# The Terminator Tax: an economic assessment

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## Summary

At a 10% rate on groups with worldwide revenue above €750m, an EU-wide Terminator Tax would raise about €5.4bn in 2028, its first realistic year, and around €12bn by 2032 in our central case, or roughly €43bn over 2028-2032. From 2029 it would bring in more than the €6.8bn a year the Commission expects from its proposed CORE levy. Across our low and high scenarios, revenue ranges from €2.9bn to €8.5bn in 2028 and from €5.1bn to €24bn in 2032.

Italy acting alone could start a year earlier through the 2027 budget law, but would collect less: about €310m in 2027, rising to around €900m by 2032 in the central case. Italy is a smaller share of the European AI market (we estimate 8%) than of the EU economy (12%), and a single country enforces less well against foreign providers. Under an EU-wide levy paid into the EU budget, Italy's roughly 12% share of national contributions would be worth about €5.2bn over 2028-2032, against €3.5bn from going alone over 2027-2032.

The economics are not the hard part. Even at 10%, the price increase for European users would be cancelled out within about two weeks by the fall in AI prices, and because the levy follows the customer it does not change where firms build. The obstacles are legal and political: unanimity at EU level, a rate well above any existing digital tax, and for Italy alone a direct exposure to US retaliation that the EU's collective trade powers would otherwise absorb. The EU route is the stronger one, and a national levy in Italy would be most valuable as a first step that strengthens the case for it.

Unless stated otherwise, figures are central estimates built from public market data and the assumptions set out below.

## The tax being modelled

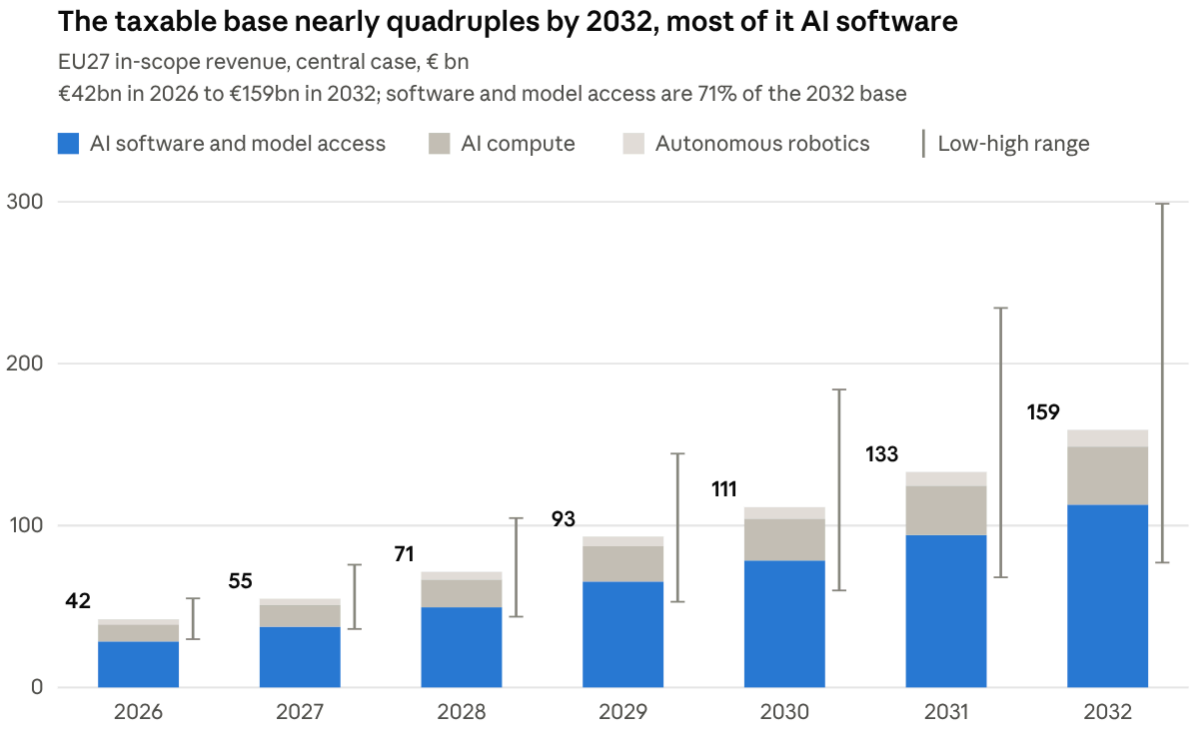
We model the following design: a levy on gross revenue from AI and autonomous robotics supplied to users in the jurisdiction, built on the same mechanics as the digital services taxes in France, Italy and Spain.

| Element | Assumption in the model |
|---|---|
| Taxable revenue | AI compute sold as a service (GPU capacity, training, inference), AI model access and separately billed AI software features, and autonomous robots sold, leased or provided as a service |
| Excluded | Conventional industrial machinery, pre-programmed factory robots, IT consulting and implementation services, sales of chips and servers |
| Taxpayers | Groups with worldwide revenue above €750m |
| Place of taxation | Where the user is located, regardless of where the provider is established |
| Rate | 10% in the main case, with 5% and 15% as sensitivities |
| Start date | 2028 for the EU version (first year of the next MFF); 2027 for Italy alone (budget law adopted by December 2026) |

Two choices matter more than the rest. Taxing revenue rather than profit means the levy applies while model labs still lose money. And excluding hardware sales keeps the tax off Europe's own investment in AI infrastructure, which is the main objection economists such as Korinek and Lockwood raise against compute taxes (Brookings, January 2026). The cost is that Nvidia's windfall stays largely outside the base.

