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Digital Services Tax: A Global Perspective in the Digital Entertainment and Media Economy

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ABSTRACT

The global media landscape has been completely transformed with the emergence of digital entertainment and media platforms such as Facebook, Netflix, Amazon, and so on. They allow for the consumption of content across borders. Even though these businesses make a lot of money from global markets, selling advertising spaces and the sale of user data, they frequently pay little to no local taxes because of outdated tax laws. As a result, many governments have implemented Digital services taxes also known as DSTs, which are specifically aimed at such big digital firms that profit from high user engagement without paying the required taxes. This paper seeks to explore the increasing use of DSTs as a unilateral fiscal measure, focusing particularly on their need in the global entertainment and media industry. The paper examines how digital platforms find loopholes such as holding IP ownership and royalties in low-tax jurisdictions to minimize their tax liabilities. The European Union and India's Equalization Levy is also dealt with in this regard. The paper also covers the challenges faced by national governments in enforcing tax liability in the digital economy. It also dives into the OECD's BEPS 2.0 Pillar 1 and Pillar 2 proposals, and examines whether they offer a reasonable solution for taxing the entertainment sector's income. It further advocates for a uniform global framework to ensure platforms such as Facebook, Netflix, Spotify and so on, contribute proportionally to the economies and nations from which they derive their revenue to ensure fair tax liability.

I. INTRODUCTION

In this era of AI, technology and globalisation, there has been a significant rise in the revenue generated through digital services. Revenue is collected through the sale of user data, advertising spaces, creation of online marketplaces and so on. The entertainment and media industry is a first hand recipient of such revenue. It must also be noted that these digital services are seldom restricted to one country or region, they are global in nature and provide services to almost every part of the world. However, it is not necessary for them to have a corporeal

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presence in each and every part, where their services exist, due to the nature of their business. This factor poses a troublesome effect on the ability of a country's government to tax the revenue collected by such a company if it lacks a physical existence in that country. This issue is simply what has led to the development of DST. Although, there has been no universal global tax on this issue yet, we have seen several countries develop DST measures and the OECD has helped to transform DSTs by its comprehensive framework on BEPS Pillar 1 and Pillar 2 proposals.

Before examining the tax challenges highlighted earlier in detail, one must understand the concept of DSTs more clearly. DSTs are a tax on gross revenue that MNCs derive through digital services. They are not to be understood in terms of income tax, or value added tax or any kind of online sales tax. Instead they can be interpreted as a mix of Gross Receipts tax (GRT), which is a tax on the total revenue generated by a company without deducting any costs or expenses and Transaction tax, which applies on a transactionary basis.² With the increasing usage of digital services and platforms including those of streaming services, the need for these taxes are very high. India too, up until recently had a 6% levy or digital taxes on online advertising services of non-resident companies, however, it has retracted the same in April 2025, easing trade relations with the US and following the OECD's Pillar 1 framework for a uniform global tax reform. The OECD Framework and DST measures enacted by individual countries will be discussed in further detail, but before that the paper will delve into the need for the development of such measures.

II. TAX CHALLENGES IN THE DIGITAL ECONOMY

The COVID-19 Pandemic can be recognised to have had a catalysing effect in the rapid growth of digital services and online platforms.³ The end of the pandemic left the global economy completely transformed. The world had become accustomed to the use of digital services and consumption of digital goods and this in turn led to many more developments in the field. It also majorly affected the online advertising domain. With individuals now constantly on their devices, online advertising got a major push and this led to the increase in the gross revenue of companies offering digital services. These companies are majorly the five big tech companies including Alphabet, Amazon, Facebook, Apple and Microsoft. This increase in revenue also led to a spike in tax challenges due to the lack of newer laws and the usage of tax avoidance

²BLOOMBERG TAX, <https://pro.bloombergtax.com/insights/international-tax/understanding-digital-services-taxes-the-oecd/#stay-on-top> (last visited Oct. 2, 2025).

