Practical Difficulties in Applying Tariffs to Services Imports

Briefing note

Executive summary

- Efforts to apply tariffs to imported services face significant structural, legal, and practical barriers.
- Unlike goods, services are intangible, often delivered digitally or through the movement of people – and lack consistent valuation mechanisms and tax point when crossing the border to apply a tariff, particularly for bespoke, bundled, or intra-firm transactions.
- No country applies border-style tariffs to services in a systematic way. Where governments have experimented with tariff-like measures – such as digital services taxes (DSTs) or withholding regimes – they have faced legal challenges, retaliation risks, and high enforcement costs.
- Implementing service tariffs would require new legal frameworks, extensive cross-sectoral consultations, and a major expansion of trade and tax enforcement infrastructure.
- The WTO Moratorium on Customs Duties on Electronic Transmissions, in place since 1998, has played an important role in preventing tariff escalation in the digital economy.
  By supporting open and predictable digital trade, it has helped lower costs, encourage innovation, and reduce the risk of regulatory fragmentation.

Services trade: A foundation of the modern economy

Services account for more than 50% of global trade on a value-added basis, according to the OECD. They power everything from finance and logistics to healthcare, education, and software. Digitally delivered services grew at an average annual rate of 8.1% between 2005 and 2022, nearly double the growth rate of goods trade over the same period. In over 50 economies, including the US, UK, and India, services exports now exceed goods exports.

Services are also essential enablers across the economy – providing the inputs that make manufacturing, agriculture, and commerce more efficient and competitive. More than 30% of the value of manufactured exports comes from services inputs, such as engineering, transport, and software. Micro-, small-, and medium-sized enterprises (MSMEs), in particular, rely on cross-border services such as cloud computing, digital payments, and online marketplaces to reach customers and scale operations. For example, 90% of e-commerce sellers on major global platforms are MSMEs. Protecting the openness of this ecosystem is thus essential for global development, innovation, and inclusion.

Can services be tariffed—and should they?

In theory, governments can attempt to tax cross-border services, but in practice, applying traditional tariffs to services is legally, structurally, and operationally unworkable. Services are intangible, often delivered digitally or through the movement of people, and lack a clear point of import, making them fundamentally incompatible with border-based tariff systems designed for goods. There is no global classification system equivalent to the Harmonized System, an internationally standardised numerical method of classifying traded products, and services are often invoiced in non-standard ways or bundled with other products, further complicating enforcement.

Even when governments try to impose tariff-like measures—such as digital services taxes or withholding regimes—they face high administrative costs, legal challenges, and risks of international retaliation. These approaches often violate established rules or conflict with trade and tax agreements.

Beyond feasibility, there is a strong economic argument against service tariffs. Services are vital enablers of productivity, innovation, and inclusion. They account for more than half of global trade on a value-added basis and underpin sectors ranging from manufacturing to logistics. Imposing tariffs would raise costs, fragment global supply chains, and disproportionately harm MSMEs and developing economies that rely on affordable cross-border services. **In short: services can't realistically be tariffed—and they shouldn't be.**

Why can't services be taxed at the border like goods?

Goods are physical, declared at customs, classified under a globally harmonised system, and assigned a clear value based on commercial invoices. Services are not. They are often consumed remotely, delivered in non-linear ways, and priced by subscription, usage or bundled licensing agreements. Many services are also non-rival and non-excludable – such as digital content or cloud storage – further complicating attempts to define their point of import or assign them a customs value. This applies across a wide spectrum: from traditional services like outsourced human resources support to less typical digital services such as targeted social media marketing campaigns run by agencies based abroad. These campaigns are highly customisd, priced by performance metrics, and often rely on local influencers or region-specific content—making it difficult to pinpoint where the service was delivered or how to assign it a clear value for trade and taxation purposes.

Is there a global classification system for services like there is for goods?

No. The Harmonized System (HS), governed by the World Customs Organization, is a treaty-based framework that provides a detailed framework for classifying goods. In contrast, services under the WTO General Agreement on Trade in Services (GATS) still rely on a provisional classification system -- the UN's Central Product Classification (CPC). The CPC was designed to be used by statistics agencies, not trade enforcement. A functioning service tariff regime would require developing an entirely new, granular classification system from scratch – a politically and technically daunting task.

What do real-world examples – like film production or software development – tell us about the impracticality of service tariffs?

