

RESEARCH ARTICLE

## Digital Services Tax in the Platform-Based Economy: Navigating Business Adaptation and Global Trade Challenges

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### ABSTRACT

The paper aims to examine the evolution and implementation of the taxation regime for digital transactions within the E-commerce platform. The study also analyzes the challenges & repercussions that arose during the implementation of DST, including compliance burdens, double taxation, and trade conflicts, particularly with the United States. Amid these challenges, international efforts to establish a coordinated approach for digital taxation have gained prominence. India's abolition of its Equalisation Levy (EL) under its unilateral measure in April 2025 signals its commitment to the OECD two-pillar framework for the long-term sustainable and equitable global taxation system. The study investigates the broader implications of the removal of digital tax reforms on the e-commerce business dynamics. The study emphasizes that to achieve a “sustainable digital tax system”, it requires a balanced, cooperative framework that reduces trade conflicts and promotes tax fairness. Policymakers must ensure that this transition protects the interests of domestic enterprises while securing India’s share of global digital revenues. It also recommends international policy coordination, simplified compliance mechanisms,

and AI-driven tax administration to enhance efficiency and fairness in digital taxation.

**Keywords:** Global Tax Reforms; OECD Framework; Digital services tax; Digital taxation; Equalisation Levy

## **FULL PAPER**

### **Introduction**

The emergence of digital commerce has significantly transformed global trade and business operations, with “e-commerce sales surpassing \$6.09 trillion in 2024, marking an 8.4% increase from the previous year” (Retently,2024; Statista, 2024). The digital marketplace is now a critical driver of global economic activity, with Asia alone accounting for nearly USD 2 trillion in online sales in 2025, positioning it as the largest regional market. This rapid expansion has intensified the debate over how governments should effectively tax digital enterprises that generate substantial revenues across jurisdictions without maintaining a physical presence.

Traditional tax frameworks, designed for brick-and-mortar enterprises, are proving inadequate in addressing the complexities of intangible value creation, platform intermediation, and cross-border profit allocation. The challenge lies in modernizing traditional tax frameworks so that digital businesses also contribute equitably to national tax revenues. However, inconsistencies in taxation strategies across regions have led to disputes over compliance, economic impact, and corporate sustainability (OECD, 2023). Digital MNEs can generate substantial revenue across multiple jurisdictions, often allocating profits to low-tax jurisdictions, raising concerns about tax fairness as countries struggle to collect taxes on the economic activities within their boundaries.

In response to this, several nations have adopted the taxation framework. The concept of Digital Services Tax (DST) emerged in the late 2010s when governments grappled with the fiscal deficit problem from the digital economy. “The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project (2013)” recognized the problem of profit shifting in the digital scenario. DST was first introduced in Europe and later adopted by over 30 countries, including India, Brazil, and Kenya (World

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Bank, 2023). The European Union has led coordinated efforts, with its digital tax policies alone generating over \$3.2 billion in revenue in 2023.

Digital Services Tax (DST) is a gross revenue-based tax imposed on revenue generated by large digital companies that provide online services. Becker (2021) states “ that the digital economy encompasses platform-supported services, such as Uber, as well as online platforms like Amazon, Facebook, and Google, trading of electronic services like e-books, video games, as well as online delivery of software and mobile-enabled technologies and applications”. DST aims to capture the economic activities of multinational corporations operating in multiple jurisdictions so that they contribute fairly to local economies (Mpfung,2022).

However, critics argue that these measures disproportionately affect multinational tech firms, leading to increased operational costs due to the complexity and variability of international tax regimes, which could ultimately result in higher prices for consumers (Kumar, 2023). Countries with well-established digital taxation policies have reported a compliance rate of 75%, while others struggle with issues such as tax evasion and regulatory loopholes, highlighting the need for comprehensive and globally coordinated approaches to digital taxation (Cheng, 2023). It also argued that DST could lead to double taxation and trade disputes. DSTs have sparked significant trade conflicts, particularly with the US, which argues that these taxes disproportionately target American tech giants and violate international trade principles.

Amid these challenges, international efforts to establish a unified approach to digital taxation have gained global acceptance. “The OECD Framework on Base Erosion and Profit Sharing” (BEPS) has proposed Two-Pillar reforms, proposed in 2021, to address these distortions. “Pillar One reallocates taxing rights over residual profits earned by the world’s largest multinational enterprises from investor locations to market jurisdictions, even without physical presence, while Pillar Two imposes a 15% global minimum corporate tax rate, targeting MNEs with annual revenues above €750 million.” It aims to prevent profit shifting and harmful tax competition (OECD, 2024).

