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Navigating Digital Taxation: Approaches and policy recommendations for Tunisia

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Table of Contents

Introduction

I. Background on Digital Economy and principal risks

II. Limits of the Permanent Establishment (PE) concept

III. Unilateral Approaches for the Taxation of the Digital Economy: Lessons from around the world

VI. Multilateral Approaches for the Taxation of the Digital Economy: Which option best safeguards the economic interests and fiscal sovereignty of developing countries?

V. Recommendations for Tunisia: A hybrid approach to taxing cross-border digital services

Conclusion

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Introduction

1 [The World Bank. \(2024, January\). Digital Economy for Latin America and The Caribbean County Diagnostic : Ecuador \(World Bank Document](#)

2 [IFC. \(2020, novembre\). Press Release : Selon un rapport de Google et d'IFC, à l'horizon 2025, le marché de l'économie numérique en Afrique représenterait 180 milliards de dollars](#)

3 [Bohio, M.-A. \(2024, November\). Taxation of Digital Economy- a Cross-Country Comparison. SSRN](#)

4 [Latif, L. \(2025, January\). BRIEFING PAPER: TOWARDS A PROTOCOL ON TAXING CROSS-BORDER SERVICES. SSRN](#)

5 [Abdelmalek, R. \(2025, May\). Global tax equity: confronting base erosion in the digital economy. International Tax Review](#)

6 [DATAREPORTAL. \(2025, March\). Digital 2025: Tunisia](#)
[Digital 2025: Tunisia — DataReportal – Global Digital Insights](#)

7 [Ministère des Finances Tunisien. \(2019, Décembre\). Loi de finances pour l'année 2020](#)

8 [OECD. \(2021, October\). Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy](#)

9 [Ministère des Finances Tunisien. \(2024, Décembre\). Loi de finances pour l'année 2025](#)

The digital economy has become a major driver of global economic activity. According to the World Bank, its contribution to global GDP is expected to reach 25% in 2025, up from 15.5% in 2016¹. This expansion was significantly accelerated by the COVID-19 pandemic, which intensified the adoption of digital technologies, remote work, e-commerce, and digital public and financial services across both developed and developing economies.

In Africa, although the digital economy remains relatively smaller, it is expanding rapidly and is expected to represent about 5.2 % of the continent's GDP by 2025, equivalent to just over USD 180 billion. In the longer term, its contribution could increase significantly, with projections indicating that the African digital economy may reach up to USD 712 billion by 2050, accounting for approximately 8.5% of the continent's GDP².

This expansion and evolution of the digital economy have created both opportunities and challenges, particularly with the rise of new business models that allow digital products to be traded across borders without significant physical presence or interaction³.

The globalization of the digital economy has increased the complexity for tax administrations in taxing cross-border services, as the traditional concept of physical presence struggles to accommodate the borderless nature of modern service provision⁴. As a result, source countries are losing tax revenues from multinationals whose income is generated in their economies through digital sector activities. For instance, the five leading digital companies — Google, Apple, Meta, TikTok, and Baidu — collectively generated over \$930 billion in revenue in 2024, including substantial shares from developing countries. Yet, the taxes they paid, particularly in developing countries, remain strikingly low or in some cases, non-existent⁵.

National jurisdictions and international frameworks did not adapt quickly to the development of the digital economy, as they remained tied to the notion of Permanent Establishment (PE) which relies on physical presence and therefore were unable to tax income of non-resident enterprises.

Taking the example of one category of digital services, statistics show that Tunisia had 7.25 million active social media user identities in Tunisia in January 2025, this figure is equivalent to 58.9% of Tunisia's total population⁶. Despite the significant revenues generated by social media platforms through these users, Tunisia collects no tax revenue from the activities of social media providers.

Although a Digital Services Tax (DST) was adopted under the Tunisian finance law of 2020⁷, it has not been implemented to date. Tunisia's signing of the Statement on a Two-Pillar Solution of OECD to Address the Tax Challenges Arising from the Digitalisation of the Economy⁸ has not generated any revenue from cross boarder digital services either. On the other hand, resident corporations adopting digital business models are subject to a corporate tax rate of 20%, increased from 15% under the 2025 finance law⁹. A 3% withholding tax was also introduced in the 2025 finance law on revenues generated from sales through digital and audiovisual platforms, applied to sellers without a tax identification number. Digital services are further subject to the standard 19% Value-Added Tax (VAT) in Tunisia¹⁰.

This paper will explore the challenges and opportunities in taxing cross-border digital services and evaluate the various unilateral and multilateral approaches available. It will offer recommendations on the strategy Tunisian authorities should adopt to secure tax revenues, strengthen fiscal sovereignty, and ensure the collection of a fair share of resources from the rapidly growing digital economy.

I. Background on Digital Economy and principal risks

A. Definition of the Digital Economy

Since the rapid expansion of the internet in the mid-1990s, the digital landscape has fundamentally reshaped business operations and the way consumers interact and conduct transactions with businesses and among themselves¹¹. Digitalization has created new products and services while also changing the way that existing products are ordered and delivered. This transformation has given rise to what is now known as the digital economy, a system in which digitized information and technology-driven tools play a central role in shaping economic activity and social behavior.

As shown in Figure 1, the digital economy encompasses a wide range of activities that rely on digitized information and knowledge as key drivers of production. ATAF defines digital services as services delivered over the internet or electronic networks and groups them mainly into online advertising, data services, digital marketplaces and intermediation platforms, digital content and gaming, cloud computing, and the digital facilitation of property or vehicle rentals, with a catch-all category for other digitally delivered services¹². It is imperative that a definition of digital services and an identification of its scope be established under each jurisdiction. Tunisian legislation has not yet defined these services¹³.

