Tax briefing note
Digital services tax

June 2025

What is it?

Digital services tax (DST) is a 2 per cent tax on the revenues of search engines, social media services and online marketplaces from users in the UK. It only applies to companies (or groups) whose global revenues from these activities exceed £500 million and the first £25 million of such revenues from UK users is exempt. It was introduced on 1 April 2020 and government policy is to abolish it when ‘pillar one’ of the Organisation for Economic Cooperation and Development (OECD) agreement on ‘base erosion and profit sharing’ (BEPS) rules are implemented. These rules will reallocate the taxable profits from where the value is created to where the products and services are consumed. The digital services tax is therefore a temporary ‘stop-gap’ tax aimed at extracting tax revenues from large digital service providers until the OECD’s rules are implemented.

In 2020-21, 18 groups paid DST and 5 of them paid £324 million (or 90 per cent) of the £358 million total receipts.[1] HMRC has not disclosed which groups the five are, but we speculate that they are Meta (Facebook and Instagram), Alphabet (Google and Android), Apple, Amazon and either Microsoft or eBay. Of the companies liable to DST, the total exceeded their corporation tax payments.[2]

What’s the problem with it?

Ultimately, DST was created to extract something approximating what the British government sees as its fair share of the value created by Silicon Valley beyond that permissible under international tax rules for corporate taxes, VAT and other existing taxes. The tax base of relevant revenues in the UK is designed to represent the UK government’s share and the £500 million global revenues threshold is designed to ensure it applies only to ‘tech giants’ rather than smaller, more entrepreneurial and newer companies, more likely to be British.

While this does have some merit as a device for extracting American cash for the British exchequer, unsurprisingly it is somewhat controversial with the Americans, who threatened to impose tariffs in retaliation under the previous White House administration[3] and has been cited by the current administration as a justification and an area for further negotiation.[4] This is arguably an acceptable price to pay for the benefit of extracting cash from the American tech sector but the downsides are not limited to that.

Just as the burden of corporate taxes falls on real people, investors, customers and employees, and the burden of tariffs falls predominantly on consumers and intermediate goods-using companies in the country imposing them, so too is the DST being passed through to consumers in Britain.[5,6] In reality, the tax is being paid primarily by British consumers in the form of explicit surcharges and higher charges, sometimes passed on in the form of more expensive advertising costs by consumer brands and online marketplace users.

What should be done?

[1] Davies, G., Investigation into the Digital Services Tax, National Audit Office, November 2022, p. 6.
[2] Ibid, p. 7.
[3] Office of the United States Trade Representative, USTR Announces, and Immediately Suspends, Tariffs in Section 301 Digital Services Taxes Investigations, 2 June 2021, ustr.gov/about-us/policy-offices/press-office/press-releases/2021/june/ustr-announces-and-immediately-suspends-tariffs-section-301-digital-services-taxes-investigations (accessed 13 May 2025).
[4] Francis, S., Talks with US over digital services continue, says PM, BBC, 9 May 2025, www.bbc.co.uk/news/articles/c1ld568v5j4o (accessed 13 May 2025).
[5] Amazon, Change to digital services tax charges from October 1, August 2024, sellercentral.amazon.co.uk/seller-forums/discussions/t/ed2f04c2-afa0-4bd4-b0fb-08efa212b5a6 (accessed 13 May 2025).
[6] Google Ads Help, Jurisdiction-specific surcharges, support.google.com/google-ads/answer/9750227?hl=en-GB (accessed 13 May 2025).

Abolish the digital services tax.