This paper critically examines the evolving landscape of the impact of digital taxation reforms on government revenue collection, with a particular focus on India's transition from the “Equalisation Levy (EL),” “a 6% tax on digital services on non-resident companies” to its abolition phase. The measures improve transparency in cross-border transactions and reduce tax

evasion, but also create challenges, and their abolition is a step towards a globally coordinated taxation framework.

### **Literature review**

Bhatnagar S. & Singh M. (2024) studied “India’s Equalisation Levy (EL)”, a 2% tax on digital services provided by non-resident companies, introduced to address the revenue loss due to the growing digital economic system. The study highlights numerous criticism such as additional compliance burdens, impacting the startup's sustainability, and causing double taxation issues. The study emphasize on the global coordination for a sustainable digital taxation framework.

Harpaz A. (2025) research titled “Global Tax Wars in The Digital Era” explores the “tax wars” surrounding global tax governance, contrasting the taxing powers and interests. The article highlights the significant economic presence (SEP) doctrine that will expand the permanent establishment criteria to include online businesses. It argues for a shift toward source-based taxation by revisiting the permanent establishment standard.

Aisyah P.& Tjandrakirana R. (2025) conducted a Systematic Literature Review analyzing the impact of the DST on global trade relations, tax Equity, and international taxation reforms. The study reveals that while DST increases government revenues, it also exacerbates trade conflicts and legal/ political uncertainties, creating a deterrent effect on Foreign Direct Investment (FDI) inflows due to heightened economic and geopolitical risks.

Pandey P. (2025) “Digital Global Taxation: Transformative Impacts and Strategic Responses in India” explores the transformation of digital global taxation and its implications for India. It explores the evolving international tax framework, focusing on “OECD’s Base Erosion and Profit Shifting (BEPS) initiative” and the “Inclusive Framework on BEPS,” particularly the two-pillar approach. It analyzes the economic, legal, and administrative impacts of these changes and India's strategic responses to maintain a balanced and effective tax system in the digital age.

Patel (2024) conducted a study in India to assess whether digital taxation policies hinder the startups’ growth in the e-commerce sector. The objective was to determine if tax obligations deter new businesses from entering the market. The findings are relevant as they illustrate barriers to innovation caused by tax policies. This study fills that gap by analysing progressive taxation policies that balance government revenue generation with business sustainability.

Putri A et al (2025) conducted a systematic review of taxation in the digital era related to the e-commerce sector. The study shows that factors such as taxpayer understanding and trust in tax authorities significantly influence tax compliance among digital businesses. Also, the low awareness and insufficient socialization from the government create obstacles in increasing compliance among e-commerce taxpayers. This study emphasizes the need for unified taxation policies to improve compliance, ensuring a balanced regulatory environment.

Kumar et al. (2025) investigate taxation in the digital economy based on demographic factors and awareness about digital tax policies among Indian citizens. Based on secondary data, the results indicate that higher-income and more educated individuals exhibit higher tax awareness and comprehend the digital tax terminologies like the “Equalisation Levy” and “OECD's Base Erosion and Profit Shifting (BEPS) model”.

Arun Paul & N. Ramalingam (2023) also emphasizes on the need for a balanced approach between nation-level tax laws and international tax treaties for digital taxation Two-pillar framework, particularly Pillar One and Pillar Two, aims to resolve these issues caused by unilateral digital taxes and boost investment velocity, leading to flourishing economic growth and harmonized tax rules across jurisdictions.

The Existing literature has largely studied the need for the implementation of India’s Digital Services Tax (DST) and its effective role in revenue generation for the government. It also addresses the global debates around tax fairness. However, there is limited research conducted after its abolition. The challenges that contributed to the withdrawal have not been sufficiently studied in the Indian context. Furthermore, the study explores the implications of this policy shift for the sustainability and growth of e-commerce and platform-based businesses.

### **Objective of the study**

This study seeks to explore the evolving landscape of digital taxation and its implications for online businesses. The specific objectives are:

1. To examine the Evolution of India’s Digital Taxation Framework, particularly the DST and its impact on government revenue collection from the e-commerce sector.
2. To investigate the challenges faced by businesses and governments in implementing DST, including compliance costs, administrative hurdles, and risks of double taxation.