Figure 1 Examples of Digital Services

Digital Commerce	Digital Media	Digital Infrastructure	Business Services	Digital Education	Consumer Services
Auctions	Augmented Reality	AI Infrastructure	Analytics	Coding Platforms	Communication & Messaging
Booking & Reservations	Blogs	APIs	Backup & Restore	Collaboration Tools	Home Security Services
Crowdfunding	Digital Advertising	Blockchain	Business Applications	Data Analytics	Mobile Apps
Digital Content	Digital Animation	Cloud Computing	Business Systems	Digital Textbooks	Online Entertainment
Digital Publishing	Digital Films	Cloud Platforms	Cybersecurity Services	Digital Twins	Online Gaming
Digital Subscriptions	Digital Music	Cloud Storage	Databases	Digital Tutoring	Personal Services
Digital Ticketing	Forums	Communication Networks	Digital Marketing	Generative AI	Professional Services
Fintech	Interactive Media	Computing Infrastructure	Help Desk Services	Learning Apps	Productivity Tools
Online Auctions	Livestreaming	CDNs	IT Consulting	Learning Communities	Search
Online Banking	Online Communities	Data Centers	Identity Services	Math Software	Social Networking
Online Retail	Podcasts	Edge Computing	Managed Services	Media Tools	Translation
Online Trading	Social Media	Internet Networks	Office Automation	Online Learning	Video Games
Payment Platforms	Streaming Media	Network Security	Outsourcing Services	Robotics Platforms	Virtual Assistants
Virtual Goods	Virtual Reality	Satellites	Remote Work Tools	Student Productivity	Voice Services
eCommerce	Vlogging	Wireless Networks	Robotics	Video Conferencing	Websites

Source: Simplicable¹⁴

¹⁰ Asquith, R. (2021, November). Tunisia VAT on foreign digital services. VATCalc

¹¹ Barefoot, K et al. (2018,

March). Defining and Measuring the Digital Economy. Bureau of Economic Analysis

¹² ATAF. SUGGESTED APPROACH to Drafting Digital Services Tax Legislation

¹³ Ben Achour, N. (2022). Les plateformes numériques et le droit de la concurrence. Actes du colloque tenu les 26 et 27 mai 2022 "Le droit et le numériques : quelle interaction ?"

¹⁴ Spacey, J. (Updated 2024, June). 102 Examples of Digital Services. Simplicable 102 Examples of Digital Services - Simplicable

The rise of cross-border digital business models has fundamentally complicated taxation, as companies can now provide products and services internationally without a substantial physical presence¹⁵. In fact, the traditional concept of physical presence struggles to accommodate the borderless nature of modern service provision¹⁶ and this made the mission of taxing cross-border services more complex for tax administrations.

II. Limits of the Permanent Establishment (PE) concept

Multinational corporations doing business in foreign countries are subject to the domestic tax laws of the jurisdictions where they operate, based on the principle of Permanent Establishment (PE).

According to the OECD Model Tax Convention (Article 5), a PE is defined as a “fixed place of business through which the business of an enterprise is wholly or partly carried on”. This typically includes places such as a management office, branch, factory, workshop, or natural resource site, while a construction or installation project qualifies only if it lasts more than 12 months. A PE may also arise where a dependent agent habitually concludes contracts on behalf of the enterprise, but it generally excludes preparatory or auxiliary activities and requires a construction or installation project to last more than 12 months to constitute a PE¹⁷.

The UN Model Tax Convention adopts a similar core definition but includes some differences. For instance, it sets the threshold for construction or installation PEs at 6 months, explicitly addresses service PEs¹⁸ when services are performed for more than 183 days in a 12-month period, and applies a broader interpretation of dependent agent arrangements¹⁹.

It should be noted that the concept of PE emerged in the 1920s in response to the growing international mobility of enterprises, at a time when businesses were relatively easy to locate. Today, its relevance is increasingly questioned, since the criteria on which it was founded were designed to territorialize taxable activities carried out by companies whose production of goods or services relied primarily on heavy physical assets²⁰. Accordingly, the traditional concept of permanent establishment poses a significant challenge²¹ to the effective taxation of cross-border services and digital activities, where substantial economic value can be generated without a corresponding physical presence.

This situation highlighted the need for special measures to tax cross-border digital services that are not necessarily compatible with the requirement of a permanent establishment.

[15 Bohio, M.-A. \(2024, November\). Taxation of Digital Economy- a Cross-Country Comparison. SSRN](#)

[16 Latif, L. \(2025, January\). BRIEFING PAPER: TOWARDS A PROTOCOL ON TAXING CROSS-BORDER SERVICES. SSRN](#)

[17 OECD. \(2017, December\). Model Tax Convention on Income and on Capital: Condensed Version 2017](#)

[18 A Service PE arises when a foreign enterprise provides services in a country through its employees or other personnel, such that the activity is sufficiently substantial and continuous to be considered a taxable presence.](#)

[19 DESA. UN Model Double Taxation Convention between Developed and Developing Countries \[2021\]. United Nations](#)

[20 Bouvier, L.-A. \(2021, Février\). Quelles voies pour l'imposition des géants du Web proposées par l'Union européenne et la France ?. Revue française de finances publiques \(pages 151 à 161\)](#)

[21 Sghaier Zakraoui. \(2022\). La notion d'établissement stable à l'épreuve du numérique, Actes du colloque tenu les 26 et 27 mai 2022 «Le droit et le numérique : quelle interaction ?»](#)

