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Assessing Under-Taxation and Tax Equity for Multinational Digital Platforms in South Africa

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Assessing Under-Taxation and Tax Equity for Multinational Digital Platforms in South Africa

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Abstract

Multinational digital platforms can generate substantial revenue in market jurisdictions without a proportionate allocation of taxable profit. This paper provides a South Africa-specific estimate of identifiable multinational platform revenue in the digital advertising market and compares the amounts associated with alternative rules for allocating taxing rights. Using the IAB South Africa/PwC estimate of R17.72 billion for the total digital-advertising market and the reported category and platform shares, this paper constructs an identifiable multinational platform revenue base of R13.99 billion, comprising Google paid search and Meta paid social. This revenue base is used to compare the receipts generated by a turnover-based Digital Services Tax (DST) with a simplified Amount A-style allocation and a full-attribution benchmark based on the groups' consolidated pre-tax margins. The Amount A-style comparator produces approximately R175 million, while DST rates of 2, 3 and 5 per cent produce gross receipts of approximately R280 million, R420 million and R700 million. A full-attribution benchmark produces R1.075 billion. Using the broader market-size estimate raises each result by approximately 48 per cent, demonstrating the sensitivity of the estimates to the revenue base. The central DST estimate represents approximately 0.024 per cent of gross tax revenue and 0.13 per cent of corporate income tax receipts in 2023/24. Incidence evidence suggests that part of the charge may be passed on to South African advertisers, while a unilateral measure would also create economic double taxation and trade risks. The paper recommends continued implementation of Pillar Two and support for the multilateral allocation reflected in Amount A. A DST should not be introduced at present but should remain a conditional fallback if Amount A remains unavailable and administrative evidence supports further consideration.

Keywords: digital services tax; Pillar One Amount A; market jurisdiction taxation; multinational digital platforms; competitive neutrality; South Africa.

JEL classification: H25, H26, F23, H87, K34

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EXECUTIVE SUMMARY

South Africa's digital economy is increasingly organised around multinational platforms that intermediate search, social media, online advertising and other digital services. These firms can earn substantial revenue from South African users and advertisers while the ownership of key intangible assets and the booking of profits remain offshore. The resulting policy concern is not whether the firms comply with existing tax law, but whether rules designed around residence and physical presence allocate an appropriate share of taxing rights to the markets that support their revenue.

International reform has not yet settled this question. Pillar One seeks to reallocate a portion of residual profit to market jurisdictions, but it is not operational. Pillar Two establishes a global minimum tax without changing where profit is allocated. In the interim, some jurisdictions have introduced gross-revenue digital services taxes, while others have withdrawn them or adopted significant-economic-presence rules. South Africa has not enacted a digital services tax. The Davis Tax Committee and National Treasury have favoured a multilateral approach, while VAT on imported electronic services and the Global Minimum Tax Act address consumption taxation and minimum effective taxation rather than the allocation of profit to the South African market.

This paper provides a reproducible estimate of the revenue generated by multinational platforms within South Africa's digital advertising market and compares the amounts produced by alternative tax rules. The principal estimate begins with the R17.72 billion South African internet advertising market reported by IAB South Africa and PwC for 2023. Applying reported advertising category and platform shares produces an identifiable revenue base of approximately R13.99 billion for Google paid search and Meta paid social. The analysis compares a simplified Pillar One Amount A-style allocation, turnover-based digital services tax rates of 2, 3 and 5 per cent, and a full-attribution corporate income tax benchmark.

On the principal revenue base, the simplified Amount A-style allocation produces approximately R175 million. The DST scenarios produce indicative gross receipts of R280 million at 2 per cent, R420 million at 3 per cent and R700 million at 5 per cent. The full-attribution benchmark produces approximately R1.075 billion. A sensitivity test using PwC's broader R26.3 billion advertising-market estimate increases all results by approximately 48 per cent. The size of the potential revenue therefore depends materially on the market base and allocation rule, not only on the selected tax rate.

The fiscal significance of these amounts is limited. The central R420 million estimate represents approximately 0.024 per cent of South Africa's 2023/24 gross tax revenue and 0.13 per cent of corporate income tax revenue. A DST would therefore not materially alter South Africa's fiscal position. Its potential value would instead lie in asserting a source-country taxing claim, establishing a policy reference point and preserving a possible domestic response if multilateral reform remains unavailable.

These potential benefits must be assessed against the likely incidence and implementation risks. Google accounts for most of the identifiable revenue base under the principal assumptions and has previously added DST-related charges to advertisers' invoices in other jurisdictions. This creates a material risk that part of the burden would be passed to South African advertisers, with possible further effects on consumer prices, business margins or advertising expenditure. Experience in Kenya and Nigeria also shows that creating a digital tax nexus does not by itself secure material revenue without reliable transaction information, workable attribution rules and effective enforcement.

A unilateral measure would also create economic double taxation and trade risks. Canada and India withdrew digital taxes amid pressure associated with their trade relations with the United States. South Africa would be considering a unilateral tax within an already exposed trade relationship, while the United States

continues to use Section 301 measures. The risk would depend on the scope and design of the tax, but it cannot be treated as a secondary implementation issue.

South Africa should therefore not introduce a unilateral DST at present. It should continue implementing Pillar Two and support Pillar One Amount A as the preferred mechanism for allocating profit to market jurisdictions. The immediate domestic priority should be a data-led assessment. SARS and National Treasury should use country-by-country reports, VAT information, local corporate income tax returns and transfer-pricing information to refine the estimates and assess the revenue, profit and tax already associated with large digital groups in South Africa. Aggregated indicators should be published where taxpayer confidentiality can be protected.

A DST should remain under review as a conditional fallback rather than an immediate or permanent addition to the tax system. Formal consideration would be justified only if Amount A remains unavailable, administrative information identifies a material and persistent allocation mismatch after accounting for resident subsidiaries, and the expected benefits remain proportionate to the incidence, administrative, double-taxation and trade risks. Any proposal would require a National Treasury-led process of policy design, public consultation, legislation and parliamentary scrutiny. It should also include clear thresholds and sourcing rules, appropriate treatment of revenue already reflected in South African taxable profit, and a sunset provision requiring withdrawal if Amount A becomes effective.

1 Introduction

South Africa's digital economy is increasingly intermediated by multinational platforms. Search, social media, app distribution and online advertising display strong scale and network effects, while local firms depend on these ecosystems for visibility and customer acquisition (Competition Commission South Africa, 2023, 2025b). Digital advertising therefore provides a tractable market through which to examine the alignment between economic participation and taxing rights. The rapid expansion of digital platform activity has exposed growing tensions within existing international taxation systems. Traditional corporate tax frameworks remain largely anchored to permanent establishment principles developed around physical operations and geographically identifiable production systems (OECD, 2015). However, multinational digital firms are often able to generate substantial revenues within jurisdictions where they maintain limited physical presence while allocating profits through offshore intellectual property structures, transfer pricing arrangements and regional booking systems (Zucman, 2014; Cobham and Janský, 2018). These developments have intensified global concerns regarding Base Erosion and Profit Shifting ("BEPS"), particularly within developing economies where digital market growth has expanded more rapidly than the evolution of international tax frameworks. These developments have also intensified concerns regarding the mismatch between where digital economic value is generated and where profits are ultimately taxed.