3. To examine how the removal of DSTs influences e-commerce and platform-based business models with a focus on business adaptation, growth, and sustainability.

### **Research Methodology**

The study is based on a descriptive research design based on secondary data sources to examine the Evolution of India's digital Taxation Framework (DST). Trend analysis is conducted to show the impact on government revenue collection. The study includes reports from tax regulations, policy reports, and case studies from global organizations such as the OECD, World Bank, and IMF, as well as peer-reviewed journal articles published between 2020 and 2025. Data was collected from official government reports, academic studies, and industry publications. Content analysis was employed to identify recurring themes such as tax compliance trends, revenue impact, and business sustainability to show the impact of digital taxation on e-commerce and online businesses.

### **Findings and discussion:**

#### **Evolution of India's Digital Services Tax (DST) and Its Impact on Government Revenue Collection**

India is among the first countries to introduce a tax targeting digital transactions, reflecting the government's recognition that traditional tax rules were inadequate for highly digitalized platform-based business models. The Indian government introduced the "Equalization levy" tax through the Finance Act, 2016, which aims to tax the advertising revenue earned by large digital platforms from Indian users without maintaining their physical existence in the country. The levy is 6% of the amount of revenue earned by a non-resident MNE for providing specified services to Indian residents.

In 2020, it was extended to non-resident e-commerce operators, which levied a 2 percent tax on the gross sales or revenues earned from the supply of goods and services to Indian consumers. The DST was designed to ensure that global technology giants contributed fairly to the Indian tax base, considering their rapid growth in the platform-based economy.

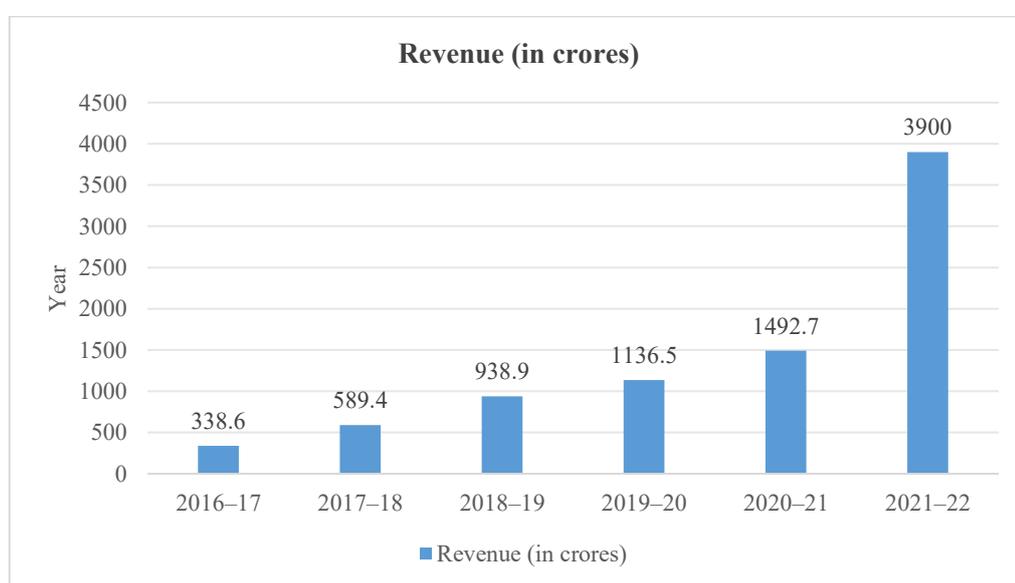
Also, the Finance Act (2018) introduces the concept of "Significant Economic Presence (SEP)" to reinterpret the definition of "business connection" under the "Income Tax Act, 1961". SEP increases the tax obligation of non-resident entities with a significant user base in India, even without physical presence. However, SEP requirements include a threshold limit for revenue from transactions involving Indian users and the number of Indian users interacting with the digital platform.

India's Goods and Services Tax (GST) policy also imposes an 18% GST levy on foreign digital service providers, including software-as-a-service (SaaS) companies, over-the-top (OTT) platforms, and e-commerce operators under the Reverse Charge Mechanism (RCM), which requires taxes to be paid by Indian companies that employ these services from non-residents.