³ Nicola Bilotta, *Beyond the Digital Tax: The Challenges of the EU's Scramble for Technological Sovereignty*, 20 IAI Papers 1, 2-18 (2020).

strategies by the companies. These tax challenges can be broadly classified into BEPS, the use of IP to shift profits and the characterisation of income.

BEPS

BEPS stands for Base Erosion and Profit sharing which is a strategy used by companies to avoid tax. Multinational companies often shift their profits to countries with low or no tax rates.⁴ This practice is mostly not an illegal one, but one built on loopholes and tax planning strategies. Therefore, it is increasingly difficult to curb. These practices are not uniform in nature either and are used differently by different types of companies. BEPS gives an unfair competitive advantage to MNCs over domestic companies as they make use of such practices to retain more revenue and escape tax liability.⁵

Essentially, BEPS means that even though an MNC generates its profits in Country A, it collects its payments through its subsidiary in Country B as Country B has lower tax rates. However, this is clearly unfair to Country A as the profits are generated due to the data and users present in Country A and this practice leads to the erosion of Country A's tax base. This paper will further highlight some case studies of digital media companies that have resorted to taking advantage of these loopholes before. However, another form of tax avoidance should also be discussed in this context before moving on to the case studies.

Use of IP and Royalties to Shift Profits

In the digital economy, what dominates is not the ownership of physical assets but that of intangible ones or intellectual property. A lot of the revenue generated by digital entertainment platforms is the royalties received on the IP it holds. Therefore, to strategise their taxes, a lot of digital media platforms hold IP in low tax regions so as to pay lesser taxes on the royalties received. This method is almost parallel to that of BEPS but more IP specific.

It majorly entails the creation of IP Holding subsidiaries which in turn have all the legal rights over all the content libraries. These subsidiaries are always situated in low tax regions. Subsequently the company operates in a high-revenue generating location and provides streaming services for which it pays royalties to the IP Holding subsidiary. Therefore the companies exploit the users of one country where the content is consumed and then shift the profits away to the IP Holding subsidiary's country to avoid taxes.⁶

⁴ BASE EROSION AND PROFIT SHIFTING, <https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html> (last visited Sep. 28, 2025).

⁵ Nishant Chadha & Radhika Pandey, *Digital Services Taxes: Mapping the Challenges*, 34 Nat'l Inst. Pub. Fin. & Pol'y 1, 2-25 (2020).

⁶ CHRISTIAN FUCHS, THE ONLINE ADVERTISING TAX AS THE FOUNDATION OF A PUBLIC

Characterisation of income

Another problem with taxing digital entertainment and media companies is the characterisation of their income. Traditionally, income may be classified into business income, royalty and fee. The tax rates for each of these heads vary, in India, the tax rate for business income is 40% and royalty is 10%. However, a problem arises when it comes to the characterisation of income as business income, as that requires permanent establishment which isn't always necessary in a digital economy.⁷ Further, digital media companies receive payments through various streams such as subscription payments, advertising revenues, licensing fees, and data monetisation which cannot be fit into the existing categories as smoothly. Thus it is unsure as to whether the income of digital media companies would be classified as business income or fees for technical purposes or any other category.⁸

III. CASE STUDIES

Several Companies have utilised the tax avoidance strategies that have been examined above, these include Big Tech companies and Streaming platforms, their case studies are highlighted below:

Facebook

In 2012, Facebook had come under the spotlight for conducting major tax avoidance. Facebook was structured in a way that, when any company buys advertisement spaces on the website in the UK or any other country other than the USA, they have to pay to Facebook Ireland, which has one of the lowest tax rates among the other countries in Europe. Therefore, even after making huge sums of profits, Facebook paid an excessively low sum of tax (in 2012 it paid 2.9 million euros of tax on profits of over 800 million euros). Facebook Ireland also employed another mechanism to avoid taxes called the “Double Irish” wherein royalty payments can be used to move quite a large sum of money to other subsidiaries. Facebook used this system to collect royalties in the Caymans and Bermuda, which are considered tax havens, through its subsidiaries there.

