Parliamentary Budget Office

ECR-2025-3704

Digital services tax	
Party:	Australian Greens

Summary of proposal:

The proposal would introduce a Digital Services Tax (DST) to apply from 1 July 2025 with the following characteristics:

Liable Entities and Assessable Revenues:

The DST would apply to digital services companies with total worldwide revenue from all sources exceeding €750m ('liable entities') that receive revenue from the following specified digital services:

- online marketplace services
- online advertising services
- social media services
- user data revenue
- cloud computing services.

Tax Rate:

The DST be levied on Australian gross revenue for liable entities from specified digital services in excess of AUD $20 million at a rate of 3.0%.

Additional information (based on further advice provided):

DST-assessable revenue would include revenue raised domestically in Australia but attributed overseas.

DST liabilities would be treated as a deductible expense for purposes of calculation of a liable entity's taxable income, and hence Australian company tax liability.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balances by around $3.0 billion over the 2025-26 Budget forward estimates period (see Table 1). This impact reflects, in order of significance, the following:

- an increase in tax revenue due to the proposed DST
- a net decrease in company income tax receipts due to the DST being treated as a tax-deductible expense for company income tax purposes, which is largely offset by additional taxable revenue raised by DST-liable entities as they 'pass through' the DST's tax impost[1]

[1] Based on outcomes from similar 'digital services taxes' introduced by other countries such as the UK and Canada. See '*Uncertainty around Behavioural Response of Affected Companies*' section for more details.

- departmental expenses for the Australian Taxation Office (ATO) to administer the tax.

Although the proposed policy is considered to apply from the 2025-26 financial year onwards, it is assumed that the effect on both DST and company tax receipts would be lagged by 1 year and thus not begin to have financial implications (excluding those related to departmental expenses) until 2026-27.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Digital services tax – Financial implications ($m)[a][b]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-4.0	928.1	1,005.7	1,090.7	**3,020.5**
Underlying cash balance	-4.0	928.1	1,005.7	1,090.7	**3,020.5**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Definitions of Digital Services Categories

Of the 5 categories of digital services covered by the proposed DST, 4 categories – all excluding 'cloud computing services' – are covered by and defined by the Canadian *Digital Services Tax Act* as the legislation responsible for introducing the Canadian DST. For these 4 applicable categories, the Parliamentary Budget Office (PBO) have used the definitions as outlined in this legislation to inform the companies and revenues deemed assessable for the purposes of the proposed DST.

For 'cloud computing services', this category will be defined as "the delivery of computing resources and services over the Internet on an on-demand basis."

Additionally, the available financial information for companies for which 'social media services' revenues are reported state that their revenues predominantly come from advertising revenues. As such, the revenues reported under this digital service area could potentially be treated instead as belonging to 'online advertising services', although this would not affect the financial implications of the proposed policy.

User Data Revenue Unquantifiable

The proposal's specification included 'user data revenue' as a specified digital service area for which associated revenues are assessable by the DST. However, for large multi-national companies that monetise user data, the related revenue is largely derived from digital advertising that is targeted using available user data rather than from the sale of user data. For example, Apple's Privacy Policy states that "Apple does not sell… personal data including as 'sale' is defined in Nevada and California", where 'sale' is defined in California under the *California Consumer Privacy Act of 2018* as "selling… or otherwise communicating… by electronic or other means, a consumer's personal information by the business to a third party for monetary or other valuable consideration".

Additionally, where large multi-national companies do obtain revenue from the sale of user data, there is limited information disclosed about the revenue received. As such, the PBO has considered the DST-assessable revenue raised by the sale of user data to be unquantifiable.

Uncertainty of Financial Implications

The financial implications stated for the proposal are sensitive to a number of material sources of uncertainty, which are outlined below.

Uncertainty around Inclusion of Overseas-Attributed Revenues

A significant source of uncertainty is whether (or not) revenue raised by an Australian subsidiary of a multinational company on behalf of its internationally-based parent company could be considered assessable under the proposed DST as "Australian gross revenues".

As per the policy specification, overseas-attributed revenue is considered to be DST-assessable for the purposes of this costing. However, if this revenue was not DST-assessable, it would significantly shrink the proposed DST's tax base, and thus significantly decrease the associated revenue collected.