Within South Africa, this asymmetry raises two interrelated concerns. The first is fiscal. Existing nexus and profit allocation rules may limit the corporate tax base associated with digital activity in the South African market. This is particularly important within a context characterised by fiscal pressure, constrained economic growth and increasing developmental expenditure demands. The second concern relates to competitive neutrality. Domestic firms operating within South Africa generally remain fully subjected to corporate income tax obligations, VAT liabilities and broader domestic compliance costs. By contrast, the profits of non-resident platform principals are not attributed to South Africa solely because local users or advertisers participate on their platforms. These asymmetries may have broader implications within digital markets characterised by strong economies of scale, network effects and platform dependency.

The intersection between digital taxation and digital market regulation is therefore becoming increasingly important within South Africa's policy landscape. For purposes of this paper, "under-taxation" does not denote unlawful tax avoidance, tax evasion, non-compliance, tax legally due or an observed company tax gap. It is used in a policy sense to describe a possible structural mismatch between the scale of digital economic participation in South Africa and the taxing rights allocated to South Africa under existing international rules. Such a mismatch may weaken fiscal capacity and reinforce structural asymmetries between multinational platforms and domestic firms operating within the South African digital economy. Despite growing policy attention, relatively limited empirical work has examined the relationship between digital taxation, tax equity and competitive neutrality within South African digital markets.

This paper evaluates whether South African tax outcomes are proportionate to identifiable multinational digital advertising activity and whether a DST could improve source-linked revenue collection. Its central claim is deliberately bounded: tax rules are one institutional condition that may affect competitive neutrality. The analysis addresses three related questions. First, what scale of South African digital-advertising revenue can be identified from public information, and what revenue would different tax-allocation approaches produce? Second, how do assumptions about the revenue base, profit attribution and available information affect these estimates? Third, what do the estimated revenue, incidence and implementation constraints imply for South Africa's choice between multilateral reform and a possible unilateral DST?

The paper adopts a comparative fiscal estimation approach combining descriptive fiscal analysis, comparative effective tax burden analysis and counterfactual DST simulations. Given the limited availability of jurisdiction-specific public disclosures relating to multinational digital platform revenues and profits within South Africa,

the analysis does not attempt to estimate precise firm-level taxable income. Instead, it uses transparent benchmarks to show how different attribution rules affect the amount associated with South African market activity. The policy assessment extends beyond the estimated revenue. It considers who would bear a DST, its fiscal significance, its interaction with VAT and international tax treaties, the risk of double taxation, its implications for competitive neutrality, and the administrative and trade constraints surrounding unilateral action.

The remainder of the paper is organised as follows. Section 2 sets out the South African and international policy context. Section 3 explains the data and estimation approach. Section 4 presents the estimated tax outcomes and sensitivity analysis. Section 5 examines incidence, fiscal significance and policy constraints. Section 6 assesses the available policy options and sets out the recommended approach. Section 7 concludes.

2 South African and International Policy Context

2.1 Digital Platforms, Market Power and Taxation

The rapid expansion of multinational digital platforms has fundamentally altered the structure of modern economic activity. Unlike traditional industrial firms that primarily operate through linear supply chains, digital platforms function as multi-sided markets that facilitate interactions between different groups of users, including consumers, advertisers, merchants, developers and content creators (Evans, 2011).

The economic characteristics of digital platforms frequently favour concentration. One of the most important drivers of concentration within digital markets is the presence of network effects (Katz and Shapiro, 1985). Network effects arise where the value of a platform increases as additional users join the platform ecosystem. Direct network effects occur when users derive greater value from increased participation by other users, while indirect network effects arise when growth on one side of the platform increases value for another group of users, such as advertisers or developers (Crémer, de Montjoye and Schweitzer, 2019). These dynamics generate self-reinforcing feedback loops that often favour large incumbent platforms. As user participation expands, platforms accumulate greater volumes of behavioural data, improve algorithmic performance and strengthen advertising capabilities (Scott Morton et al., 2019). Increased scale further attracts advertisers, merchants and developers, reinforcing the platform's competitive position and contributing to "winner-takes-most" market outcomes (Competition Commission South Africa, 2025b). Empirical evidence from multiple jurisdictions increasingly demonstrates that digital markets tend toward high levels of concentration, particularly within online search, digital advertising, social media, app distribution and online intermediation services. One of the most concentrated segments of the global digital economy is digital advertising. The United Kingdom Competition and Markets Authority ("CMA") found that Google and Meta collectively accounted for approximately 80% of digital advertising expenditure within the United Kingdom, with Google dominating search advertising and Meta dominating display advertising markets (CMA, 2020).

These asymmetries raise broader concerns regarding competitive neutrality. Competitive neutrality refers to a situation where taxation systems do not distort competition between firms operating within the same markets (OECD, 2012). Where multinational digital platforms benefit from systematically lower effective tax burdens than domestic firms, taxation itself may become a source of structural competitive advantage. Within highly concentrated digital markets characterised by network effects and economies of scale, even relatively modest cost asymmetries may reinforce incumbent dominance and weaken market contestability. The implications therefore extend beyond fiscal fairness alone. Differential tax treatment may influence pricing behaviour, expansion capacity, acquisition strategies, barriers to entry and long-term market structure.

The taxation challenges associated with multinational digital firms are closely linked to broader debates surrounding BEPS. BEPS refers to strategies used by multinational enterprises to shift profits from higher-tax

jurisdictions toward lower-tax jurisdictions through legal and accounting arrangements that exploit gaps within international tax systems (OECD, 2015). Digital firms are particularly well positioned to engage in profit shifting due to the importance of intangible assets such as software, algorithms, patents, trademarks and intellectual property rights. Unlike physical production assets, intangible assets can be strategically located within low-tax jurisdictions while continuing to generate value globally (Zucman, 2014). This creates a disconnect between where users and consumers are located, where economic value is generated and where profits are ultimately taxed (Cobham and Janský, 2018). These dynamics have increasingly raised concerns regarding fiscal sovereignty, revenue mobilisation and the adequacy of existing international tax systems within highly digitalised economies (IMF, 2019; ATAF, 2020). The challenges are particularly significant for developing economies where multinational digital activity has expanded rapidly while domestic tax bases remain comparatively constrained.

2.2 South Africa's Digital Market and Tax Framework

South Africa is not immune to the patterns of platform intermediation, data accumulation, ecosystem dependency and market concentration. South Africa's digital economy encompasses a wide range of platform-mediated markets and digital services. These include online intermediation platforms, search engines, digital advertising markets, social media and content platforms, streaming services, cloud computing, digital financial services, gaming ecosystems and emerging artificial intelligence ("AI") services. While these markets perform distinct economic functions, they increasingly rely on interconnected platform ecosystems that combine advertising services, data collection, content distribution, cloud infrastructure and user engagement within integrated digital business models.