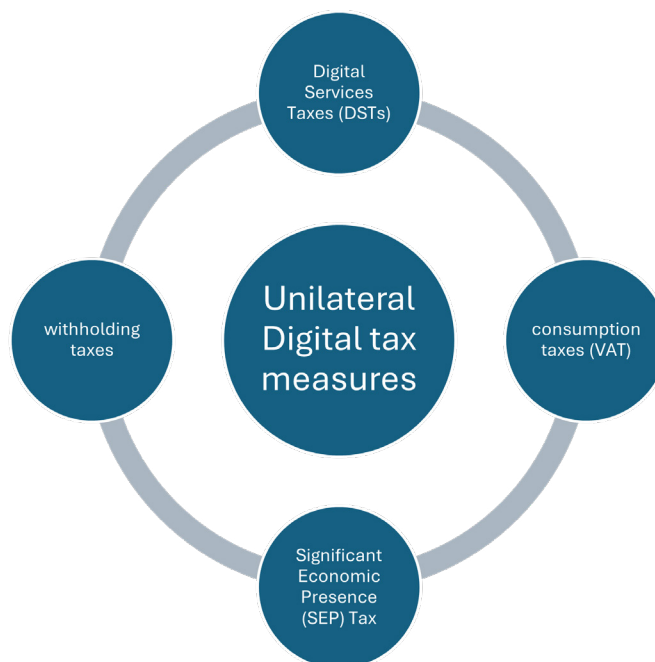
III. Unilateral Approaches for the Taxation of the Digital Economy: Lessons from around the world

Digital taxes include policies that specifically target businesses which provide products or services through digital means using a special tax rate or tax base.

Unilateral measures refer to tax measures implemented by individual countries to address the challenges of taxing digital businesses in the absence of a global consensus. These typically include Digital Services Taxes (DSTs), withholding taxes, digital permanent establishment rules, as well as consumption taxes such as Value-Added Tax (VAT)²².

²² Enache, C. (2024, April). [Digital Taxation around the World. Tax Foundation](#)

Figure 2: Measures of unilateral taxation of digital services



A. Consumption-Based Digital Taxes (VAT): difficulties to capture cross-border digital services

Consumption-based taxation of remote sales and services such as Value-added tax (VAT) allows governments to tax transactions even when the seller or service provider has no local establishment²³. By leveraging existing consumption tax frameworks, countries can extend the tax to remote sales and services, ensuring that both domestic and international providers are treated fairly and helping to level the playing field between them.

This mechanism can generate significant revenue in countries where VAT represents a substantial share of total tax revenue. For example, in South Africa, VAT on electronic services was initially introduced in 2014 and later broadened in 2019; between 2014 and 2019, the South African Revenue Service collected more than ZAR 600 million per year, amounting to an estimated ZAR 3 billion over five years, while further revenue gains are expected following the expansion of the VAT scope to all electronic services²⁴. As illustrated in Table 1, there are further instances of African countries implementing VAT on digital services. Some countries, such as Kenya, Zimbabwe, and Nigeria, apply VAT on digital services alongside another form of direct taxation.

²³ Ibid

²⁴ Favouate Y.-M. (2022, August). [Taxing the Digital Economy through Consumption Taxes \(VAT\) in African Countries: Possibilities, Constraints and Implications. International Journal of Financial Studies](#)

Table 1: Summary of VAT regulations in selected African Countries²⁵

Country	Legal/Statutory Provisions	Effective Date
Algeria	On 12 December 2019, the country broadened its VAT legislation to incorporate sales of digital services, which are liable to a downward revised rate of 9%. The law remains silent on the registration provisions for non-resident providers. No VAT liability threshold.	1 January 2020
Kenya	From September 2013, Kenya levied VAT on digital services provided by foreign suppliers to the country residents. Kenya broadened its indirect tax policy in 2019 to include sales generated through digital sales markets, making VAT chargeable on these sales. Furthermore, the country widened the provisions for self-assessment under VAT.	1 January 2020
Lebanon	The country introduced VAT on digital services. The provisions are such that the sale of goods and services to both businesses and individuals shall be VAT chargeable. All operators of e-platforms must register o VAT in relation to each transaction.	17 January 2020
Ghana	In 2013, Ghana put in place VAT regulations that if non-resident vendors selling/providing services to customers in Ghana should register for VAT. Threshold: GH 200,000 (estimated 25,000).	1 January 2014
Zimbabwe	The company put in place legislative requirements for non-resident vendors of television, radio and other digital services to customers or users in Zimbabwe to register, collect and remit VAT.	January 2020
Tanzania	The country's tax rules require non-resident providers of business to customers of telecoms services and e-commerce services to be registered for VAT.	1 July 2015
Uganda	The country's revenue authority (Uganda Revenue Authority) released a public notice requirement for non-resident vendors or providers of digital services to customers in Uganda to register for VAT and collect the Tax.	1 July 2018
South Africa	South Africa had initially enacted VAT legislation in 2013 and the regulations became effective in 2014. These regulations were broadened in 2019 with broader definition for electronic services. The country's VAT legislation requirement is that foreign providers of digital services must register as VAT vendors, collect VAT at a rate of 15% and remit it. The registration threshold was stipulated to be ZAR 1 million.	January 2019
Angola	VAT rules were drafted in October 2019, which became effective in January 2020, providing that digital service suppliers must register with the country's revenue authority (Angolan Tax Authority) or appoint a local agent to collect and remit VAT in Angola.	January 2020
Morocco	The country's tax code provides that any service rendered or used using within the Moroccan territory is liable to the country's VAT at a rate of 20% that is applicable to digital services.	2019
Nigeria	Section 10 of (Nigeria's VAT Act 1993), No 102 provides that non-resident firms conducting business in Nigeria must register for tax, using the address of the person of whom the company has a standing contract. Accordingly, the non-resident company shall include tax charge on its invoice and the recipient of the service shall remit the tax to the Federal Inland Revenue Services (FIRS) in the currency of the whole transaction.	2020
Malawi	VAT on Internet service was re-introduced in July 2013 at a threshold of MWK 10M (estimated at f 9,500).	2013

Source: Favourate Y. Mpfu, International Journal of Financial Studies

However, this approach faces some challenges. Digital services easily cross borders, making it hard for tax authorities, especially those with limited technical capacity, to monitor them. Enforcing compliance on foreign providers is difficult, especially in B2C sales as many operate remotely and may not register in the country where their services are used²⁶. Even where simplified VAT systems exist, providers may face high compliance costs, which are often passed on to consumers.