Apple

In 2003, Apple had significantly reduced taxes payable to Ireland, which in itself was at a low rate of 12.5% to 1%. Apple incorporated the IP Holding, profit shifting strategy to shift profits

SERVICE INTERNET 19 (University of Westminster Press 2018).

⁷ Nishant Chadha, *supra* note 5 at 24.

⁸ Ajay Sharma and Nikhil G, *Digital tax: The Changing contours of tax structure in India*, SCC ONLINE (Oct. 2, 2025, 11:34 AM), <https://www.scconline.com/blog/post/2019/10/22/digital-tax-the-changing-contours-of-tax-structure-in-india/>.

outside of Ireland, thereby reducing its annual taxable income in the country.⁹ Further in 2011, it paid taxes equal to 10 million euros on a recorded profit of 16 billion euros, which was about 0.05% tax rate. These practices were challenged and the European Commission had declared that Ireland had granted illegal aid to Apple and ordered the state to recover the aid to the tune of 13 million euros.¹⁰ This decision was appealed by Apple. Finally the Court of Justice of the European Union (ECJ) decided, in 2024, that the European Commission's decision was correct.¹¹

Netflix

In late 2024, Netflix was accused of tax fraud and its offices were raided, in accordance with the investigation conducted by Dutch and French authorities. It was found that Netflix was also involved in profit shifting activities. Netflix in an attempt to reduce taxes in countries like France and Germany, shifted its profits away from the European regions by holding its IP in the Netherlands and following the same mechanism as highlighted earlier. However, Netflix contended that it did not violate any laws and complied with all tax rules.¹² This was not the first time Netflix had employed such a strategy, in 2018, Netflix generated income of 5.5 billion euros, of which only 4 million were paid to Netherlands as taxes. Netflix had been targeted for a tax audit since then.

Google

Google's tax avoidance was suspected as early as 2009, when a British newspaper reported about its strategies through which Google avoids paying around 100 million pounds of tax every year.¹³ Google UK, with a revenue of 1.25 billion pounds, operated in London but collected the subscriptions of firms with whom they advertised, through its Ireland subsidiary. Using the same strategy as seen in the above cases, as Ireland has a much lower corporate tax rate. More recently, Google settled a dispute in Italy which involved unpaid taxes, penalties and interest from the years 2015-2019. It did so by paying 326 million euros.¹⁴

⁹ CHRISTIAN FUCHS, *supra* note 6 at 20.

¹⁰ Commission Decision 2017/1283 of 30 August 2016.

¹¹ Case C-465/20 P, *European Commission v. Ireland, Apple Sales International Ltd, and Apple Operations International Ltd* (ECJ Sept. 10, 2024).

¹² Jean-Pierre Stroobants, *How Netflix uses the Netherlands for tax optimization*, LE MONDE (Sep. 28, 2025, 9:25 PM), https://www.lemonde.fr/en/economy/article/2024/11/08/how-netflix-uses-the-netherlands-for-tax-optimization_6732105_19.html.

¹³ CHRISTIAN FUCHS, *supra* note 6 at 23.

¹⁴ *Google Settles €326M Tax Dispute in Italy While Amazon Faces €1.2B VAT Probe*, VATabout (Mar. 7, 2025), <https://vatabout.com/google-settles-326m-tax-dispute-in-italy-while-amazon-faces-12b-vat-probe>.

Amazon

Amazon too, has been investigated for tax avoidance by several governments including that of Italy, India, UK and France. It was claimed to be the most aggressive tax avoider in the period of 2010 to 2019 in a report by the Fair Tax Foundation.¹⁵ Although the report targeted all six of the Big Tech companies, it singled out Amazon as the one with the worst tax conduct, by paying only about 3.4 billion dollars of tax on an income of 960 billion dollars with 26.8 billion of profit, over the past ten years. Amazon too, utilises the tax avoidance strategies highlighted above and shifts profits to tax havens like Bermuda, Ireland, and Netherlands. It has been recently investigated in 2023 by Italian and Indian tax authorities too.