Although South Africa's digital economy comprises several interconnected digital markets, this study places particular emphasis on digital advertising markets. This emphasis is justified for several reasons. First, digital advertising represents one of the most commercially significant and measurable segments of South Africa's digital economy. Compared to many other digital sectors, relatively greater market-level data exists regarding advertising expenditure, market growth, platform concentration and revenue generation, making digital advertising a practical and empirically observable lens through which to assess broader questions relating to multinational digital economic activity and digital taxation. Second, digital advertising lies at the centre of many platform business models. Large multinational digital platforms frequently provide consumer-facing services at low or zero direct monetary cost while monetising user attention, behavioural data, audience engagement and platform traffic through advertising systems. Scholars have noted that digital platform business models increasingly rely on the extraction, processing and monetisation of user data and audience engagement through targeted advertising ecosystems (Zuboff, 2019; Crémer, de Montjoye and Schweitzer, 2019). Advertising revenues therefore constitute one of the primary mechanisms through which value is extracted from digital ecosystems. Finally, digital advertising provides a useful lens through which to assess broader questions relating to digital taxation and market jurisdiction value creation. Advertising activity is intrinsically linked to user participation, data generation, audience engagement and local market monetisation. The OECD (2020) and Becker and Englisch (2019) argue that user participation and digital engagement increasingly contribute to value creation within digital business models, particularly in platform-based advertising ecosystems. Digital advertising markets are therefore particularly relevant for assessing whether existing international taxation systems adequately align taxation with the location of digital economic activity and value generation.

Digital advertising markets exhibit significant concentration. The Competition Commission South Africa's Media and Digital Platforms Market Inquiry ("MDPMI") found that Google and Meta collectively account for a substantial share of digital advertising revenues globally and increasingly dominate digital advertising ecosystems within South Africa (Competition Commission South Africa, 2025b). The Inquiry further noted that advertising expenditure has progressively shifted away from traditional media platforms toward multinational digital platforms that possess superior audience targeting capabilities, data analytics systems and integrated advertising infrastructure. This shift has contributed to declining advertising revenues for local media organisations and increasing dependence on multinational digital ecosystems for audience visibility

and digital monetisation. This market structure provides the economic setting for assessing how South Africa taxes the revenues and profits associated with digital advertising.

South Africa taxes cross-border digital activity through ordinary residence, source and permanent establishment rules, together with VAT on qualifying electronic services supplied by non-residents. It has not enacted a standalone DST. VAT improves consumption tax neutrality but does not allocate corporate profit. South Africa extended VAT to imported electronic services in 2014 and broadened the regime in 2019. Qualifying foreign suppliers must register and account for VAT, but VAT is analytically distinct from the corporate profit allocation examined in this paper (SARS, 2023). Corporate taxation within South Africa continues to rely heavily on traditional international taxation principles linked to physical presence and permanent establishment requirements.

Despite these developments, concerns remain regarding whether existing international reforms will sufficiently address the taxation challenges posed by highly digitalised business models within developing economies. UNCTAD (2019) and the African Tax Administration Forum ("ATAF") (2020) argue that developing countries may continue to face limitations in capturing an equitable share of digital economic value under existing international taxation arrangements due to weaker bargaining power, limited enforcement capacity and continued reliance on residence-based taxation frameworks.

The evolution of South Africa's digital economy, the concentration of key digital markets and the limitations of existing taxation frameworks collectively provide the context for assessing whether current tax outcomes adequately reflect the scale of digital economic activity occurring within the country.

2.3 International Tax Reform and Digital Services Taxes

Growing dissatisfaction with existing international tax rules has contributed to the emergence of alternative approaches emphasising user participation and market jurisdiction as sources of value creation. Value creation theory argues that users, consumers and market participation contribute meaningfully to the profitability of digital platforms. User engagement generates data, network effects, behavioural insights and advertising opportunities that form a central component of digital platform value generation (OECD, 2020). From this perspective, taxing rights should not depend solely on physical presence or legal ownership structures. Instead, jurisdictions where users and economic participation are concentrated may have legitimate claims over a portion of multinational digital profits. The growing emphasis on digital value creation therefore reflects broader attempts to modernise taxation systems in response to increasingly borderless forms of digital economic activity.

The most prominent multilateral initiative that sought to address limitations within traditional international taxation rules emerged through the OECD/G20 Inclusive Framework (OECD, 2020). The OECD reforms are broadly organised around two pillars. Pillar One seeks to reallocate a portion of taxing rights from jurisdictions where multinational firms are headquartered toward market jurisdictions where users and consumers are located. The reform reflects growing recognition that highly digitalised firms may derive substantial economic value from user participation and market engagement without maintaining significant physical presence within those jurisdictions (Becker and Englisch, 2019). Pillar Two introduces a global minimum corporate tax rate aimed at reducing incentives for multinational profit shifting and tax competition between jurisdictions. The framework seeks to ensure that multinational enterprises pay a minimum level of taxation regardless of where profits are booked. The relatively slow pace of multilateral reform has contributed to growing frustration among jurisdictions seeking more immediate responses to digital under-taxation and fiscal leakage. South Africa participates in the OECD/G20 Inclusive Framework and enacted the Global Minimum Tax Act 46 of 2024 for fiscal years beginning on or after 1 January 2024. SARS opened eFiling registration in March 2026. Pillar Two constrains low-taxed multinational profit, but it does

not itself replace the market jurisdiction allocation contemplated under Pillar One (National Treasury, 2024; OECD, 2025; SARS, 2026a).

Many jurisdictions have introduced unilateral Digital Services Taxes ("DSTs") and similar measures targeting revenues generated through digital economic activity within domestic markets. Many DST frameworks operationalise aspects of market jurisdiction theory by taxing revenues generated from local digital economic participation regardless of physical establishment (ATAF, 2020). These taxes generally apply to gross revenues generated from digital advertising, online marketplaces, social media platforms, streaming services and platform intermediation activities. DSTs emerged largely in response to concerns that multinational digital firms were able to derive substantial revenues from market jurisdictions while recognising comparatively limited local taxable profits (OECD, 2020). Internationally, the adoption of DSTs has expanded significantly over the past decade, although policy approaches remain fragmented across jurisdictions. South Africa has not adopted this unilateral approach; its response remains anchored in existing domestic tax rules and multilateral reform.

2.4 Policy Developments and Comparative Experience

National approaches to taxing digital activity have not followed a single path. France, Spain and the United Kingdom retain taxes on the gross revenue earned from specified digital services. Canada and India have withdrawn comparable measures. Kenya and Nigeria have instead brought non-resident digital activity within income tax through significant economic presence rules. The differences concern more than tax rates. They reflect competing views about the appropriate tax base, the relationship with tax treaties, administrative capacity and the political durability of unilateral measures. Table 2.1 below consolidates the approaches.

Table 2.1 Selected approaches to taxing digital services

Country	Rate	Scope	Status at review	Relevance to South Africa
France	3% of gross revenue	Digital advertising, digital interfaces and user data sales used for targeted advertising.	Active.	Shows continued use of a user-based gross-revenue tax.
United Kingdom	2% of gross revenue	Search engines, social-media services and online marketplaces.	Active; reviewed in 2025.	Provides evidence on revenue, administration and pass-through.
Spain	3% of gross revenue	Online advertising, digital intermediation and data transmission.	Active.	Shows continued use of a user-based DST within the EU.
Canada	3% of gross revenue	Specified digital-services revenue linked to Canadian users.	Rescinded in June 2025 before first payment.	Shows the exposure of unilateral measures to trade pressure.
India	6% Equalisation Levy	Online advertising supplied by non-residents.	Withdrawn from 1 April 2025.	Provides the closest comparator for an advertising levy on non-residents.
Kenya	30% of deemed profit; 3% effective turnover rate	Non-resident digital services above KES 5 million annual turnover; taxable profit deemed at 10% of turnover.	SEP Tax from 27 December 2024; replaced the 1.5% DST.	Shows the shift to a deemed-profit income tax.

