enforcement costly and complex. Their design frequently results in regressive outcomes, as compliance costs and tax burdens are often passed down to consumers and small businesses, thereby weakening their equity rationale. Furthermore, the proliferation of divergent national approaches has contributed to legal and regulatory fragmentation, generating inconsistent rules across jurisdictions and complicating cross-border operations. In both domestic and international contexts, DSTs face legal vulnerabilities that expose them to challenges under trade law, investment treaties, and constitutional provisions. They may also encourage tax avoidance through evasion migration and distort market competition by altering pricing structures or discouraging investment in taxed markets. Importantly, the revenues they deliver remain limited when compared with traditional corporate income taxes, calling into question their efficiency as long-term fiscal tools. Collectively, these shortcomings underscore the transitional nature of DSTs and their uncertain long-term viability, particularly as global negotiations seek to embed more sustainable and coordinated reforms in the form of the OECD's two-pillar framework.

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## 6. Future Directions and Policy Recommendations

### 6.1. Toward Coordinated Multilateral Solutions

The proliferation of unilateral DSTs underscores the urgency of achieving coordinated multilateral solutions. Although these taxes have provided governments with valuable leverage in international negotiations, their fragmented adoption has also produced significant uncertainty, sparked trade disputes, and created compliance inefficiencies for multinational enterprises. The OECD's Inclusive Framework, and particularly the two-pillar solution agreed in 2021, represents the most promising pathway toward durable reform. Pillar One addresses the central problem that DSTs were designed to remedy by reallocating taxing rights to market jurisdictions, thereby overcoming the limitations of current nexus rules that fail to capture value generated through digital user participation. Pillar Two complements this effort by establishing a global minimum corporate tax rate of 15 percent, a mechanism intended to reduce incentives for profit shifting and to enhance the overall equity and stability of the international tax system [91].

To ensure these reforms succeed, policymakers should prioritize political commitment to ratification and implementation, especially in the United States and other key jurisdictions where domestic opposition remains strong. Without effective multilateralism, DSTs will persist as ad hoc measures, perpetuating instability.

### 6.2. Harmonization of DST Regimes

Pending full implementation of Pillar One, interim steps are necessary to reduce fragmentation. Countries adopting DSTs should explore regional coordination to harmonize rates, thresholds, and scope. The European Union could revisit its earlier efforts to establish a common DST framework, while regional blocs such as the African Union or Latin American organizations could develop model laws tailored to their contexts [92].

Harmonization would reduce compliance burdens on multinational firms and minimize risks of double taxation. It would also strengthen collective bargaining power in global negotiations by presenting unified regional positions rather than fragmented national approaches.

### 6.3. Protecting Against Double Taxation

A critical challenge is mitigating the risk of double taxation. Policymakers should consider mechanisms that align DSTs with existing corporate income tax systems. One option is to allow crediting of DST payments against future Pillar One allocations, ensuring that interim payments contribute to, rather than duplicate, final obligations [93].

Another option is to design DSTs as advance withholding mechanisms rather than standalone turnover taxes. This approach would allow countries to secure revenues while integrating more seamlessly with multilateral frameworks once operational.

#### **6.4. Safeguarding Equity and Preventing Regressivity**

To preserve the equity rationale of DSTs, governments must ensure that tax burdens are not disproportionately shifted onto consumers or small businesses. One effective approach is to design DSTs that target only large multinational enterprises by applying global and domestic revenue thresholds, as seen in France and the United Kingdom, thereby protecting domestic startups and smaller firms from unintended fiscal pressures. In addition, monitoring pass-through effects is essential, and regulatory frameworks can require firms to disclose whether and how DST costs are being transferred to users. Consumer protection mechanisms, including mandatory price transparency requirements, can further safeguard against hidden surcharges on digital services and help maintain public trust in the fairness of such measures [94]. In developing economies, where digital sectors are still emerging, governments may also consider coupling DSTs with subsidies or targeted tax credits for small digital entrepreneurs to offset potential competitive disadvantages and ensure that innovation and participation in the digital economy are not stifled by new tax obligations.