Several other MNCs also follow the same methods to avoid taxes. Although certain instances have been explained in detail in the above examples, these companies have been under investigation more than just one of two times. Microsoft is another Big tech company that has also been investigated for corporate tax avoidance. It is to prevent such avoidance strategies that the OECD guidelines have been formulated.

IV. OECD'S BEPS 2.0 FRAMEWORK (PILLAR ONE & TWO)

After looking through the several tax challenges and case studies reflective of the same, the problem statement can be summed up to the following: Tax rates differ from region to region across the globe, and an MNC takes advantage of this system by basing its Headquarters in a location with lesser taxes to avoid paying the amount they are required to pay by the laws of the countries they earn their profits from.¹⁶ The aim of the OECD framework is primarily to create a single global tax framework, universally applicable to all, hence solving the problem.¹⁷ The OECD's tax reform proposals aim to address corporate tax avoidance done largely by MNCs and unfair taxation. The Organisation for Economic Cooperation and Development's Framework has helped to mould the different interests of governments and private actors into a mutually beneficial framework. Several MNCs have backed the framework because having multiple national digital taxes in this global economy would only lead to an increase in compliance costs for the companies.¹⁸ A Framework such as this would also guarantee tax certainty, transparency and ease of payments which are a few important canons of taxation in accordance with Adam Smith. The OECD Framework works through two pillars.

¹⁵FAIR TAX FOUNDATION, <https://fairtaxmark.net/tax-gap-of-silicon-six-over-100-billion-so-far-this-decade/> (last visited Oct. 2, 2025).

¹⁶ Nishant Chadha, *supra* note 5 at 5.

¹⁷ Matthias Bauer, *Unintended and Undesired Consequences: The Impact of OECD Pillar I and II Proposals on Small Open Economies*, 04 ECIPE Occasional Paper 1, 2-49 (2020).

¹⁸ Nicola Bilotta, *supra* note 3 at 15.

Pillar 1

The first pillar deals with profit allocation and nexus. It aims at regulating Multinational corporations by reallocating their taxable incomes to market jurisdictions.¹⁹ The OECD's initiative has the support of 140 countries and jurisdictions which unitedly eliminate tax avoidance practices. The Pillar 1 requires its member states to withdraw or repeal any DSTs that have been implemented before the Pillar 1 comes into effect. However, it is unknown as to when the Pillar 1 will be implemented. Several countries like India have revoked their current DST policies in accordance with this Pillar now, in 2025. However, earlier around 2020, due to the uncertainty of the OECD BEPS measure, several European countries like Italy, Spain, Turkey and so on had implemented their own DSTs, to prevent MNCs from avoiding taxes.

Pillar 2

The Pillar 2 encompasses the GloBE which is the 'Global Anti-Base Erosion' also known as the minimum tax proposal. It aims to ensure that the rate of tax on the income is appropriate and designs new rules of taxation for corporate income which are quite complex. The Model GloBE rules were released on the 20th of December, 2021.²⁰ These rules set that MNCs must pay a global minimum tax rate of 15% if they have a turnover of more than 750 million euros. Presently, the Pillar 2 Rules are implemented in over 70 jurisdictions including UK, France, Netherlands, Spain, Germany, Japan and with many more to join in the near future. Pillar two requires MNCs to comply with complex reporting requirements, this includes determining where one must file for taxes, while adhering to local laws. Any transfer filing policies must also be aligned with the requirements of Pillar 2, and companies must also report their taxes, country by country. A need exists for a centralised system to file taxes, so that MNCs could file taxes in a timely fashion.²¹

Views of other countries

Scandinavian countries remain skeptical of the OECD's framework as they believe it would affect innovation and damage their own digital MNCs like Spotify.²² The US is another country that is quite against these taxes and in January 2025, officially withdrew from the OECD

¹⁹ Matthias Bauer, *supra* note 16 at 35.