Country	Rate	Scope	Status at review	Relevance to South Africa
Nigeria	30% corporate income tax under SEP rules; from 1 January 2026, a 4% minimum tax applies where withholding tax does not apply.	Specified non-resident digital services with significant economic presence; group profit margin informs attribution from 2026.	SEP nexus since 2020; revised by the Nigeria Tax Act 2025 from 1 January 2026.	Highlights attribution, information and enforcement constraints.
South Africa	No standalone DST	VAT on imported electronic services, ordinary corporate income tax and the Global Minimum Tax Act 46 of 2024.	No DST; multilateral approach retained.	Provides the domestic baseline; source-country profit attribution remains unresolved.

Source: Author's compilation from Ministère de l'Économie et des Finances (2019), Government of Spain (2020), HM Treasury (2025), Department of Finance Canada (2025), Government of India (2025), Kenya Revenue Authority (2025), Quiñones et al. (2025), Federal Republic of Nigeria (2025) and National Treasury (2024).

France, Spain and the United Kingdom continue to apply DSTs to specified revenue connected to domestic users or markets (Ministère de l'Économie et des Finances, 2019; Government of Spain, 2020; HM Treasury, 2025). Canada rescinded its 3 per cent DST in June 2025 to advance trade negotiations with the United States. India withdrew its 6 per cent Equalisation Levy on online advertising from 1 April 2025 (Department of Finance Canada, 2025; Government of India, 2025). These contrasting outcomes indicate that the durability of a unilateral measure depends on its political and trade setting as well as its tax design. The fiscal, incidence and trade implications are examined later in the paper.

Kenya and Nigeria have pursued income tax alternatives. Kenya replaced its 1.5 per cent DST with a Significant Economic Presence Tax from 27 December 2024. The tax applies above annual turnover of KES 5 million. Taxable profit is deemed at 10 per cent of turnover and taxed at 30 per cent, producing an effective charge of 3 per cent. The Kenya Revenue Authority reported 415 registrations and KES 2.2 billion collected under the combined DST and significant economic presence obligations between January 2021 and March 2025. Given that the new tax applied only from 27 December 2024, the total mainly reflects the former DST and does not establish an independent yield for the new regime. Nigeria has applied a significant economic presence nexus since 2020. About 40 digital companies had registered by the end of 2024, while annual self-assessed receipts remained below US$3.5 million between 2020 and 2024. From 1 January 2026, the Nigeria Tax Act 2025 uses the non-resident group's profit margin where taxable profit cannot be ascertained or is lower and sets a minimum tax of 4 per cent of Nigerian income where withholding tax does not apply (Quiñones et al., 2025; Federal Republic of Nigeria, 2025). The two cases underline the importance of workable attribution rules, reliable information and effective enforcement.

South Africa considered these issues before the OECD two-pillar programme. The Davis Tax Committee concluded that digitalisation could not readily be ring-fenced for tax purposes, although mobility, data, network effects and multi-sided business models intensified existing BEPS risks. It considered a significant economic presence nexus, withholding taxes and an equalisation levy, while emphasising continued OECD engagement and improved information about non-resident activity (Davis Tax Committee, 2016). National Treasury has likewise prioritised a multilateral solution. Its 2020 position was to await international consensus, while the 2021 Budget Review left open a unilateral response if that process failed. Participation in the Inclusive Framework and enactment of the Global Minimum Tax Act 46 of 2024 are consistent with that position (National Treasury, 2020; 2021; 2024).

A related proposal arose in domestic competition policy.[2] The MDPMI provisional report of 24 February 2025 recommended a 5-10 per cent tariff or levy on digital advertising revenue if Google and Bing failed to implement specified remedies. The proceeds would have supported the news media through a Media Industry Fund. The proposal resembled a DST in economic form, but it was framed as a conditional competition remedy. The provisional report also stated that its quantified remedial value could be imposed or guide negotiations. The estimate therefore provided a reference point, while the levy supplied a fallback if the preferred remedies were not implemented (Competition Commission South Africa, 2025a).

The MDPMI final report of 13 November 2025 did not retain the levy and did not explain its omission. It instead adopted negotiated, platform-specific remedies, including a R688 million support package from Google (Competition Commission South Africa, 2025b). The outcome does not prove that the levy produced the settlement. It does illustrate how quantification can inform bargaining even when the proposed charge is not ultimately imposed. The trade and institutional constraints surrounding the change are considered in Section 5.

These developments provide the context for the estimates that follow. The next section sets out the data and method used to estimate the South African revenue base and the potential yield under different tax scenarios. The comparative evidence is returned to later when assessing the fiscal significance, incidence and feasibility of those scenarios. The comparative experience offers no model that South Africa can simply adopt. It instead identifies the questions that the analysis must answer: whether the potential revenue justifies the administrative and political costs, who would bear the charge, and whether the measure could be implemented alongside South Africa's multilateral commitments.

3 Data and Estimation Approach

This section explains the data, assumptions and calculations used to estimate the South African digital advertising revenue attributable to multinational digital platforms and to compare alternative tax attribution benchmarks as well as DST scenarios.

3.1 Scope and data

The principal market measure is the R17.72 billion of South African internet advertising revenue reported by IAB South Africa and PwC (2024). The 2023 figure represents net advertising revenue after discounts and is adjusted for double counting between participating advertisers and agencies (IAB South Africa and PwC, 2024).

This source is used because it provides a consistent market total, category shares and platform shares. Google's estimated share of the total market is calculated by multiplying paid search's 73.3 per cent category share by Google's 99.4 per cent share within that category, giving 72.86 per cent. Meta's share is calculated by multiplying paid social's 8.1 per cent category share by Meta's 75.4 per cent share, giving 6.11 per cent. Together, these activities represent an identifiable 78.97 per cent of reported internet-advertising revenue. Evidence from the OIPMI, the MDPMI, StatCounter, Similarweb and company annual reports is used to corroborate market position and obtain the profitability inputs.

Public sources do not disclose the revenue, profit or corporate income tax attributable to the South African activity of the non-resident platform principals. The analysis consequently uses category shares and group or

[2] This paper is an independent academic analysis and does not propose the revival of the MDPMI levy. Although the author participated in the MDPMI team, the discussion relies only on the Inquiry's published reports and does not draw on confidential deliberations. The tax examined here has a different legal basis and fiscal objective.

segment margins as proxies. These limitations are addressed through alternative market size and profit margin assumptions in Section 4.

3.2 Estimation framework

The calculations follow three stages: (1) South African platform revenue is first estimated from digital advertising expenditure, (2) that revenue is then converted into two profit attribution benchmarks and (3) compared with DST scenarios based on gross revenue.

The core inputs are the IAB South Africa and PwC (2024) market total and category shares; the platform shares reported for paid search and paid social; the pre-tax margins reported by Alphabet and Meta for 2023; the 27 per cent South African corporate income tax rate; the Pillar One Amount A parameters; and the DST rates shown in Table 3.1. Credible alternatives are reported where an input is uncertain.