#### **6.5. Strengthening Administrative Capacity in Developing Countries**

For many developing economies, the effectiveness of DSTs depends fundamentally on strengthening administrative capacity, and international cooperation will be indispensable in this regard. Organizations such as the OECD, the African Tax Administration Forum (ATAF), and the World Bank can play a pivotal role by expanding technical assistance programs that address the institutional and technological constraints these countries face. Such efforts should prioritize the development of digital infrastructure capable of monitoring cross-border transactions, the training of tax officials in areas such as digital economy compliance, data analysis, and enforcement, and the establishment of cooperation agreements with major digital firms to simplify registration and reporting requirements [95]. Equally important, capacity-building initiatives must emphasize interoperability with global frameworks so that developing countries are able to transition smoothly from unilateral DSTs to multilateral arrangements under Pillar One, thereby avoiding exclusion from the evolving architecture of international tax governance.

#### **6.6. Balancing Revenue Goals with Trade Stability**

Government must carefully balance the pursuit of revenue with the need to maintain stable trade relations. To avoid retaliatory tariffs and political friction, policymakers should adopt DSTs with clear sunset clauses tied to the implementation of Pillar One. Such clauses signal that DSTs are temporary measures rather than permanent protectionist instruments [96].

In addition, governments should engage in diplomatic dialogue with trade partners to clarify the legal basis of DSTs as legitimate tax measures, rather than discriminatory tariffs. Greater transparency in the design and administration of DSTs can help build international trust and reduce the likelihood of trade disputes.

#### **6.7. Expanding the Scope to Emerging Digital Activities**

Digitalization continues to evolve rapidly, with new sectors such as cloud computing, digital financial services, and the metaverse creating additional tax challenges. Policymakers should consider expanding the scope of DSTs, or their successors under Pillar One, to include emerging activities that derive significant value from user participation and data [97].

The OECD's ongoing work on digital assets and crypto-asset reporting frameworks provides an opportunity to integrate taxation of decentralized platforms and blockchain-based services into broader digital tax systems. This will be essential to prevent future evasion migration into untaxed sectors.

#### **6.8. Promoting Transparency and Public Accountability**

DSTs carry strong symbolic value in reinforcing the principle of tax justice, but to maximize this legitimacy governments must adopt robust transparency and accountability measures. This can be achieved by publishing annual DST revenue reports that provide clear information on affected firms and the allocation of collected funds, thereby fostering public trust in the system. In addition, the involvement of civil society organizations in monitoring the fairness and effectiveness of DST regimes can enhance oversight and ensure that the taxes are administered in line with broader equity goals. Linking DST revenues directly to visible public spending programs, such as investments in education or digital infrastructure, can further strengthen the social contract by making the benefits of taxation tangible to citizens [98]. Together, these measures can build public support for DSTs and reinforce the perception that digital giants are contributing fairly to national development.

### **6.9. Building Resilience Against Evasion Migration**

As firms adapt to DSTs, governments must anticipate the risk of evasion migration and design safeguards to mitigate it. One approach is to expand the definition of taxable activities so that bundled or hybrid services cannot be used as loopholes to avoid taxation. Strengthening international information-sharing on digital transactions is also essential, as it enables tax authorities to detect patterns of revenue shifting and enforce compliance across borders. In addition, the application of anti-avoidance rules specifically tailored to the business models of digital platforms can help close regulatory gaps and reduce opportunities for aggressive tax planning [99]. These measures should be complemented by continuous monitoring of market behavior to ensure that DSTs achieve their policy objectives without inadvertently stifling innovation or placing disproportionate burdens on smaller players.

### **6.10. Institutionalizing Global Solidarity**

Finally, the future of digital taxation requires a commitment to global solidarity. DSTs have exposed the inequalities of the international tax system, where large multinationals often pay minimal taxes in developing countries despite substantial market presence. To address these disparities, multilateral organizations should ensure that reforms under Pillar One allocate meaningful revenues to low- and middle-income countries [100].