In the case of Tunisia, an additional challenge arises from restrictions on foreign currency transfers²⁷, which prevent consumers from easily paying foreign providers in local currency. Since VAT is borne by consumers but collected from suppliers, these restrictions make it difficult for the tax authorities to collect VAT directly from non-resident suppliers, thereby complicating the application of VAT mechanisms to B2C transactions. By contrast, for B2B transactions, VAT is applied at the standard rate of 19% through the reverse charge mechanism.²⁸. This mechanism operates in a manner similar to withholding tax, enabling the authorities to collect VAT directly from resident corporate entities.

[26 OECD. \(2015\). Addressing the Tax Challenges of the Digital Economy, Action 1 Final Report 2015](#)

[27 BCT. Exchange regulation](#)

[28 Global VAT Compliance. Tunisia plans to overhaul its VAT system](#)

B. Digital Services Taxes (DSTs): The most widely adopted unilateral measure

[29 pwc. \(2025, August\). State of play of Digital Services Taxes \(DSTs\) and other similar measures](#)

30 Multinational Enterprises

[31 Semwal, D. \(2025, March\). Digital Economy Taxation: Laws, Challenges & Global Impact.](#)

[32 Ministry of External Affairs India. \(2025, January\). India's digital economy to outpace national growth by 2030](#)

[33 Borders, K et al. \(2023, June\). Digital Service Taxes. EU Tax Observatory](#)

Digital Services Taxes (DST) is a tax on the gross revenues of a multinational company related to specific digital activities provided to users within jurisdiction. Unlike consumption digital taxes, DST is paid by the digital service providers themselves, not directly passed on to consumers²⁹.

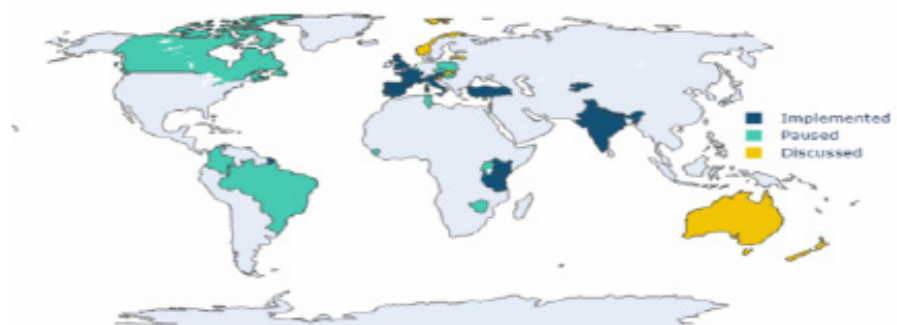
Digital Services Tax is designed to allocate taxing rights to jurisdictions in which multinational enterprises have substantive economic activities, even without a physical presence there. They typically impose tax based on gross revenues of MNEs³⁰ from specific digital activities, departing from traditional profit-based models. DST is implemented unilaterally, so rules including scope, tax rate, and reporting deadlines vary per country.

According to the EU Tax Observatory, between 2016 and 2023, 12 DSTs were implemented, 11 were suspended, and 8 were under discussion worldwide.

India was the first country to introduce such a measure in 2016, however, it did not formally label it as a DST, but rather as an equalisation levy. The equalisation levy was motivated in part by the need to ensure competitive neutrality between foreign digital service providers and domestic firms by taxing revenues that non-resident digital companies earn from Indian users despite having no physical presence in India³¹. This approach was also motivated by the rapid growth of India's digital economy, which in 2022–23 accounted for approximately 11.74% of national income and employed around 14.67 million workers, or 2.55% of the workforce³².

The period from 2019 to 2021 was the most active, with a total of 23 DSTs either implemented, discussed, or suspended, primarily following the signing of the OECD's two-pillar solution agreement in October 2021, under which participating countries committed to refraining from implementing new DSTs³³.

Figure 3: Global Overview of Digital Services Tax up to 2023



Source: EU Tax Observatory

DSTs mainly differ in their scope, revenue thresholds, and tax rates. Countries vary in the range of digital activities covered, the thresholds used to target large multinational enterprises, and the tax rates applied to in-scope gross revenues, reflecting differing policy priorities and administrative considerations, as presented in Table 1.

Table 2: Main Characteristics of Implemented DSTs, 2023

Country	Scope	Global Threshold	National Threshold	Tax Rate	Year
OECD					
United Kingdom	Full	€560 million	€30 million	2%	2020
France	Full	€750 million	€25 million	3%	2020
Italy	Full	€750 million	€5.5 million	3%	2020
Spain	Full	€750 million	€3 million	3%	2021
Turkey	Full	€750 million	€2.5 million	7.5%	2020
Austria	Advertising	€750 million	€25 million	5%	2020
Portugal	Advertising	None	None	4%	2021
Non-OECD					
Kenya	Full	None	None	1.5%	2021
Tanzania	Full	None	None	2%	2022
Nepal	Full	None	€15,000	2%	2022
Kyrgyzstan	Full	None	None	2%	2022
India	Full	None	€220,000	2%	2020
India	Advertising	None	€1,350	6%	2016

Source: EU Tax Observatory³⁴

DSTs have been supported in some regional forums. For example, the African Tax Administration Forum (ATAF) published a Suggested Approach to Drafting Digital Services Tax Legislation to help African countries design and implement DSTs. ATAF's draft framework proposes a tax on gross digital services revenues at a rate of 1% to 3% and defines a broad scope of digital services³⁵.

Tunisia adopted a 3% Digital Services Tax (DST) in the 2020 Finance Law, which applies to the sale of computer software and services provided via the internet by non-resident companies to residents in Tunisia³⁶. This tax was inspired by the French DST, known as the «Taxe GAFA», introduced in July 2019³⁷. However, unlike the French law, Article 27 of Tunisia's 2020 Finance Law does not provide a clear definition of the internet services subject to the tax, and the scope remains unclear regarding software sales. The implementation of the tax depends on the issuance of an official decree, which has remained unpublished for over five years.