The first tax benchmark attributes all estimated profit associated with this revenue to South Africa. Neither Alphabet nor Meta publicly discloses the taxable profit specifically attributable to South African digital advertising activity; therefore, a benchmark profit is estimated before a corresponding corporate income tax outcome is calculated. The pre-tax profit margin is applied first to estimate the profit associated with the revenue, after which the 27 per cent corporate income tax rate is applied to that estimated profit. The result is an upper benchmark and constitutes 100 per cent of consolidated margin profit to South Africa.

The second benchmark approximates Amount A under the 2023 Pillar One Multilateral Convention. It allocates 25 per cent of profit above a 10 per cent revenue margin to the market jurisdiction in proportion to locally sourced revenue, before applying South Africa's 27 per cent corporate income tax rate (OECD, 2023). Given South Africa’s participation in the OECD/G20 Inclusive Framework, Amount A serves as a natural comparator for showing how the estimated tax claim under a coordinated multilateral allocation differs from the alternative benchmarks considered in this paper.

The third calculation applies DST rates of 2, 3 and 5 per cent to estimated South African revenue. These rates allow the turnover-based outcomes to be located between the Pillar One Amount A-style and full-attribution benchmarks.

Calculation sequence:
Platform revenue is estimated from total South African digital advertising expenditure, the relevant category share and the platform’s share within that category. This produces the following revenue formula:

$$\textit{Estimated Revenue} = \textit{Total South African Digital Advertising Expenditure} \times \textit{Relevant Category Share} \times \textit{Platform share within category}$$

This revenue base is used across all calculations. Section 4 examines the sensitivity of the results to an alternative estimate of the size of the South African digital advertising market. Potential corporate income tax under the full-attribution benchmark is then calculated as follows:

$$\textit{Full-attribution CIT} = \textit{Estimated Revenue} \times \textit{Pre-tax profit margin} \times 27\%$$

This calculation assumes that all profit associated with the estimated South African revenue is attributable to South Africa. Potential corporate income tax under the Amount A-style benchmark is then calculated as follows:

$$\textit{Pillar One Amount A-style CIT} = \textit{Revenue} \times (\textit{Pre-tax profit margin} - 10\%) \times 25\% \times 27\%$$

DST revenue is calculated by applying each scenario rate to the estimated South African revenue base:

Table 3.1. Digital Services Tax simulation scenarios

Scenario	DST rate
Low	2%
Central	3%
Upper	5%

The 2, 3 and 5 per cent scenarios are policy comparisons drawn from international practice. The DST revenue is calculated as follows:

$$DST\ Revenue = Estimated\ Revenue \times DST\ Rate$$

Section 4 reports the estimates, tests their sensitivity to the principal assumptions and compares the DST scenarios with the two profit attribution benchmarks.

3.3 Assumptions and Limitations

The estimates are constrained by the absence of public, jurisdiction-specific disclosures for platform revenue, profit and tax. The IAB South Africa and PwC report uses both expenditure and revenue terminology. The resulting company-level amounts should therefore be interpreted as market-based revenue estimates rather than disclosed platform revenue. Category shares proxy firm revenue; group or segment margins proxy the profitability of South African advertising; and the analysis covers only Google paid search and Meta paid social.

The analysis is limited to Google paid search and Meta paid social in 2023. These platforms are selected because they hold the dominant reported shares in the two advertising categories for which the available data permit firm-level attribution. The focus therefore captures the largest publicly identifiable platform revenues without assigning revenue to smaller platforms or categories for which firm-level shares are unavailable. It does not imply that Google and Meta constitute the entire digital advertising market or cover all digital services supplied into South Africa.

The estimates also exclude thresholds, behavioural responses, avoidance, double-tax relief and administrative costs. These matters are considered in the sensitivity, incidence and policy assessment rather than being built into the static calculations. The estimates are therefore transparent policy benchmarks whose interpretation depends on the stated assumptions and allocation rules.

4 Results and Interpretation

This section reports the results produced by the approach set out in Section 3. It first estimates the identifiable South African advertising revenue associated with Google paid search and Meta paid social. It then compares a full-attribution corporate-income-tax benchmark with an Amount A-style allocation and locates the 2, 3 and 5 per cent DST scenarios within that range. The final subsection tests the sensitivity of the results to the size of the advertising market and the profit-margin proxy.

4.1 Estimated platform revenue

The IAB South Africa and PwC report estimates South African internet advertising revenue at R17.72 billion in 2023. Paid search represented 73.3 per cent of that market and Google accounted for 99.4 per cent of paid search. This produces estimated Google paid search revenue of R12.91 billion. Paid social represented 8.1

per cent of the market and Meta's Facebook and Instagram platforms accounted for 75.4 per cent of that category, producing estimated Meta paid social revenue of R1.08 billion (IAB South Africa and PwC, 2024).

The combined identifiable base is therefore R13.99 billion, or 78.97 per cent of reported internet advertising revenue.

Table 4.1. Estimated South African advertising revenue attributable to Google and Meta, 2023

Platform activity	Category share	Platform share within category	Estimated total-market share	Estimated revenue
Google paid search	73.3%	99.4%	72.86%	R12.91 billion
Meta paid social	8.1%	75.4%	6.11%	R1.08 billion
Combined identifiable base	**-**	**-**	**78.97%**	**R13.99 billion**

Source: Author's calculations using IAB South Africa and PwC (2024). The report sources paid search revenue from Omdia. Figures may not sum exactly because published shares are rounded.

The estimated revenue above does not include other advertising activities of Google and Meta or revenue earned by TikTok, Microsoft, Amazon, LinkedIn, X and other multinational platforms. The remaining market revenue should consequently not be interpreted as revenue earned only by domestic firms.

4.2 Benchmark range and DST scenarios

Alphabet reported global revenue of US$307.394 billion and income before income taxes of US$85.717 billion in 2023 (Alphabet Inc., 2024), while Meta reported US$134.902 billion and US$47.428 billion respectively (Meta Platforms, Inc., 2024). The full-attribution benchmark applies Alphabet's 2023 consolidated pre-tax margin of 27.89 per cent and Meta's margin of 35.16 per cent (calculated as *Pre-tax profit margin = Global income before tax/ Global revenue*) to the estimated South African revenue and then applies South Africa's 27 per cent corporate income tax rate. The resulting benchmark is R972 million for Google and R103 million for Meta, which amount to R1.075 billion combined. The combined calculation produces a benchmark corporate income tax to revenue ratio of approximately 7.68 per cent, and can be interpreted as a comparative upper benchmark under the selected consolidated margin assumptions.

The Pillar One Amount A-style comparator reallocates 25 per cent of profit exceeding a 10 per cent revenue margin to the market jurisdiction before applying the 27 per cent tax rate. On the same revenue base, it produces approximately R156 million for Google and R18 million for Meta, which amount to R174 million combined. For purposes of presenting the benchmark range, this amount is expressed as approximately R175 million. Public data do not permit online advertising revenue to be sourced by viewer location or the Marketing and Distribution Profits Safe Harbour to be applied. The result is therefore an illustrative comparator, not a forecast of South African receipts under Amount A.