In addition, revenue-sharing mechanisms could be designed to redistribute a portion of global digital tax revenues toward countries with weaker administrative capacity. This would align digital taxation with the broader agenda of achieving the Sustainable Development Goals (SDGs) and reducing global inequality.

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## **7. Conclusion**

The digitalization of the global economy has redefined patterns of value creation and challenged the core principles of international taxation. Traditional nexus and profit allocation rules, rooted in the requirement of physical presence, have proven ill-suited for business models that rely on intangible assets, user participation, and cross-border data flows. In this context, Digital Services Taxes (DSTs) emerged as pragmatic, unilateral measures aimed at capturing revenue from highly digitalized firms and asserting fiscal sovereignty.

This review has critically evaluated the effectiveness of DSTs in advancing tax justice, mobilizing revenue, and reshaping global tax governance. Evidence from France, the United Kingdom, India, Kenya, Nigeria, Mexico, and Chile demonstrates that DSTs have generated meaningful, though modest, revenues and have succeeded in signaling governments' commitment to equity. In advanced economies, DSTs have been integrated into compliance systems with relative success, while in developing countries, they have represented important political statements despite significant administrative challenges.

Yet DSTs remain highly imperfect tools. Their turnover-based design risks double taxation, particularly in the absence of treaty integration. Their fragmented adoption across jurisdictions has created compliance burdens and heightened the risk of market distortions. Regressive impacts, through cost pass-through to consumers and small businesses, undermine the principle of fairness. Moreover, DSTs have provoked trade disputes, particularly with the United States, exposing their vulnerability to geopolitical pressures. These limitations underscore the view that DSTs are transitional rather than permanent solutions.

Despite these weaknesses, DSTs have played a catalytic role in driving international tax reform. Their proliferation intensified pressure on the OECD and G20 to develop the two-pillar solution agreed in 2021. Pillar One, by reallocating taxing rights to market jurisdictions, addresses the fairness concerns underpinning DSTs, while Pillar Two introduces a global minimum tax to curb profit shifting. Although implementation has been delayed, the momentum toward global reform owes much to the leverage provided by DSTs.

Looking ahead, the effectiveness of digital taxation depends on a balance between immediate sovereignty needs and long-term multilateral commitments. Policymakers must harmonize DST regimes regionally to reduce fragmentation, establish crediting mechanisms to mitigate double taxation, and adopt sunset clauses that link DSTs explicitly to the transition toward Pillar One. Developing countries, in particular, require sustained investment in administrative capacity, digital infrastructure, and technical assistance to ensure that they benefit equitably from global reforms.

At the same time, equity must remain central to the digital tax debate. DSTs should not disproportionately burden consumers or small enterprises, particularly in resource-constrained economies where digital access is a cornerstone of social and economic development. Transparency measures, such as publishing revenue data and linking collections to visible public spending, can reinforce legitimacy and strengthen the social contract.

Ultimately, DSTs must be understood as both fiscal instruments and political statements. Their direct financial contributions are modest, but their symbolic and strategic impact has been profound. By challenging the status quo, they have redefined the parameters of tax justice in a digitalized world and accelerated the transition toward fairer, more inclusive international tax rules.

The long-term relevance of DSTs will depend on the success of the OECD Inclusive Framework. If Pillar One and Pillar Two are fully implemented, DSTs may fade into history as transitional tools that prepared the ground for global reform. If, however, consensus falters, DSTs are likely to proliferate further, deepening fragmentation and trade conflicts. In either scenario, their legacy is clear: DSTs have ensured that the taxation of the digital economy is no longer a peripheral issue but a central pillar of twenty-first-century global governance.

By situating DSTs within the broader discourse on tax justice, this review underscores their dual materiality: financially, as modest but meaningful revenue sources, and systemically, as catalysts for equity, sovereignty, and international cooperation. For policymakers, scholars, and citizens alike, the challenge is to harness this momentum to build a fair, effective, and sustainable tax architecture capable of supporting inclusive development in the digital era.

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