²⁰ OECD (2023), Minimum Tax Implementation Handbook (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project, OECD, Paris, <https://www.oecd.org/tax/beps/minimum-tax-implementation-handbook-pillar-two.pdf>.

²¹ KPMG, *Pillar Two compliance-navigating the complexity* (2025), <https://kpmg.com/xx/en/our-insights/ai-and-technology/pillar-two-compliance-navigating-the-complexity.html>.

²² Nicola Bilotta, *supra* note 3 at 8.

initiative.²³ It is concerned that the rise in Digital Service taxes could allow the MNCs to deduct tax from their US liabilities. The US has imposed tariffs and also launched trade investigations on several countries with DSTs, claiming that the taxes discriminate against American companies. Several other countries like France, Italy, Spain and India are, however, supportive of the OECD.

V. DIGITAL SERVICES TAXES (DST) BY INDIVIDUAL COUNTRIES

Several countries of the OECD have their own DST policies including that of France, Italy, Canada, India, Turkey, Spain and so on. These measures were launched as it was uncertain as to when the Pillar 1 would come into effect and the Governments believed it to be important that the tax avoidance strategies used by companies providing digital services needed to be curbed.²⁴

- **France:** In 2016, the French government approved an online advertising tax levy, also known as “Youtube Tax” which was 2% and to be applied on Platforms like Youtube, Netflix, Dailymotion and Vimeo. The only exception was the videos which showed news.²⁵ In 2019, it introduced the Digital Services tax which the USA challenged and declared to be discriminatory against US Digital companies.²⁶ However this tax still subsists. It aims to level the playing field for domestic companies and prevent tax avoidance by MNCs. Its rate is 3% of gross annual revenue and it is payable in two installments, one in March and the other in September. It applies to companies regardless of their physical presence, whose global taxable digital income exceeds at least 750 million euros, and 25 million euros of that sum must have been generated in France.²⁷
- **United Kingdom:** In April 2020, the UK government had initiated a policy imposing a tax rate of 2% on the revenues of search engines such as Google, social media platforms such as Facebook and online marketplaces such as Amazon. The tax was imposed if

²³ Bahattin Gonultas, *Trump's withdrawal from corporate tax agreement threatens global tax cooperation*, Anadolu Agency (Jan. 24, 2025), <https://www.aa.com.tr/en/americas/trump-s-withdrawal-from-corporate-tax-agreement-t-hreatens-global-tax-cooperation/3460954>.

²⁴ DOMINIKA LANGENMAYR & ROHIT REDDY MUDDASANI, *Navigating the Amazon: The Incidence of Digital Service Taxes* (Working Paper, June 12, 2025).

²⁵ CHRISTIAN FUCHS, *supra* note 6 at 20.

²⁶ OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, *Report on France's Digital Services Tax* (2019).

²⁷ Ljubica Blagojević, *France's Digital Services Tax: Key Details and Temporary Status*, Fiscal Solutions (July 30, 2025), <https://www.fiscal-requirements.com/news/4234>.

they derived value from UK users. The policy aimed at eliminating the misalignment between the place where profits are generated and where they are taxed.²⁸