### **Trend Analysis of Fiscal Collection Before and After DST Implementation**

Trend analysis of fiscal collections related to India's Digital Services Tax (DST), primarily focusing on the Equalization Levy (EL) from its introduction in 2016 through its abolition in 2025:

**Figure 1: Equalization revenue collection**



*Source: Rajya Sabha OLTAS (Compiled by author)*

From a revenue perspective, the DST emerges as a pivotal revenue source of government income. The Digital Services Tax (DST), primarily through Equalization Levy revenue, has exhibited significant year-on-year growth since its inception. “The Central Board of Direct Taxes (CBDT)” is authorized to collect DST tax from 2016-17 onwards from online advertisements, which generated substantial ₹338.6 crore in 2016-17, reflecting the considerable size of the Indian digital advertising market. In 2017-18, collections rose sharply by 74%, reaching ₹589.4 crore, while in 2018-19 revenue grew by a further 59% to ₹938.9 crore. The pre-pandemic period of 2019-20 recorded a more moderate increase of 21%, with collections amounting to ₹1,136.5 crore. During the COVID-19 pandemic, digital activities were accelerated, leading to a 31% growth in collections.

The momentum continued in 2021–22, when the scope of the levy was expanded to include e-commerce operators, as this policy shift caused revenues to rise by approximately ₹3,900 crore, representing an unprecedented 90% increase over the previous year. The levy applies to all e-commerce transactions involving foreign entities and has helped fund developmental projects, public services, and infrastructure.

However, recent policy changes signal a turning point in the trajectory of equalization levy revenues as 2% levy on e-commerce operators was abolished in April 2024, and the Government of India proposed to completely phase out the 6% advertising levy from April 1, 2025, onwards, aligning with global tax harmonization initiatives. While the introduction of EL generated significant revenue, its abolition may lead to short-term losses, expected to be offset by increased foreign investment from better trade relations. (Bhatnagar S. & Singh M., 2024).

### **Challenges in the implementation of the Digital Services tax (DST)**

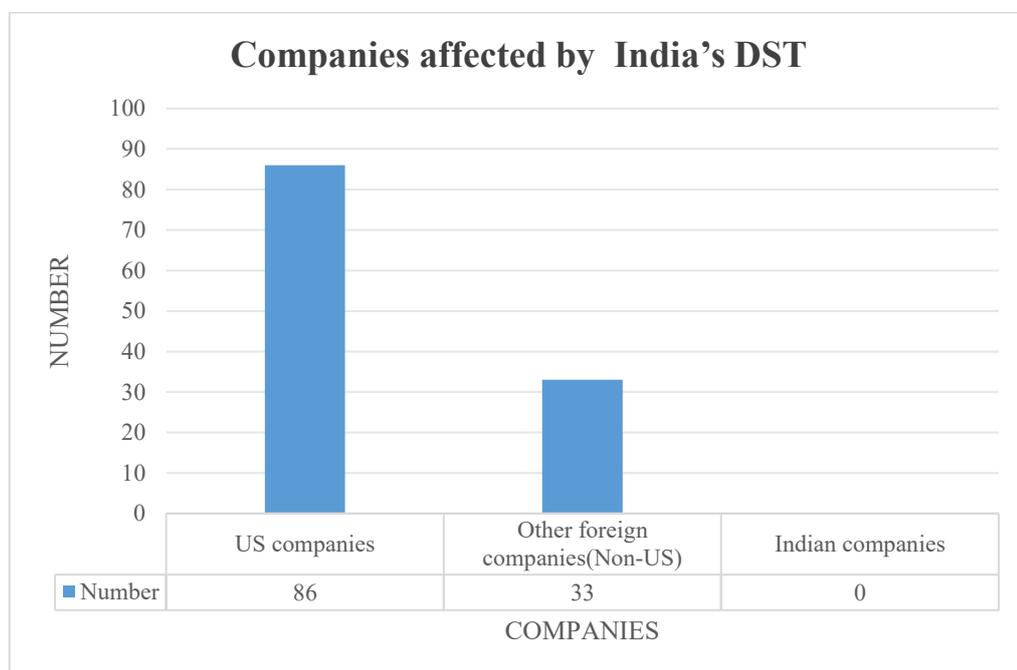
International tax treaties, also referred to as DTAs (Double Tax Avoidance Agreements), are legal agreements between two or more countries that facilitate cross-border transactions, ensuring income is taxed only once in each country and preventing double taxation issues. “The OECD Model Tax Convention” and International taxation rules form the foundation for tax treaties (Low, 2020). However, the rise of unilateral digital tax measures by countries such as India, Italy, the U.S., France, Australia, and Spain has challenged international tax rules. This results in an impact on trade and development, including retaliatory tariffs and trade-restricting measures between countries. (Putri A. et al, 2025).

