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Taxing Digital Services – Compensating for the Loss of Competitiveness

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Brussels, Belgium, 8th July 2021 - Several countries around the world have implemented a tax on digital services, commonly called Digital Services Tax (DST). This policy brief takes a closer look at why some European countries have imposed DSTs but not others. Surely, there are economic explanations behind the fact that Austria, France, Italy, Spain, and the UK have introduced DSTs – but not other countries in Europe.

The five tax-imposing countries (here called DST5) have been losing trade competitiveness in digital services over the last 15 years. On the many trade competitiveness indicators we compute, the DST5 score lower values and show lower growth rates compared to other non-DST countries in Europe. Moreover, the differences between the DST5 and non-DST countries are stark, suggesting that digital services markets for the latter group of countries are a lot more dynamic and globalized.

The difference between DST5 and other European countries in digital services competitiveness is striking. This is not to say that there should not be special taxes on digital services – that is a different issue – but it is important that the discussion about the DST starts from a better understanding of how such a tax relates to underlying patterns of digital service performance.

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