This non-implementation likely reflects Tunisia's decision, as a member of the OECD/G20 Inclusive Framework on BEPS and a signatory to the two-pillar solution agreement³⁸, to respect the agreement and refrain from activating its DST³⁹.

The revenue generated by DSTs in various countries demonstrates that these levies provide a tangible source of income for governments, even though their overall contribution to total tax revenue remains relatively modest. The United Kingdom reportedly collected around \$836 million from its DST last year. Austria's Ministry of Finance recorded approximately \$113 million in DST revenue for 2023, marking a 7.4% increase over the previous year. In France, the tax authorities confirmed DST collections of about \$748 million in 2023 and project revenues of roughly \$858 million for 2024⁴⁰.

Although DST is the most widely used unilateral measure by countries to generate revenue, it has important limitations. Unlike corporate income

³⁴ Ibid

³⁵ ATAF. [SUGGESTED APPROACH to Drafting Digital Services Tax Legislation](#)

³⁶ [Ministère des Finances Tunisien. \(2019, Décembre\). Loi de finances pour l'année 2020 Loi n° 2019-78 du 23 décembre 2019, portant loi de finances pour l'année 2020 - JIBAYA](#)

³⁷ [Journal officiel de la République française. \(2019, Juillet\). LOI n° 2019-759 du 24 juillet 2019 portant création d'une taxe sur les services numériques et modification de la trajectoire de baisse de l'impôt sur les sociétés](#)

³⁸ [OECD. \(2023, June\). Members of the OECD/G20 Inclusive Framework on BEPS joining the October 2021 Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy](#)

³⁹ [Ben Rouine, C. \(2022, May\). Global Tax Agreement – Perspectives from Tunisia. RLS North Africa](#)

[Global Tax Agreement – Perspectives from Tunisia - Rosa Luxemburg Stiftung](#)

⁴⁰ [Alexander, K. \(2025, April\). Navigating the Digital Tax Landscape. Baker McKenzie](#)

[41 Enache, C. \(2024, April\). Digital Taxation around the World.](#)

[42 Aruna, K. Miller, C. \(2025, August\). How taxation of digital services is again a concern for businesses.](#)

[43 The White House. \(2025, February\). Fact Sheet: President Donald J. Trump Issues Directive to Prevent the Unfair Exploitation of American Innovation](#)

[44 Sparmann, N. \(2019, June\). Tax Challenges of the Digital Economy: Does a Withholding Tax on Certain Digital Transactions Solve the Problem of Missing Taxation Rights, While Being In Line with EU-Law and the OECD Model Convention? . Lund University School of Economics and Management Department of Business Law.](#)

[45 OECD. \(2014\). Addressing the Tax Challenges of the Digital Economy](#)

[46 Vatabout. \(2025, May\). Uganda's Proposed Tax Changes: Replacement of 5% Digital Services Tax with 15% Withholding Tax](#)

[47 Bauer, M. \(2018, June\). Five Questions about the Digital Services Tax to Pierre Moscovici.](#)

taxes, DSTs are levied on gross revenues rather than profits, meaning companies must pay the tax even when a digital service is unprofitable. Being a turnover tax, DSTs can cause “tax pyramiding” as they often apply multiple times across the supply chain and may not exempt business inputs⁴¹.

DSTs also create significant administrative and compliance burdens, requiring governments to provide detailed guidance and businesses to identify user locations and calculate taxable bases, with additional complexity arising from differing DST designs across jurisdictions⁴²

Another important challenge is geopolitical, as DSTs may trigger potential retaliatory measures from countries, particularly the U.S where most major technology firms are based, especially following Trump’s memorandum published on February 21, 2025, which addresses DSTs imposed by foreign governments and views them as levies on American companies’ revenues. The memorandum directs the United States Trade Representative “to renew investigations into DSTs and to prevent the American economy from being exploited as a source of revenue for other countries”⁴³.

C. Gross-Based Withholding Taxes on Digital Services

Withholding tax (WHT) functions primarily as an advance payment mechanism, whereby the income payer “withholding agent” deducts a specified portion of the payment and remits it to the tax authorities on behalf of the recipient. In certain cases, WHT operates as a final tax on specific categories of income, particularly where the conventional comprehensive income tax framework is not readily applicable⁴⁴. In the context of digital services, WHT refers to the tax withheld by the payer on payments made to non-resident recipients for digital services provided.

The logic behind a withholding approach is that it reduces complexity and eliminates the need for ongoing filing obligations by non-residents. A gross-based WHT ensures that tax authorities can collect revenue from these transactions at the point of payment, without relying on the foreign provider to voluntarily comply with local tax rules. Since the tax is withheld by the local payer, who is easier for the tax authorities to monitor and enforce, collection becomes simpler and allows for immediate cash inflows⁴⁵.

For these reasons, Uganda, for example, revised its digital taxation framework by repealing the 5% Digital Services Tax (DST) introduced in 2023 and substituting it with a 15% final withholding tax on income generated by non-resident entities from digital services supplied within Uganda⁴⁶. The tax applies to a range of services, including online advertising, digital content and streaming, cloud computing, online marketplaces and intermediation platforms, online gaming, and data services.