### **Double Taxation and Violation of International Norms**

DST will affect international taxation in the form of double taxation, where the same income is taxed twice. Since DST is applied to gross revenues rather than profits, companies may end up being taxed both in India under DST and in their home countries under corporate tax regimes (Putri A. et al, 2025). This not only raises business costs but also generates disputes between tax authorities, which will hinder the free movement of capital caused by digital taxation (Karnosh, 2021). Unilateral Digital tax will increase the cost burden of digital MNCs, which pass the burden to consumers, discouraging cross-border operations, and in turn distorts international capital flows (Sabo, 2020).

Trade Tensions and Retaliatory Measures - GLOBAL TRADE CONFLICT

Figure 2: US Trade Representative Report on India



Source: USTR Report 2021

The unilateral nature of DSTs has triggered trade conflicts, particularly with the United States, home to most global tech giants. Under Section 301, the Investigation report of the U.S. Trade Representative (USTR) reported that DSTs disproportionately targeted U.S. firms, burdening them with over US\$30 million in additional tax liabilities annually. Out of 119 companies that are affected by India's DST tax, 86 of them are from the U.S., including Amazon, Google, Facebook (Meta), and Netflix. The US claimed that India's DST discriminates against U.S. firms, which dominate in the digital services market. Additionally, taxing revenue rather than profit puts a strain on companies that generate low profit despite high revenue, especially startups in the growth phase. Consequently, the U.S. threatened with retaliatory tariffs on Indian exports, escalating into a potential digital trade war (USTR, 2021). US concern over India's DST mainly arises because India charges digital services tax more broadly, which includes sectors like educational, digital financial services, and software (SaaS firms), creating a more comprehensive and complex tax environment. (Bhatnagar S. & Singh M., 2024).

**Impact on SMEs or Startup sustainability:** Digital Services Taxes (DSTs) often bring medium-scale enterprises and startups into their tax net. Unlike traditional corporate taxes, DSTs often do not exempt small enterprises, which results in many

companies falling under its jurisdiction. As a result, many businesses are exposed to new tax liability and disincentivize entrepreneurship. DSTs have a disproportionate impact on low-profit firms with high-cost transactions because DSTs are applied to gross revenue, not to profits. This means firms pay taxes regardless of their profitability, which further deteriorates if they are unable to achieve the break-even point.

**Compliance Costs for Businesses:** Digital firms, particularly multinational corporations, have faced Additional accounting and compliance costs as DST requires companies to reconfigure their accounting systems to segregate India-specific revenues, which is difficult when services are provided through global digital platforms. While taxation aims to create fair competition, studies show that profit margins of online traders have declined by an average of 2.5% annually since the introduction of DST(Harris,2023). SMEs and startups relying on cross-border services also face higher administrative costs, reducing their growth potential and making DST disproportionately burdensome for entities with limited resources.

**Lack of Global Consensus:** There is an absence of a unified international framework. Unilateral DST measures, such as India's, differ across countries. This fragmentation leads to tax uncertainty for global businesses, increases the risk of tax arbitrage, and makes enforcement less predictable.

### **Challenges & Global trade conflicts lead to the abolition of taxes (DST)**

Digital taxes raised the cost of capital for the supply of services, which might reduce the investment incentive of service providers, resulting in a negative impact on business growth and overall economic growth. Digitalization spurs innovation, and its growth is adversely affected by such discriminatory taxes, leading to consequences such as hampering employment, reduced job creation, and lost opportunities for citizens' welfare (through employment and access to digital services). At the same time, unilateral DST measures result in global trade conflicts.

In a significant policy shift, the Government of India has phased out the Equalisation Levy to align with the Global Consensus. The 2% levy on e-commerce transactions was abolished on August 1, 2024, which includes non-resident e-commerce operators supplying goods or services to Indian consumers, and the 6% levy on online advertising was discontinued from April 1, 2025, which targets non-resident digital platforms earning revenue from Indian businesses. The proposal to remove this levy was included in the Finance Bill presented in March 2025. This abolition is projected to cause a revenue loss of more than ₹3000 crore (\$380 million) in FY 2025-26 compared to previous years.