The two benchmarks define a range from approximately R175 million under the multilateral allocation to R1.075 billion under full attribution. Each turnover-based DST scenario falls within that range. Table 4.2 shows where each DST scenario falls within this benchmark range and the proportion of the full-attribution benchmark that it represents.

Table 4.2. Tax-attribution benchmarks and DST scenarios on the R13.99 billion revenue base

Outcome	Rate or allocation rule	Estimated amount	Share of full-attribution benchmark	Interpretation
Amount A-style comparator	25% of profit above a 10% margin	R174m (about R175m)	16.2%	Simplified multilateral comparator
DST scenario	2% of revenue	R280m	26.0%	Static gross receipts
DST scenario	3% of revenue	R420m	39.1%	Static gross receipts
DST scenario	5% of revenue	R700m	65.1%	Static gross receipts
Full-attribution benchmark	**All benchmark profit taxed at 27% (7.68% of revenue)**	**R1.075bn**	**100.0%**	**Comparative ceiling**

Note. The DST estimates are gross and static. They do not incorporate thresholds, behavioural responses, pass-through, avoidance, double-tax relief, compliance costs or administrative expenditure. The rates are scenarios rather than recommendations.

The table shows that even the 2 per cent scenario exceeds the simplified Amount A outcome, while the 5 per cent scenario reaches about 65 per cent of the full-attribution benchmark. A DST would therefore express a larger market jurisdiction claim than the Amount A-style allocation; it would not merely collect that allocation through a simpler mechanism.

4.3 Sensitivity and interpretation

PwC's Global Entertainment and Media Outlook reports a broader 2023 South African digital advertising estimate of R26.3 billion (PwC, 2024). Applying the same category shares, platform shares and margins to the larger market measure increases every outcome proportionately.

Table 4.3. Sensitivity to the estimated size of the digital advertising market

Outcome	IAB South Africa and PwC base R17.72bn	PwC broader-market sensitivity R26.3bn
Identifiable Google and Meta revenue	R13.99bn	R20.77bn
Amount A-style comparator	R174m	R259m
2% DST	**R280m**	**R415m**
3% DST	R420m	R623m
5% DST	R700m	R1.038bn
Full-attribution benchmark	R1.075bn	R1.595bn

Using the broader market estimate increases the identifiable platform revenue base from R13.99 billion to R20.77 billion and raises every outcome by approximately 48 per cent. The benchmark range consequently increases from R174 million – R1.075 billion to R259 million – R1.595 billion. This change is mechanical

because the same platform shares, profit margins and tax rates are applied to the larger market base. The test therefore demonstrates the sensitivity of the results to market-size measurement; it does not establish that either market estimate is more accurate.

The profit-margin proxy creates a second sensitivity. Alphabet's consolidated pre-tax margin includes Google Cloud and Other Bets as well as Google Services. The Google Services segment reported a 2023 operating margin of about 35.2 per cent. Using that segment margin would raise Google's component of the full-attribution benchmark from R972 million to approximately R1.23 billion and the combined benchmark to approximately R1.33 billion. The consolidated pre-tax margin is retained as the principal input because it provides a consistent pre-tax measure for both groups; the segment operating margin is closer to advertising activity but is not directly comparable with pre-tax profit.

The 73.3 per cent paid search share is reported in the IAB South Africa and PwC data and is consistent with the 77.6 per cent reported in the same series for 2022. A differently constructed Statista dataset places search advertising at approximately 35 per cent of the total South African digital advertising market in 2022. The difference likely reflects variations in market coverage, classification and data collection, and the two estimates cannot be directly reconciled. The IAB/PwC data are retained because they provide the market total together with the category and platform shares required for a consistent allocation (IAB South Africa and PwC, 2024; Statista, 2024). The resulting estimates should nevertheless be regarded as indicative rather than precise.

The results therefore establish two points. First, the estimated South African amount depends materially on the allocation rule: the simplified Amount A and full-attribution benchmarks differ by approximately R900 million on the same revenue base. Second, the estimates are sensitive to both the assumed size and composition of the digital advertising market. These sensitivities define how the estimates should be interpreted. The resulting range provides a transparent scale against which the fiscal significance, incidence and feasibility of the policy options can be assessed in the following section.

5 Incidence, Fiscal Significance and Policy Constraints

The estimates in Section 4 show the scale of the amounts associated with alternative tax rules, but gross receipts are not sufficient to judge whether a measure is desirable. That assessment depends on who ultimately bears the charge, whether the revenue is material relative to the tax base, and whether the measure can be administered without disproportionate legal, political or trade costs. This section evaluates those constraints before the policy options are considered in Section 6.

5.1 Incidence and competitive neutrality

A DST is legally imposed on an in-scope platform group, but its economic burden need not remain with the group. A platform may absorb the tax through a lower margin, pass it to advertisers or sellers through an explicit surcharge, adjust its underlying prices, or reduce investment and service quality. The result depends on bargaining power and the responsiveness of demand. In a concentrated advertising market, a platform with few close substitutes has greater scope to pass the charge to business users.

Experience elsewhere shows that pass-through is a practical rather than theoretical concern. Google has added a 2 per cent UK DST fee to advertising invoices since November 2020. It also imposed a 2.5 per cent Canadian DST fee from 1 October 2024 and stopped charging from 1 July 2025 when Canada announced the tax's withdrawal from July 2025. Google's published billing guidance states that these surcharges are added to advertising costs and may themselves attract VAT or similar consumption taxes. In India, Google applied a separate 2 per cent regulatory operating cost to certain cross-border-billed advertising before removing it in

September 2024. That charge did not correspond directly to India's 6 per cent advertising equalisation levy, but it provides further evidence that platform-related tax and regulatory costs can be shifted through advertiser invoices (Google, 2026). The United Kingdom experience also shows that pass-through was not uniform. Google added a 2 per cent charge to advertisers' invoices and Amazon increased fees for third-party sellers, while Facebook, eBay and Microsoft initially indicated that they would absorb the tax (Sharwood, 2020; Kunert, 2020; HM Treasury, 2025). These different responses show that statutory liability does not determine economic incidence. The outcome depends on the platform's business model, market power and ability to adjust prices. For South Africa, incidence should therefore be assessed by service and platform rather than assumed to be the same for all firms within the scope of a DST.

Under the principal IAB/PwC allocation, Google paid search accounts for approximately 92 per cent of the R13.99 billion identifiable revenue base. At the central 3 per cent rate, Google's component of the simulated charge would be approximately R387 million and Meta's approximately R32 million. If Google followed its UK and Canadian practice and applied a matching surcharge, South African advertisers would bear most of the immediate charge. Some advertisers could pass part of that cost to consumers through higher prices, while businesses unable to do so would absorb it through lower margins or reduced advertising expenditure. The platform would bear the charge only to the extent that it did not pass it on. Although the precise allocation depends on the market share assumptions discussed in Section 4, the incidence concern does not depend on the 92 per cent estimate alone: Google dominates paid search and has previously passed comparable charges to advertisers.