Similarly, Zimbabwe is introducing a 15% Digital Services Withholding Tax (DSWT) effective 1 January 2026; this will replace the existing Value Added Tax (VAT) on imported digital services and the reverse-charge mechanism, shifting the compliance burden to local financial intermediaries such as banks and mobile money operators, who will withhold the tax at the point of payment.⁴⁷

[48 Bauer, M. \(2018, June\). Five Questions about the Digital Services Tax to Pierre Moscovici. ECIPE](#)

[49 DESA. \(2018\). World Economic and Social Survey 2018: Frontier technologies for sustainable development. United Nations](#)

[50 OECD. \(2014\). Addressing the Tax Challenges of the Digital Economy](#)

[51 ATAF. \(2025, July\). Suggested Approach to Drafting Significant Economic Presence Legislation](#)

[52 Ola-Oja, O. Soilenu, O. Significant Economic Presence and Taxation of Non-Resident Companies in Nigeria. Forvis Mazars](#)

[53 Olushola, O. Legal Authority to Tax Foreign Digital Suppliers and Enforcement Powers: THE NIGERIAN EXPERIENCE. FIRS](#)

However, because WHT is levied on gross revenues, like DSTs, it is insensitive to profitability and may result in over-taxation, particularly for low-margin or loss-making firms, while also creating risks of double taxation. In addition, withholding taxes imposes compliance burdens on local payers, who are responsible for deducting and remitting the tax, and who may face the risk of having the tax burden shifted back onto them by the service provider. This effectively transforms WHT into an indirect tax⁴⁸. While WHT is among the simplest instruments for implementing a digital tax, particularly from an administrative standpoint, it does not contribute to the development or effective application of the concept of significant economic presence.

D. Significant Economic Presence (SEP) Tax: A more favorable alternative to DSTs

Corporate taxation generally relies on the legal identification of a local entity liable for tax, with businesses being taxed in jurisdictions where they generate income. Traditionally, this liability is determined by the existence of a permanent establishment. However, in response to the rise of digital business models, some jurisdictions have expanded the concept of permanent establishment to encompass sustained economic activity conducted through digital means, even in the absence of a physical presence⁴⁹. This approach is often referred to as Significant Economic Presence (SEP), which was one of the earlier proposals by the OECD to curb the tax challenges brought about by the digitization of the economy⁵⁰.

According to ATAF, SEP legislation can serve as an alternative to DSTs, with both targeting non-resident providers of digital services in jurisdictions where they lack physical presence. While SEP and DST share features such as revenue thresholds to establish nexus and similar scopes of targeted services, they differ in key respects: DST is levied on gross revenue, whereas SEP is based on profit or deemed profit and is generally treated as an income tax that would be within the scope of Double Tax agreements⁵¹.

In Africa, Nigeria is the first country to establish SEP provisions through the Finance Act 2019. Non-resident companies providing digital, technical, management, consultancy, or professional services in Nigeria may be deemed to have a taxable presence if they meet certain criteria, such as deriving gross turnover exceeding N25 million or using a Nigerian domain name or targets Nigerian users through pricing or billing in Naira. Nonresident corporates meeting SEP criteria must register with the Federal Inland Revenue Service (FIRS), file annual Companies Income Tax returns, maintain audited financial statements, and pay tax on profits attributable to their Nigerian SEP, while resident businesses transacting with them must withhold tax on payments⁵².

Data from the Non-Resident Persons Tax Office indicates that between 2020 and 2024, income tax revenue from SEP in Nigeria ranged from approximately \$1.36 million in 2021 to \$3.74 million in 2024⁵³. Although this represents a small amount compared to Nigeria's total tax revenue, the SEP framework is still evolving, and as enforcement and compliance measures improve, SEP-related tax revenue is expected to increase over time.

[54 Vatabout. \(2024, December\). Kenya's SEP Tax: Key Details, Impact, and Global Digital Tax Trends](#)

55 Amount A MLC is a component of Pillar One that reallocates a portion of the profits of large multinational enterprises to market jurisdictions where users or consumers are located, regardless of physical presence.

[56 ATAF. \(2025, July\). Suggested Approach to Drafting Significant Economic Presence Legislation](#)

Kenya became the second country in Africa, after Nigeria, to adopt the SEP system. On 11 December 2024, a major reform introduced the SEP tax, targeting non-resident businesses generating income in Kenya through digital platforms. This reform replaced the existing DST, which was levied at a rate of 1.5% on a broad range of digital services. Under the new SEP system, the tax rate is 30% of the taxable profit, calculated based on a deemed taxable profit of 10% of total turnover⁵⁴.

For these countries, the SEP approach is considered more favorable than DSTs, given the position taken on DSTs in the Pillar 1 Amount A Multilateral Convention (MLC) text. It is particularly suitable for countries that wish to align their tax measures with pillar 1 of the OECD solutions. However, if a country signs and ratifies the Amount A MLC⁵⁵, it will be required to “switch off” its SEP rules for MNEs within the scope of Amount A from the date the provisions come into effect⁵⁶.

VI. Multilateral Approaches for the Taxation of the Digital Economy: Which option best safeguards the economic interests and fiscal sovereignty of developing countries?

Unilateral approaches to the taxation of cross-border digital services are widely regarded as posing significant risks to the stability of the global tax system and may give rise to double taxation due to inconsistencies in national tax measures and the absence of coordinated policies.

In response, multilateral forums have been working to reform international tax rules in order to address issues related to digital taxation and to enhance tax cooperation between countries. The OECD and the United Nations have emerged as the leading actors in this effort.

A. OECD Two-Pillar Solution: a poor fit for African countries

The OECD, in concert with the G20 group of countries, within its program for addressing activities related to tax base erosion and profit shifting (BEPS), has been spearheading multilateral efforts to tax digital services since 2015. The latest BEPS effort was the Inclusive Framework on Base Erosion and Profit Shifting (IF), the OECD and the G20 reached, in 2021, a Two-pillar solution known as the global tax agreement aiming to ensure that multinational enterprises pay a fair share of tax wherever they operate, Pillar One of this solution is focused on changing where multinational companies pay taxes. Under Amount A of this pillar, there will be a re-allocation of some taxing rights over MNEs from their home countries to the markets where they earn profits. Companies that will be covered by the rules are those with global sales exceeding US \$26.4 billion and profitability above 10%, with 25% of the profits exceeding the 10% threshold reallocated to market jurisdictions⁵⁷. Under these criteria, some studies have indicated that only 78 corporations worldwide would be impacted, and collectively, all low-income countries could receive as little as \$140 million in annual revenue, approximately 3% of their combined GDP⁵⁸. Pillar one of the OECD agreements also requires developing countries to relinquish their authority to tax digital services, promising them minimal benefits in return.