For example, in its 2022 financial results, Google Australia recorded $8.4 billion in gross revenue, of which $7.1 billion in "advertising reseller revenue" was attributed to its parent companies overseas, while $808.4 million in "advertising reseller revenue" was attributed to the Australian entity.[2]

Uncertainty around Tax Base Projections

Another considerable source of uncertainty is around the projections of the DST's tax base – the revenue derived from specified digital services by eligible companies – stemming from the following:

- The proposed DST's tax base is quite concentrated – primarily across a small number of large multinational companies – and thus is inherently subject to greater volatility than a widely distributed tax base, including from the potential emergence of significant new entrants into the relevant digital services markets.
- The methodological approach relies on projecting a concentrated tax base over the medium term using historical company financial performance data and/or industry growth projections and thus is subject to considerable inherent uncertainty.

With uncertain projections of a naturally concentrated and volatile tax base, it is likely that the proposal's financial implications could differ considerably from those stated in the costing.

Uncertainty around Behavioural Response of Affected Companies

Large multinational companies – such as those whose revenue forms the majority of the proposed DST's tax base – can have complex operations and tax affairs often optimised to achieve tax minimisation across jurisdictions. There is a degree of uncertainty around whether these companies would, in response to the introduction of the DST, change the nature of their Australian operations and/or tax affairs to reduce their DST liability compared to the PBO's estimates.

A behavioural response that has been taken into account is based on the outcomes around similar 'digital services taxes' introduced by other countries such as the UK and Canada. There is evidence that DST-liable entities are likely to increase their prices to recoup much, if not all, of the additional costs incurred as a result of the proposed DST. [3]

Uncertainty around the Number of Affected Companies

The PBO has made judgements to identify how many companies would be impacted by the policy based on publicly available information. However, there is a degree of uncertainty around this, and it

[2] https://www.afr.com/companies/media-and-marketing/google-hides-its-total-revenue-from-australia-in-new-accounts-20240425-p5fmho
[3] https://www.theguardian.com/technology/2022/nov/23/uks-digital-services-tax-reaps-almost-360m-from-us-tech-giants-in-first-year

is possible that the expected number of liable entities, the sum of DST-assessable revenues, and thus the net financial implications of the DST could be understated.

Key assumptions

The PBO has made the following assumptions in costing this proposal:

- 50% of financial activity for a company in a calendar year is attributable to the earlier overlapping financial year and also to the later overlapping financial year.
  - Example: 50% of a company's revenue and expenses for calendar year 2023 are attributable to 2022-23, and 50% are attributable to 2023-24.
- DST tax liabilities for a given financial year are raised on an annual basis and are determined and paid in the following financial year.
  - Example: DST tax liabilities relevant to revenue generated in 2025-26 would be reported and paid in 2026-27.
- With DST tax expenses considered a deductible expense for the purposes of a company's profit and associated tax liability, DST liabilities for a given financial year will impact company tax liabilities for that financial year, but will only impact receipts in the following financial year.
  - Example: DST tax liabilities for assessable revenue generated in 2025-26 would impact company tax liabilities for 2025-26, but not affect company tax receipts until 2026-27 as the impact is on assessment when the return is lodged.
- All liable entities earn sufficient profit in each financial year such that they can fully deduct their DST liabilities from their taxable income in that financial year, and gain the maximum benefit from offsetting company tax.
- For multinational companies, all advertising revenue – whether for advertising to Australians or internationally – reported for Australian taxation reporting or financial statement reporting purposes is considered to be Australian digital advertising revenue, and thus assessable under the DST.[4]
- Introduction of the DST would not affect the sales performance of companies required to pay DST over the medium-term relative to current conditions (i.e. without the existence of the DST).
- 80% of the value of DST liabilities for a given financial year will be passed through to businesses that transact with liable entities in the form of higher prices, and 100% of the resulting additional revenue for those liable entities will be considered to be taxable income for Australian company income tax purposes.
- Introduction of the DST would not have any notable effect on Australian personal income tax receipts by way of changes to dividend payments received and thus the taxable income of Australian taxpayers.
  - This assumption is based on the fact that the majority of the additional tax liability associated with the proposed DST would be incurred by large foreign multi-national companies. As their Australian operations form a small proportion of their global operations, changes to the profitability of their Australian operations would be unlikely to significantly affect their overall

[4] This refers to revenue raised by an Australian subsidiary of a multinational company on behalf of its internationally-based parent company.

profitability and dividend distribution strategy. Furthermore, the majority of shareholders and thus dividend payment recipients would not be Australian income taxpayers.

- Additional departmental funding would be provided to the ATO to implement necessary changes to administer the proposed DST.
- All revenue from the provision of digital services reported for Australian taxation reporting or financial statement reporting purposes is considered to be assessable under the DST.
- For digital sales through applications available on an app store, the following service fee structure applies, where the service fee is taken as revenue by the app store's operating entity:[5]
  - two-thirds of sales (by value) are subject to a 30% service fee and
  - one-third of sales (by value) is subject to a 15% service fee.