The incidence result qualifies the competitive-neutrality argument. A charge absorbed by highly profitable platforms could narrow the tax asymmetry between resident and non-resident firms. If passed through, however, it could increase the costs of South African businesses that rely on digital advertising. The focus on Google and Meta in this study reflects the availability of data required to estimate their South African advertising revenue; it does not imply that they would be the only firms subject to a DST. Any eventual measure would require objective global and domestic thresholds that apply consistently to all digital service providers falling within its defined scope. Its effect on competitive neutrality would therefore depend on its design, coverage and observed incidence.

5.2 Fiscal and administrative significance

The simulated receipts are small in the context of South Africa's revenue system. Gross tax revenue in 2023/24 was R1,740.9 billion and corporate income tax revenue was R313.1 billion. The central R420 million scenario equals approximately 0.024 per cent of gross tax revenue and 0.13 per cent of corporate income tax. Even the upper R700 million scenario remains about 0.040 per cent of gross tax revenue and 0.22 per cent of corporate income tax (National Treasury, 2025). These comparisons do not make the receipts irrelevant, but they rule out presenting a DST as a material answer to South Africa's fiscal shortfall.

Table 5.1. Fiscal scale of the DST scenarios

DST scenario	Estimated gross receipts	Share of 2023/24 revenue outcomes
2 per cent	R280 million	0.016% of gross tax revenue; 0.09% of CIT
3 per cent	R420 million	0.024% of gross tax revenue; 0.13% of CIT
5 per cent	**R700 million**	**0.040% of gross tax revenue; 0.22% of CIT**

Source: Author's calculations using National Treasury (2025), Table 4.1. Percentages are rounded.

The United Kingdom provides a useful administrative comparison, although its market and tax base are much larger. Its 2 per cent DST raised about £808 million in 2024/25, while HMRC reported £6.3 million in implementation costs, including staff and information technology expenditure (HM Treasury, 2025). The comparison suggests that a narrowly designed tax can be administered at a modest direct cost once systems

are established. SARS would still need rules for group thresholds, user location sourcing, registration, returns, disputes and collection from non-residents. Administrative cost should therefore be assessed against the relatively limited domestic yield.

The African experience further qualifies the simulated gross receipts. Kenya reported 415 registrations and KES 2.2 billion collected under its combined DST and SEP obligations between January 2021 and March 2025, but most of that period preceded the SEP tax introduced in December 2024. The total therefore does not establish the yield of that tax. Nigeria's SEP regime has operated since 2020, yet the FIRS-sourced figures indicate annual self-assessed receipts of only about US$1 million to US$3.5 million between 2020 and 2024. Quiñones et al. (2025) identify weak profit attribution rules, limited access to cross-border data and difficulties auditing foreign companies among the main constraints. The contrast shows that a statutory nexus and headline rate do not by themselves secure material revenue. Registration, reliable transaction data, workable attribution rules and enforcement capacity determine how much of a modelled yield can be collected (Quiñones et al., 2025).

The evidential constraint is more limited than the absence of public company data suggests. South Africa's BEPS Action 13 framework enables SARS to receive and exchange country-by-country reports containing jurisdiction-level information on revenue, profit, tax, employees and assets of large multinational groups. Those reports are confidential and are intended for high-level transfer-pricing and BEPS risk assessment, as well as permitted economic and statistical analysis; they cannot simply be released at company level (SARS, 2026b; OECD, 2017). SARS and National Treasury could use the information already held to test the revenue base and publish aggregated indicators where confidentiality can be protected. This would provide a stronger basis for policy design.

5.3 Legal, trade and political constraints

A gross-revenue DST also creates a risk of economic double taxation. The non-resident principal may already pay corporate income tax on profit associated with the same revenue in its residence or booking jurisdiction. Given that a DST is generally designed as a turnover tax outside the taxes covered by double-tax agreements, treaty relief and foreign-tax credits may not be available. That design preserves the market jurisdiction's ability to impose the charge without creating a permanent establishment nexus, but it also means that the DST can sit alongside corporate tax rather than reallocating or crediting it. The Kenyan move from a DST to a significant economic presence income tax illustrates why the characterisation of the charge matters.

VAT addresses a different base. South Africa's 15 per cent VAT on imported electronic services is a destination-based consumption tax, whereas a DST would be a gross-revenue charge intended to increase the contribution associated with market participation. The two are therefore not legal substitutes. They may nevertheless apply to the same supply. If a platform adds the DST to an advertiser's invoice, VAT may also be calculated on the increased consideration. A VAT-registered advertiser may claim input tax subject to the ordinary rules, but non-registered firms and final consumers cannot (SARS, 2023; 2024). The combined effect must therefore be assessed through incidence rather than described simply as two taxes borne by the platform.

The external political constraint is substantial. The United States' memorandum of 21 February 2025 directed the United States Trade Representative to consider renewing Section 301 investigations into several DSTs and directed the Treasury to identify discriminatory or extraterritorial taxes for possible countermeasures (President of the United States, 2025). Canada announced on 29 June 2025 that it would rescind its 3 per cent DST and halted the first payment due the following day; the tax was formally repealed on 26 March 2026. India removed its 6 per cent equalisation levy on online advertising from 1 April 2025. These decisions show that a legally workable measure may not be politically durable when its burden falls mainly on United

States firms (Department of Finance Canada, 2025; Canada Revenue Agency, 2026; Government of India, 2025).

South Africa would confront this risk from a comparatively exposed position. A 30 per cent United States tariff on specified South African exports took effect in August 2025. Parliamentary reporting in June 2026 recorded that the measure was subsequently set aside by the United States courts and replaced by a temporary 10 per cent global tariff. From 24 July 2026, the United States imposed an additional 12.5 per cent Section 301 duty on goods from South Africa, subject to specified exemptions, following a separate investigation concerning forced-labour import prohibitions. That action was unrelated to digital taxation, but it further illustrates the sensitivity of the bilateral trade relationship. AGOA has been extended only to 31 December 2026 (Parliament of the Republic of South Africa, 2026; USTR, 2026). Although the details remain fluid, a unilateral DST applying to large digital service providers could therefore affect several US-headquartered groups and attract scrutiny within an already exposed trade relationship, with the degree of risk depending on the measure's scope and design.

The MDPMI provides a domestic illustration of the distinction between quantifying a possible levy and adopting it as an enforceable instrument. Its provisional report proposed a conditional advertising levy as a fallback remedy, but the levy was not retained in the final report, which adopted platform-specific remedies instead. The public record does not explain this change or establish whether the proposal affected the negotiations (Competition Commission South Africa, 2025a; 2025b). The episode should therefore not be used to infer why the levy was omitted or what role it played in the final outcome. It does, however, show that quantification alone does not resolve the questions of legal authority, institutional mandate and implementation that would accompany such a measure.

Taken together, the evidence narrows the policy question. A DST could produce more revenue than the simplified Amount A comparator and could state a source-country claim, but the expected receipts are fiscally modest and much of the immediate burden is likely to fall on South African advertisers if the dominant platform follows its established pricing practice. The measure would also raise double-taxation, treaty and trade risks. Section 6 therefore considers the available options against these findings.

6 Policy Options and Recommended Approach

Sections 4 and 5 narrow the available policy choice. Under the principal assumptions, the full-attribution benchmark is substantially larger than the simplified Amount A allocation and a DST produces indicative gross receipts of R280 million to R700 million. Those receipts are modest relative to South Africa's tax base, the dominant platforms have previously passed comparable charges to advertisers, and any unilateral measure would also raise questions of incidence, economic double taxation, administration and trade. The appropriate response should therefore reflect both the estimated revenue and the information required to implement each option.

