

Tax Pills

Digital Services Tax (DST), available from today the Revenue Agency Circular Letter with answers and clarifications for operators

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How to apply the tax on digital services and in what way to figure out the effectively taxable income? And again, how to identify taxable entities and which new accounting rules and fiscal obligations to track? The **Circular Letter 3/E**, signed today by the Director of the Revenue Agency, answers to these questions and provides a range clarifications expected by operators for the application of the tax on digital services (DST). Indeed, the Circular follows the Provision Act of the Director of the Revenue Agency of 15 January last, which already took into account a long list of contributions sent by the operators as a result of the public consultation on the first draft with the guide-lines, ended on 31 December 2020. Therefore, today's Circular Letter represents a further step in the definition of the new rules on the application of the tax on digital services in Italy.

How the tax on digital services works

The DST, introduced by the 2019 budget law, has a tax rate equal to 3% of the revenues deriving from certain digital services provided by large companies. Particularly, the DST shall be due by subjects carrying out business activities that, individually or at group level, jointly meet, in the previous fiscal year, the following thresholds: total amount of revenues, wherever arising, therefore globally, equal to or exceeding €750,000,000; an amount of revenues from digital services arising in Italy equal to or exceeding €5,500,000. The payment of the tax will take place starting from 2021 in relation to digital services provided in 2020.

The issues covered by the Circular, clarity and fiscal certainty push greater tax compliance

Given the need for certainty, the Revenue Circular provides indications for identifying the entities affected by the tax and clarifications on whether the dimensional thresholds have been exceeded. Furthermore, the objective scope of application is investigated, with particular reference to the content and criteria of each of the digital services subject to tax, including provision of advertising on a digital interface targeted to users of the same interface, provision of a digital multilateral interface aimed at allowing users to interact (also in order to facilitate the direct exchange of good and services) and transmission of data collected from users and generated by the use of a digital interface. Particularly, to facilitate the correct identification of included and excluded services, the text is also enriched with examples.

Geolocation criteria and tax base

A particular aspect dealt with by the Circular concerns the revenues generated by users located in the territory of the State, related to the geolocation criteria. As regard to this issue, in addition to the IP address, further criteria and conditions will apply to determine the right proportion of taxable revenues in Italy. Finally, the Circular also illustrates the methods of determining the tax base and eliminating any "cascade" taxation phenomena that could arise in relation to business models that involve multiple taxable persons in the provision of a single taxable service.

Stefano Latini

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