



Budget 2018

Digital Services Tax

- **The government remains committed to reform of the international corporate tax framework for digital businesses.**
 - **However, pending global reform, interim action is needed to ensure the corporate tax system is sustainable and fair across different types of businesses.**
 - **Therefore, to ensure that digital businesses pay tax that reflects the value they derive from UK users, the government has announced that it will introduce a Digital Services Tax (DST) which will raise £1.5 billion over four years.**
1. The development of the digital economy has brought significant benefits to all of us, but poses a challenge for the international corporate tax system. The government has set out these challenges in two position papers, published at [Autumn Budget 2017](#), and [Spring Statement 2018](#). They explain the need to reform international tax rules to ensure they reflect the value users create for digital businesses.
 2. While the government believes that the long-term answer to these challenges is reform of the global tax system – and has been pushing for that to happen internationally – the outcome of that process remains uncertain.
 3. As a result, the government has decided to act now and will introduce a Digital Services Tax (DST) from April 2020. The DST will raise £1.5 billion over four years and ensure digital businesses pay tax in the UK that reflects the value they derive from UK users.
 4. The government will continue to lead efforts with its partners in the EU, G20 and OECD to reach international agreement on future reforms to the international corporate tax framework, and will dis-apply the DST when an appropriate international solution is in place.

How will the tax work?

5. The DST applies a 2% tax on the revenues of specific digital business models where their revenues are linked the participation of UK users. The tax will apply to: search engines; social media platforms; and online marketplaces. That is because the government considers these business models derive significant value from the participation of their users.
6. The DST is not a tax on online sales of goods – as a result it will only apply to revenues earned from intermediating such sales, not from making the online sale.
7. It is also not a generalised tax on online advertising or the collection of data. Businesses will only be taxed on the revenues derived from these services to the extent they are performing one of the in-scope business models, which are the provision of a search engine, social media platform or online marketplace.

8. The DST will apply to the revenues that are attributable to in-scope business models whenever they are linked to UK users. This means that, for the purposes of the DST, what matters is the location of the user, not the business. For example:
- if a social media platform generates revenues from targeting adverts at UK users, the government will apply a 2% tax to those revenues
 - if a marketplace generates commission by facilitating a transaction between UK users, the government will apply a 2% tax to those revenues
 - if a search engine generates revenues from displaying advertising against the result of key search terms inputted by UK users, the government will apply a 2% tax to those revenues
9. The DST is intended to be narrowly-targeted, proportionate and ultimately temporary, pending a comprehensive global solution. As such it includes the following features:
- **A double threshold** – this means businesses will need to generate revenues from in-scope business models of at least £500m globally to become taxable under the DST. The first £25m of relevant UK revenues are also not taxable. This means that small businesses will not be in scope of the tax.
 - **A safe harbour** – this means that businesses can elect to calculate their liability on alternative basis, which will be of benefit to those with very low profit margins. The outcome is that those making losses under this calculation will not have to pay the DST and those with very low profit margins will pay a reduced rate of tax. The government will be consulting on the precise design of the safe harbour which is intended to ensure the DST is proportionate.
 - **A review clause** – this means that the DST will be subject to formal review in 2025 to ensure it is still required following further international discussions. This underlines the government’s commitment to continue seeking a global solution to ultimately replace the DST. In addition, the government will dis-apply the DST if an appropriate international solution is in place prior to 2025.
10. The DST will be an allowable expense for UK Corporate Tax purposes under ordinary principles. However, given the DST will not be within the scope of the UK’s double tax treaties, it will not be creditable against UK Corporate Tax.
11. Financial and payment services, the provision of online content, sales of software/hardware and television/broadcasting services will not be in scope of the DST. The government will explore with stakeholders during the consultation whether further exemptions should be made.

Next steps

12. The government will be issuing a consultation on the design of the DST in the coming weeks. It intends to use this consultation to explore the key questions and challenges concerning the application of the DST, ensure it operates as intended and that it does not place unreasonable burdens on businesses. The DST will then be legislated for in the 2019/2020 Finance Bill, and apply from April 2020.

Scorecard

Year	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Yield (£m)	N/A	+5	+275	+370	+400	+440