A study by the South Centre, ATAF, and WATAF estimated that a 5% DST with a broad scope could generate much higher revenues than Amount A for almost all African countries. Even at a 3% rate, estimated DST revenues exceed those from Amount A for most developing countries. For Tunisia, a 5% DST with a broad scope is estimated to produce about 3.5 times more revenue than Amount A⁵⁹.

Several countries, including Kenya, Nigeria, Indonesia and Pakistan, chose not to join the Pillar One statement of the Inclusive Framework. These countries raised concerns about the high revenue and profitability thresholds, which exclude many developing-country multinational enterprises from scope, as well as the requirement to repeal existing unilateral measures, such as digital services taxes⁶⁰.

[57 BDO Global. Taxation of the Digital Economy](#)

[58 Jacobs, D. \(2021, August\). Show us the money. OXFAM](#)

[59 Starkov, V. Jin, A. \(2024, June\). A TOSS UP? COMPARING TAX REVENUES FROM THE AMOUNT A AND DIGITAL SERVICE TAX REGIMES FOR DEVELOPING COUNTRIES. SOUTH CENTRE, ATAF, & WATAF](#)

[60 Kenya Revenue Authority. Navigating Complex Tax Consultations: An Assessment of Kenya's Engagement in the Inclusive Framework \(IF\)](#)

[61 Parrinello, Q et al. \(2023, July\). The Long Road to Pillar One Implementation: Impact of Global Minimum Thresholds for Key Countries on the Effective Implementation of the Reform. EU Tax Observatory](#)

[62 Ben Rouine, C. \(2022, May\). Global Tax Agreement – Perspectives from Tunisia. RLS North Africa](#)

[63 Viguerie, O. Afrique et Réformes Fiscales Mondiales : Perspective de Résistance pour une Architecture Fiscale Basée sur les Droits Humains. Observatoire Tunisien de l'Economie](#)

[64 Latif, L. \(2025, January\). BRIEFING PAPER: TOWARDS A PROTOCOL ON TAXING CROSS-BORDER SERVICES. SSRN](#)

[65 TJNA. \(2025, August\). Updates from the First and Second Sessions of the historic Intergovernmental Negotiating Committee \(INC\) on the United Nations Framework Convention on International Tax Cooperation](#)

The advancement of the Two-Pillar Solution has been also hindered by interrelated challenges. The OECD initially planned for Pillar One to be implemented by 2023, however, the process continues to face delays due to the political resistance particularly from the United States. U.S. firms represent 46% of the companies covered by Pillar One and account for 58% of the redistributed profits under Amount A. Without U.S. ratification, the number of covered groups would decrease to 37, and the Amount A profits available for redistribution would fall to €38 billion. This significant reduction underscores the necessity of U.S. involvement for the global success of Pillar One⁶¹.

B. United Nations Framework Convention on International Tax Cooperation (UNFCICT): Ongoing negotiations requiring active engagement and coordination within the African Group

Given that the OECD process did not focus on the issues of developing countries and considering that Pillar One is expected to generate limited tax revenues, especially for countries that already have profitable unilateral measures in place⁶², African countries have advocated for developing tax cooperation under the United Nations framework, which they view as more inclusive⁶³.

The United Nations Framework Convention on International Tax Cooperation (UNFCICT) is currently under negotiation and is expected to have its final draft ready by 2027. The convention is being promoted as a more democratic and comprehensive alternative framework to address tax challenges in general, and digital taxation issues in particular. In the Terms of Reference adopted in 2024, the subject of the first early protocol was defined, and it will address the taxation of income derived from the provision of cross-border services in an increasingly digitalized and globalized economy. This reflects the importance and urgency of addressing concerns related to digitalization, profit shifting, and the unfair allocation of taxing rights⁶⁴.

The negotiations on the convention and its first two early protocols began in 2025, with the first two substantive sessions held in August. During these sessions, member states discussed the draft issues of Workstream II, which is responsible for developing the first early protocol.

Discussions on the protocol are still at an early stage, focusing on its scope, the application of uniform rules to digital services, and the choice between gross-based or net-based taxation for cross-border services. African Group rules to tax cross-border digital services based on economic activity rather than Permanent Establishment⁶⁵.

These discussions raise critical questions about whether the emerging rules for taxing cross-border digital services will safeguard the economic interests and fiscal sovereignty of developing countries, or whether they will simply reproduce the complexity and structural imbalances of the current international tax system, which disproportionately favor the Global North. To counter these risks, it is essential for African countries to participate actively in the negotiation sessions and workstreams, engage substantively in the technical debates, and coordinate closely under the African Group.

[66 Observatoire Tunisien de l'Economie. \(2024, Juillet\). Chaise vide à la table des négociations ! La Tunisie annonce sa non-participation aux négociations, sur les TdR de la Convention onusienne pour la Coopération Fiscale Internationale, prévues à partir du 29 Juillet 2024 à New York](#)

[67 DGELF. \(2025, Juillet\). Observations de la Tunisie sur les notes thématiques du Comité Intergouvernemental de Négociation \(INC\) concernant la Convention-cadre des Nations Unies sur la coopération internationale en matière fiscale. ONU](#)

[68 DGELF. \(2025, Décembre\). Remarques sur le projet de Convention-cadre des Nations Unies sur la coopération fiscale internationale. ONU](#)

Tunisia is engaged in the negotiations of the UN tax convention and aligns its voting with the African Group, which advocates for an inclusive and effective convention. However, this engagement remains limited, as Tunisia is represented primarily by diplomatic officials, while the nature of the negotiations requires technical expertise. Greater involvement from the Ministry of Finance is essential to provide stronger support to the African Group a more effectively and better advance the interests of developing countries. This limitation was evident in the Ministry of Finance's input on the draft Terms of Reference ToRs was not substantial and reflected a weak commitment to global tax reform issues⁶⁶. More recently, however, Tunisia's written submissions for the 2025 substantive sessions demonstrate clearer, more substantive positions and stronger alignment with the African Group, indicating a positive shift toward deeper and more technical engagement^{67 68}.