India's decision to abolish 2% Equalization Levy reflects its commitment to the OECD two-pillar solution, which deals with the reallocation of taxing rights, Easing Trade Tensions against retaliatory tariffs, and Reducing Compliance Burden. “Pillar One of OECD seeks to allocate taxing rights to Jurisdictions based on where the value is created (e.g., user consumption), and Pillar Two sets an international minimum corporate tax rate”. India has not yet made an official announcement regarding whether “India will incorporate OECD Pillar One framework into its domestic law”, and remains firm unless its concerns related to dispute resolution are adequately addressed. The move is seen as a strategic step to foster international cooperation and support domestic economic growth.

### **Influence of the Removal of DST in e-commerce and platform-based business models: Challenges and opportunities**

India's decision to abolish the 2% Equalization Levy in August 2024 represents a pivotal shift in its approach toward digital taxation. While the levy had significantly boosted government revenues and provided protection to domestic players, its removal aligns India with global tax harmonization efforts under the “OECD's BEPS 2.0 framework”. Content analysis of the existing literature reveals that the removal of the EL presents a mixed picture in e-commerce.

On the one hand, it offers various opportunities such as Ease of Compliance, as the removal of DST reduces operational burdens for e-commerce platforms and ad agencies dealing with international Trade and multi-platform campaigns. The rollback signals India's commitment to global tax harmonization, making the digital economy more appealing for multinational investors and helping in attracting foreign investment. Lower compliance costs in global platforms may translate into more competitive pricing, wider choices, and enhanced service quality. Also, the Large Indian firms may leverage the benefit of tax relief to integrate with international digital ecosystems and expand abroad.

On the other hand, the removal of the levy will increase competitive Pressure from Global platforms such as Amazon, Google, and Meta. As they can now operate with reduced tax costs, it intensifies competition for domestic startups and SMEs. Small and medium Indian ad agencies, which once benefited from the pricing advantage due to the levy, may now struggle against cost-efficient global platforms. Also, the digital tax collections have doubled annually in recent years; the abolition represents a short-term fiscal challenge and revenue Loss for the Government. India's fiscal autonomy is now partly tied to the OECD's taxation framework.

Scrapping the digital tax is expected to reduce trade friction and foster greater collaboration in the technology and innovation sectors. It may also pave the way for progress in broader trade negotiations, potentially leading to increased bilateral trade and investment. The policy shift is meant to ease bilateral friction with the US, foster positive trade relations, and increase foreign digital investment.

### **Recommendations**

**Managerial Recommendations:** Businesses should integrate digital taxation considerations into their pricing strategies to minimize negative impacts on profit margins. E-commerce platforms should leverage automation tools and artificial intelligence to streamline tax compliance and reporting. Companies should diversify revenue streams by entering into low-tax digital services segments to sustain growth.

**Policy Recommendations:** Governments should work towards the harmonization of digital taxation policies at international and regional levels to prevent tax disputes and ensure fairness. Tax authorities should introduce tiered tax frameworks for SMEs to reduce compliance burdens and promote innovation and entrepreneurship. Digital tax regulations should be periodically reviewed to adapt to emerging technologies in the digital world.

### **Conclusion**

The rapid expansion of the digital economy has reshaped the global tax landscape, challenging conventional taxation frameworks that rely on the physical existence of businesses to capture revenue from their operations. India's "Equalisation Levy" tax serves as an effective measure for broadening the tax base and ensuring that such non-resident digital businesses also contribute to national revenues. While the levy significantly boosted government revenues, it created various challenges, such as increasing compliance burdens, impacting the startups, and issues related to double taxation. United States opposition to India's unilateral measures culminated in reciprocal retaliation tariffs and broader trade tensions as their massive tech companies are affected by the "Equalisation Levy". DST, on the one hand, helps to combat tax avoidance by large digital firms and enhance fiscal equity. On the other hand, it has adverse effects on international trade, potentially in the form of reduced foreign investments and unilateral policy. Consequently, there is a need to align with multilateral initiatives as proposed by OECD. India's decision to abolish the EL displays its shift towards global taxation governance.

India's policy realignment sets a benchmark for international digital taxation reforms, but the outcome depends on the success of the OECD framework and

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international cooperation in digital taxation. The withdrawal of DST marks a transition toward a more harmonized and equitable framework under BEPS 2.0. Policymakers must ensure that this transition protects the interests of domestic enterprises while securing India's share of global digital revenues. Future research should move beyond fiscal outcomes and examine the broader economic, social, and competitive implications in tandem with the international tax regime.

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