6.1 Options assessed

Four broad options are available. South Africa could retain its present reliance on VAT, ordinary corporate income tax, Pillar Two and multilateral negotiations. It could introduce a significant-economic-presence income-tax rule. It could adopt a gross-revenue DST immediately. Alternatively, it could continue implementing Pillar Two and supporting Amount A while preserving a DST as a conditional fallback if the multilateral allocation does not become operational. Table 6.1 compares these options against the findings of this paper.

Table 6.1: Assessment of the principal policy options

Option	Potential advantage	Assessment
Current framework and multilateral negotiations	Avoids a new tax and limits trade, administrative and compliance risks.	Pillar Two addresses minimum taxation but does not allocate additional profit to South Africa. The source-country question remains unresolved while Amount A is unavailable.
Significant-economic-presence income tax	Establishes an income-tax nexus and may align the charge more closely with profit.	Profit attribution, treaty coverage, access to information and enforcement remain difficult. Regional experience does not yet demonstrate reliable material yields.
Immediate gross-revenue DST	Creates a direct source-country claim and may serve as a signal, negotiating instrument or source-principle precedent.	Modest fiscal significance, likely pass-through, economic double taxation and trade exposure weaken the case for immediate adoption.
Multilateral-first strategy with a conditional DST fallback	Allows Pillar Two to continue, treats Amount A as the preferred allocation mechanism and preserves a domestic alternative if multilateral reform fails.	Best fits the evidence, provided that any fallback is subject to clear conditions and a separate policy process.

The first option is administratively conservative but leaves South Africa dependent on an uncertain multilateral outcome. A significant-economic-presence rule is conceptually closer to corporate income tax, but establishing a taxable nexus does not by itself resolve profit attribution or provide the information required to enforce the tax against foreign groups.

An immediate DST would be easier to calculate because it would apply to revenue rather than attributed profit. It could also perform functions beyond raising revenue. It would signal South Africa's claim to tax value derived from its market, preserve the source principle and potentially provide negotiating leverage. These benefits must nevertheless be weighed against the burden that may be passed on to domestic advertisers, the absence of automatic relief from economic double taxation and the risk of trade countermeasures.

The fourth option best reflects these competing considerations. Pillar Two would remain in place because it addresses whether multinational profit is taxed at a minimum effective rate. Amount A would remain South Africa's preferred mechanism for allocating profit to market jurisdictions. A DST would be preserved as an alternative if Amount A remains unavailable, rather than operating permanently alongside it.

6.2 Recommended approach

South Africa should not introduce a unilateral DST at present. This does not require South Africa to abandon its claim to tax income associated with sustained participation in its market. It reflects the finding that the expected revenue must be assessed together with the incidence, double-taxation, administrative and trade risks identified in Section 5.

South Africa should continue to implement Pillar Two and support the multilateral allocation of taxing rights reflected in Pillar One Amount A. The two reforms perform different functions. Pillar Two limits the benefit of locating multinational profit in low-tax jurisdictions. Pillar One reallocates part of the residual profit of the largest and most profitable multinational groups to market jurisdictions.

The immediate domestic priority should be a data-led assessment. SARS should use country-by-country reports to examine group profitability and the location of reported profit and tax. VAT registrations and

returns for imported electronic services, local corporate income tax returns and transfer-pricing information should be used to assess South African revenue and tax already captured. National Treasury and SARS could publish aggregated indicators where taxpayer confidentiality can be protected. More complete administrative information would refine the Amount A-style allocation, although it requires additional information on group profitability, residual profit and profit already taxed in the market jurisdiction.

The DST option should nevertheless remain under review as a conditional fallback. A quantified alternative could preserve a source-country reference point in international negotiations. National Treasury and SARS would need to establish that a measure could be designed, administered and defended if the multilateral process fails. However, the Amount A convention links the allocation of profit to the removal of DSTs and similar measures (OECD, 2023). If Amount A becomes effective for South Africa, a domestic DST falling within those provisions would need to be withdrawn. A DST should therefore be considered only as an interim or fallback option while the multilateral allocation remains unavailable.

Therefore, a DST should be reconsidered only if Amount A remains unavailable, administrative information identifies a material and persistent mismatch after accounting for the activities and taxes of resident subsidiaries, and the expected benefits remain proportionate after administrative costs, incidence, double taxation and trade exposure are considered. Meeting these conditions would justify formal consideration of a DST. Any proposal would still require detailed design, public consultation, draft legislation and parliamentary scrutiny led by National Treasury. The 2 per cent scenario provides a lower-rate reference point, but the estimates in this paper do not establish the appropriate rate. The evidence also relates to digital advertising and does not, by itself, justify a tax covering all digital services. The scope, thresholds and sourcing rules would therefore require further analysis and consultation.

Any resulting measure should apply prospectively to clearly defined revenue connected to South African users or advertisers. Its design should address revenue already reflected in the taxable profits of South African entities and explain whether relief would be available. It should also include a statutory review and a sunset provision requiring its withdrawal if Amount A becomes effective for South Africa. Institutional responsibilities should remain distinct. National Treasury should lead tax policy and assess the fiscal, treaty and trade implications. SARS should validate the tax base, design the administrative rules and enforce any measure. The Competition Commission may contribute evidence on market structure, platform dependency and likely pass-through, but a fiscal DST should remain separate from the Commission's competition remedies.

7 Conclusion

This paper provides a transparent estimate of the multinational-platform revenue identifiable within South Africa's digital-advertising market and compares the amounts produced by alternative allocation rules. From the IAB South Africa and PwC market estimate of R17.72 billion, the analysis constructs a revenue base of R13.99 billion comprising Google paid search and Meta paid social. On this base, the simplified Amount A-style allocation produces approximately R175 million, the DST scenarios produce between R280 million and R700 million, and the full-attribution benchmark produces R1.075 billion.

The comparison shows that the policy outcome depends as much on the tax base and allocation rule as on the selected rate. Applying the broader market-size estimate raises each result by approximately 48 per cent. More complete information on locally sourced revenue, group profitability and profit already taxed in South Africa could therefore materially affect both the estimated receipts and the choice of instrument.

The potential revenue must also be viewed in context. The central R420 million DST estimate is small relative to national tax receipts. Its value would lie partly in asserting a source-country claim and preserving a

domestic alternative, rather than in materially changing South Africa's fiscal position. Those benefits must be weighed against likely pass-through to advertisers, economic double taxation, administrative demands and exposure to trade countermeasures.

South Africa should therefore not introduce a unilateral DST at present. It should continue implementing Pillar Two and support Amount A as the preferred mechanism for allocating profit to market jurisdictions. National Treasury and SARS should use the administrative information already available to test and refine the estimates. A DST should remain a conditional fallback if Amount A remains unavailable and the administrative evidence supports formal consideration of an alternative.

The paper's contribution is accordingly not a case for a predetermined tax rate. It provides a reproducible range, identifies the information that drives the results and offers a basis for deciding when a unilateral measure may become justified. This approach preserves South Africa's source-country interest without treating a modest and uncertain revenue instrument as an immediate solution.

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