V. Recommendations for Tunisia: A hybrid approach to taxing cross-border digital services

Tunisia was one of the few African countries to adopt a Digital Services Tax (DST) in the finance law of 2020 as a response to the rising challenges of taxing cross-border digital services. However, it chose to suspend or refrain from implementing it in order to comply with its commitment under the OECD's Two-Pillar Agreement. Implementation was also hindered by the weak legislative drafting of the article, which had been proposed by MPs rather than the Ministry, resulting in limited technical rigor.

While several signatory countries, including France, have resumed applying their unilateral DSTs due to the complexities and delays in implementing Pillar One, Tunisia has maintained its position for the past five years, neither applying its unilateral tax nor being able to implement the OECD solution.

In theory, a multilateral approach to taxing cross-border digital services is preferable, as it promotes international cooperation, facilitates implementation, ensures effective information exchange, and helps avoid double taxation. However, in reality, the OECD framework has proven ineffective. It is highly complex, particularly for countries with limited administrative and technical capacity, insufficient financial resources, and inadequate legislative frameworks while generating only modest revenues for developing countries. This is problematic given their urgent need to finance public services, especially when unilateral measures can yield significantly higher revenues.

The concretization of the UN Framework Convention on International Tax Cooperation and its early protocols, which could offer an alternative framework for international tax cooperation, is still expected to require more than two years of negotiations and drafting. There is also a risk of ineffective outcomes if developing countries do not manage to maintain a unified position and mobilize sufficient support to influence the negotiations. In the meantime, Tunisia needs to consider revising a unilateral approach to taxing cross-border digital services to secure a fair share of tax revenues.

Beyond Tunisia aligning its legal position with the OECD framework, by refraining from implementing the DST approved by Parliament and upholding commitments made by the executive power, DST remain a solution that faces multiple challenges. It creates significant administrative challenges, especially for countries with limited capacity, due to the need for detailed guidance to identify user locations and taxable bases, with additional complexity arising from differing DST designs across jurisdictions.

Implementing Withholding Taxes on Digital Services eliminates this risk, as it ensures that tax authorities can collect revenue from these transactions at the point of payment, without relying on the foreign provider to voluntarily comply with local tax rules. Tunisia can adopt this approach that also ensure immediate cash inflows. The risk for this approach is that is like DSTs don't respect Amount A of pillar One in case Tunisian policy makers are still considering its implementation in the future.

[69 ATAF. \(2025, July\). Suggested Approach to Drafting Significant Economic Presence Legislation](#)

[70 DESA. UN Model Double Taxation Convention between Developed and Developing Countries \[2021\]. United Nations](#)

[71 Michel, B. \(2025, July\). The 2025 update of the UN Model Tax Convention. SSRN](#)

On the other hand, the Significant Economic Presence (SEP) tax, recommended by ATAF as a profit-based tax, is suitable for countries that wish to align their tax measures with Pillar 1 of the OECD framework. ATAF also provided a model legal framework that countries can use to enact domestic SEP rules—including defining taxable persons, setting materiality thresholds, identifying digital services in scope, attributing revenues to a market jurisdiction, and determining taxable profits⁶⁹.

However, SEP will not generate the same revenue as withholding taxes (WHT), as it requires the registration of non-resident corporations, which is not guaranteed and may be difficult to enforce. This approach also requires renegotiating double tax treaties with some countries or applying it only in cases where no treaty exists.

Tunisia can also consider updating its bilateral tax treaties to incorporate provisions as Articles 12B and 12AA of the UN Model Tax Convention. Article 12B⁷⁰, introduced in April 2021, allows source countries to tax income from Automated Digital Services (ADS) provided by non-resident enterprises, either through a gross withholding tax or a net profit-based approach, facilitating revenue collection for countries with limited administrative capacity. Article 12AA⁷¹, adopted in March 2025, expands source countries' rights to tax fees for services paid to non-residents, even without a physical presence, thereby broadening taxing rights over cross-border services, including digital services. Implementing these provisions would enable us to capture additional revenues from multinational enterprises operating digitally. However, challenges include having the capacity and economic leverage to efficiently negotiate treaty updates with partner countries, as well as managing potential conflicts with existing OECD-based treaties.

Considering the advantages and limitations of existing frameworks, Tunisia could pursue a hybrid approach to taxing cross-border digital services. In the short term, the implementation of WHT on digital services would provide immediate and reliable revenue while minimizing administrative complexity and reducing dependence on compliance by foreign providers. In the medium to long term, Tunisia could develop and enact a SEP tax in accordance with ATAF guidance, establishing a profit-based taxation mechanism for non-resident digital service providers that aligns with multilateral agreements. Simultaneously, Tunisia could work on renegotiating and updating its bilateral tax treaties to incorporate UN Model Tax Convention Articles 12B and 12AA, to the extent feasible, thereby enhancing its taxing rights over cross-border digital services and reinforcing its fiscal sovereignty.

Tunisian authorities should also actively follow multilateral global tax reform processes and study their provisions to make informed decisions that protect national interests. This requires building capacity of tax officials and creating a specialized unit on international taxation to coordinate related policies and actions.

Conclusion

Tunisia is currently experiencing debt distress, with public debt exceeding 80% of GDP and debt servicing accounting for over 31% of total budget expenditures, placing a significant burden on the budget and limiting public investment and financing for social sectors⁷². It is vital to expand fiscal space by mobilizing additional available resources, particularly by addressing revenue leakages from cross-border digital services. Efforts should focus on designing and implementing taxes on these services in a manner that maximizes resource mobilization while ensuring equitable treatment between non-resident corporations and domestic entities operating in the digital economy.

Several approaches exist for taxing cross-border digital services, each with distinct advantages and drawbacks. The essential objective is to make a strategic arbitrage among these approaches, leveraging their respective strengths to ensure that urgently needed tax resources are not lost.

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