These industries show how complex and fragmented services trade has become. In the film industry, a single movie may be scripted in one country, financed in another, filmed in several more, edited offshore, marketed, and distributed globally via a platform based elsewhere. There is no obvious "import event" to tax, and revenue may come from ads, licensing or bundled subscriptions.

Similarly, software development often involves coding by distributed teams, cloud-based hosting, and usage-based pricing. These services don't pass through customs, don't generate invoiceable border transactions, and don't fit traditional tariff models.

What mechanisms have countries used to try to tax imported services?

A small number of countries have imposed withholding taxes on payments for cross-border services. While feasible in certain cases, they often conflict with double taxation treaties and can be difficult to enforce, particularly for SMEs. Other countries have implemented digital services taxes (DSTs) targeting revenues of large online platforms, but these often spark trade tensions and introduce regulatory fragmentation. Fixed market access fees are another approach, but they risk violating non-discrimination rules under international trade law and tend to be extremely regressive – hitting smaller providers the hardest.

While these approaches may aim to level the playing field, they often carry unintended economic consequences. These types of measures risk penalising developing economies that are highly dependent on commodity exports, have low levels of production diversification, and are vulnerable to fluctuations in global prices. They may also discourage foreign direct investment and disproportionately affect domestic SMEs attempting to scale across borders.

By contrast, some countries have opted to apply Value Added Tax (VAT) to services consumption—treating domestic and foreign providers equally—which offers a more neutral and widely accepted alternative.[1]

What is the WTO E-Commerce Moratorium, and why is it important?

Since 1998, WTO Members have agreed not to impose customs duties on electronic transmissions – a commitment known as the WTO E-Commerce Moratorium. It is widely seen as a cornerstone of digital trade openness and legal predictability. The moratorium helps prevent tariff escalation, supports digital inclusion, and avoids a patchwork of national barriers that could disrupt cross-border services and content flows. Rolling back or violating this commitment would weaken multilateral trust and increase fragmentation in the global digital economy, and disproportionately harm developing economies and MSMEs that rely on digital services to reach external markets and customers.

What would governments need to do to enforce service tariffs?

They would need to create entirely new compliance systems, including registries of foreign service providers, monitoring mechanisms for digital transactions and contracts, integration with payment platforms and intermediaries, and sector-specific audit tools. Most customs and tax authorities are not equipped for this kind of oversight. The resulting expansion in administrative burden would be significant and costly – likely exceeding any revenue gains. According to a 2023 OECD study, imposing tariffs on electronic transmissions would generate minimal revenue (averaging less than 0.1% of total government income), while creating substantial compliance burdens, increasing trade costs, and reducing digital participation—especially for developing economies and MSMEs.

How would service tariffs affect businesses?

Service tariffs would raise costs and increase uncertainty for all businesses, but MSMEs would be hit the hardest. Many rely on cross-border services – such as legal advice, design, IT support, and marketing – to compete and grow. Larger firms operating globally could face duplicative reporting requirements, compliance risks, and internal transfer pricing complications. Platforms might respond by blocking or geofencing providers, reducing choice and innovation for consumers and businesses alike.

Would service tariffs harm exporters too?

Yes. Many economies are net exporters of services, particularly in high-value sectors such as finance, media, education, and professional services. If one country imposes tariffs on imported services, others may retaliate – reducing market access and harming the very firms that governments typically aim to promote. The risk of reciprocal measures is high, and the economic consequences could be severe.

---

[1] https://iccwbo.org/news-publications/news/are-value-added-taxes-a-barrier-to-trade/

What should policymakers do instead of imposing service tariffs?

Policymakers should:

- Reaffirm multilateral norms by supporting the continuation of the WTO E-Commerce Moratorium and rejecting tariffs on services
- Use targeted, non-discriminatory regulation to achieve public interest goals (e.g. data privacy, content moderation, cybersecurity) without distorting trade
- Pursue multilateral cooperation through appropriate multilateral and regional bodies to develop common rules for the taxation of the digital economy.

Please cite as:

ICC (2025), Briefing note: Practical Difficulties in Applying Tariffs to Services Imports, www.iccwbo.org/news-publications/policies-reports/practical-difficulties-in-applying-tariffs-to-services-imports/

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

About the International Chamber of Commerce

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 170 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.

33-43 avenue du Président Wilson, 75116 Paris, France
T +33 (0)1 49 53 28 28 E icc@iccwbo.org
www.iccwbo.org @iccwbo