Methodology

Companies operating in areas of digital services in-scope for the DST were identified using one of 2 main methods:

- cross-checking companies listed in the Australian Taxation Office's (ATO's) Corporate Tax Transparency Report data with international stock exchange company listings
- qualitative investigation into the industry composition of Australian digital services in-scope for the proposal.

Once identified, it was checked whether these companies could be classified as 'liable entities' for the purposes of the DST based on whether total worldwide revenue from all sources for the identified companies (or the collection of related companies as applicable) as reported in their annual reports exceeded €750m.

Where financial information for companies (or collections of related companies) were published in a currency other than Australian dollars, the relevant values were converted into Australian dollars using an average historical exchange rate for the 2014-15 to 2024-25 financial years. This currency conversion methodology also applied to the €750m eligibility threshold for 'liable entities'.

The assessable revenue for DST purposes and income tax payable for identified relevant companies was projected over the medium term using:

- historical public Australian taxation data, financial statements, and projections of revenue growth for the affected companies
- historical public revenue data, financial statements, and projections of revenue growth for the international parent companies of the affected companies
- historical relationships between the financial performance over time for the affected companies and their international parent companies
- other relevant information related to the areas of digital services in-scope for the DST.

DST revenue was calculated by applying the applicable DST tax rate to the projected DST-assessable revenue for a given financial year for any revenue from liable entities exceeding the specified digital services revenue threshold.

[5] This structure is based on the commission structures of the Apple and Google app stores.

The change in company tax receipts is a combined effect based on the below:

- The reduction in company tax receipts from liable entities due to the deductibility of DST liabilities incurred, calculated as the product of the sum of DST liabilities and the current full company tax rate of 30%.
- The increase in company tax receipts from liable entities due to additional taxable revenue raised by liable entities as a result of expensing 80% of the cost of the proposed DST to businesses that transact with those liable entities.

Departmental costs were estimated from likely impacts on the ATO.

Financial implications were calculated with consideration of the assumed timing of DST and company income tax liability receipts (see *Key assumptions*).

Financial implications were rounded consistent with the PBO's rounding rules.[6]

Data sources

The PBO thank the Parliamentary Library for their timely, impartial and confidential input to this response.

The PBO have referenced financial and operations-related information for liable entities (and the relevant collections of related companies) from a number of company annual reports, ASIC financial statements, and publicly-available third-party sources. These have not been individually referenced below.

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[6] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

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Attachment A – Digital services tax – Financial implications

Table A1: Digital services tax – Fiscal and underlying cash balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Revenue													
Administered tax													
DST Revenue	-	*990.0*	*1,070.0*	*1,160.0*	*1,250.0*	*1,350.0*	*1,450.0*	*1,570.0*	*1,690.0*	*1,820.0*	*1,970.0*	***3,220.0***	***14,320.0***
Company income tax receipts	-	*-60.0*	*-64.0*	*-69.0*	*-75.0*	*-81.0*	*-87.0*	*-94.0*	*-101.0*	*-109.0*	*-118.0*	***-193.0***	***-858.0***
Total – revenue	**-**	**930.0**	**1,006.0**	**1,091.0**	**1,175.0**	**1,269.0**	**1,363.0**	**1,476.0**	**1,589.0**	**1,711.0**	**1,852.0**	3,027.0	13,462.0
Expenses													
Departmental													
ASL and capital expenses	*-4.0*	*-1.9*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	***-6.5***	***-8.6***
Total – expenses	**-4.0**	**-1.9**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	-6.5	-8.6
Total (excluding PDI)	**-4.0**	**928.1**	**1,005.7**	**1,090.7**	**1,174.7**	**1,268.7**	**1,362.7**	**1,475.7**	**1,588.7**	**1,710.7**	**1,851.7**	**3,020.5**	**13,453.4**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A2: Digital services tax – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Fiscal balance	..	*20.0*	*64.0*	*113.0*	*169.0*	*231.0*	*300.0*	*377.0*	*464.0*	*560.0*	*667.0*	***197.0***	***2,965.0***
Underlying cash balance	..	*15.0*	*53.0*	*101.0*	*155.0*	*215.0*	*283.0*	*358.0*	*442.0*	*536.0*	*640.0*	***169.0***	***2,798.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[7].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

.. Not zero but rounded to zero.

[7] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)