- **India:** In April 2025, India withdrew its 6% Equalisation levy which was applicable to the digital advertising services that were provided by non- resident companies. When India introduced this levy in 2020, it was immediately challenged by the United States Trade Representative Office, who subsequently released a report on how the levy was discriminating against US digital companies.²⁹ It continued to subsist nevertheless, until recently, when it was revoked, due to rising political tensions as well as in line with the OECD's framework.
- **Canada:** In June 2024, Canada implemented a retroactive DST from January 2022.³⁰ The government introduced a 3% revenue on digital service providers whose business revolves around online marketplaces, social media platforms, sale of user data or online advertising. However, this DST was revoked in 2025 to catalyse broader trade relations with the USA.
- **Spain:** The Spanish Digital Services taxes came into force in 2021.³¹ The government levies a 3% tax on three streams of revenue when it comes to digital services, including digital intermediation services, digital advertising and sale of user data. Companies, whose global revenues are over 750 million euros and revenue generated in Spain is over 3 million euros are eligible to pay this tax. The law is stricter for American and Non-EU companies, whereas the EU firms are given an exemption under the threshold of 10,000 Euros.³²
- **Italy:** Italy's DSTs have been in effect since January 1st, 2020. It was passed as part of Law no. 160/2019.³³ The DST rate in Italy is 3% and like other countries is aimed at targeting large digital companies that provide online advertising services, sell user data and have multisided digital interfaces. It is a gross revenue tax, meaning costs are not

²⁸ HM REVENUE & CUSTOMS, *Digital Services Tax* (Mar. 11, 2020), <https://www.gov.uk/government/publications/introduction-of-the-digital-services-tax/digital-services-tax>.

²⁹ OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, *Report on India's Digital Services Tax Prepared in the Investigation Under Section 301 of the Trade Act of 1974* 3 (2021).

³⁰ KYLA H. KITAMURA & DANIELLE M. TRACHTENBERG, CONG. RESEARCH SERV., IN12399, *Canada's Digital Services Tax Act: Issues Facing Congress* (2025).

³¹ Law 4/2020, of 15 October on the Tax on Certain Digital Services, BOE No. 274, sec. I (Oct. 16, 2020) (Spain).

³² INFORMATION TECHNOLOGY AND INNOVATION FOUNDATION, <https://itif.org/publications/2025/02/11/spain-digital-tax-policy/> (last visited Oct. 2, 2025).

³³ Law No. 160 of 27 Dec. 2019, Bilancio di previsione dello Stato per l'anno finanziario 2020 e bilancio pluriennale per il triennio 2020–2022, Gazz. Uff. No. 304 (Dec. 30, 2019) (Italy).

deductible and the jurisdiction is decided upon the location of the user, so if the user data is generated or a service is consumed in Italy, the DST will apply.³⁴

- **Turkey:** Turkey has one of the highest DST rates in Europe. Implemented in March 2020, the rate of DST is 7.5% applicable on digital service companies generating a revenue of more than 750 million euros totally across the globe, and 20 million Turkish liras, locally.³⁵ It applies to services such as digital advertising services, sale of digital content, online intermediary services, and intermediary services for digital transactions.

VI. POLICY RECOMMENDATIONS AND CONCLUSION

The emergence of the new technology driven economy has highlighted the limits of traditional tax systems, which still rely on physical presence and concepts of tangible assets. Firms like Netflix, Google, Facebook, among other digital giants, have demonstrated how IP holding and royalty agreements can be used in a manner that channels profits to tax havens, creating huge base erosion in market economies. Though DSTs have been unilaterally proposed to counter the threat, they are not flawless and invite trade disputes and problems of double taxation.

The OECD BEPS 2.0 framework, particularly Pillars 1 and 2, are an important step towards reallocating taxing rights in line with the digital economy environment. But the success of the framework depends highly on widespread international support, harmonized action, and reconciling the needs of developing economies that depend so much on corporate taxation.

A number of policy actions in the future have to be given high priority. Firstly, more global coordination is needed to prevent fragmentation and overlapping tax policies. Secondly, nations need to raise royalty and IP centric transactional transparency to prevent profit shifting. Thirdly, developing countries must monitor digital revenues efficiently and enforce compliance. Finally, the global tax framework must also guarantee that innovation and cross-border trade are not deterred while revenue mobilisation is being given priority.

³⁴ VATCALC, <https://www.vatcalc.com/global/italy-digital-services-tax-threshold-withdrawal-proposal/> (last visited. Oct 2, 2025).

³⁵ VATCALC, <https://www.vatcalc.com/turkey/turkey-7-5-digital-services-tax/> (last visited. Oct 2, 2025).