## Sizing the base

We estimate the EU's in-scope AI and robotics revenue at about €42bn in 2026, rising to around €160bn by 2032 in the central case. The range is wide, from €77bn to €300bn in 2032, reflecting different assumptions about how much AI spending is billed as a distinct AI product.




Our model, built from Synergy, IDC and Mordor Intelligence market data; see the assumptions table below

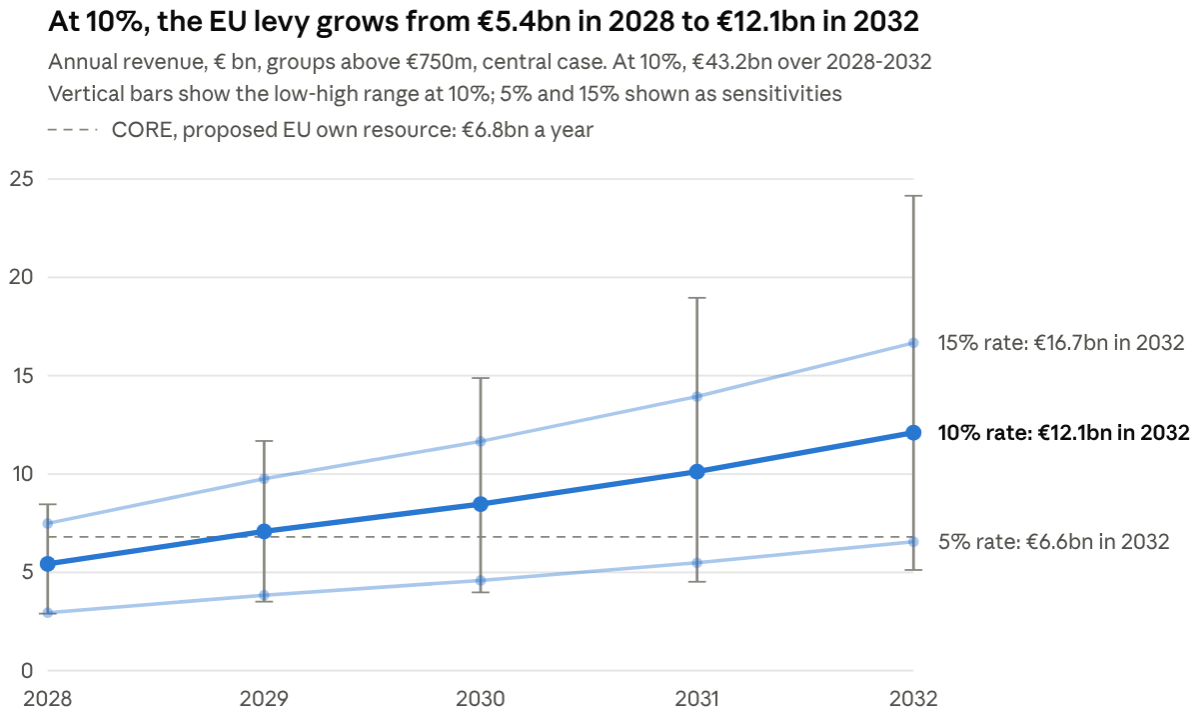
Each segment starts from a published market estimate. We then apply three adjustments: the EU's share of the European figure (77%, removing the UK, Switzerland and Norway), the share that is in scope, and growth.

| Segment | Starting market | In-scope share (low / central / high) | Annual growth, 2027-29 then 2030-32 (central) |
|---|---|---|---|
| AI compute | European cloud infrastructure, €61bn in 2024, growing about 24% a year (Synergy Research; Gartner) | AI workloads at 12% / 18% / 25% of cloud revenue, less 20% already counted under software | 28%, then 18% |
| AI software and model access | IDC's European AI spending, about $141bn in 2026, of which 55% is software (Netzwoche on IDC) | 40% / 55% / 70%, billed as a distinct AI product by groups above €750m | 32%, then 20% |
| Autonomous robotics | European service robots, $14.0bn in 2025, growing 18% a year (Mordor Intelligence via GII) | 20% / 30% / 40%, autonomous systems sold by large groups | 22%, then 20% |

Two cross-checks suggest the central case is reasonable. OpenAI and Anthropic alone were reported at annualised revenue of about $40bn and $47-65bn respectively in mid-2026 (Unite.AI). If 15-20% of that comes from EU users, those two firms would account for €11-18bn, roughly half of our central estimate for software and model access. On robotics, IFR counts about 200,000 professional service robots sold worldwide in 2024, with the robots-as-a-service fleet up 31% (IFR via Business Wire), while robotaxis are only beginning trials in Europe. Robotics will stay a small part of the base until at least 2030.

## Revenue scenarios

A 10% EU-wide levy would raise about €5.4bn in 2028, €8.5bn in 2030 and €12.1bn in 2032 in our central case, or €43bn over the five years. From 2029 it would bring in more each year than the €6.8bn the Commission expects from its proposed CORE levy on large companies.




Our model, with avoidance and the demand response rising with the rate; CORE figure from the Commission's July 2025 proposal

Revenue rises less than in proportion to the rate, because a higher rate changes behaviour. We assume firms pass 75% of the levy on to customers, and that AI demand falls by half a percent for every 1% rise in price. We also assume avoidance grows with the rate: on top of a 15% baseline for reclassification and the compliance gap, it rises by one percentage point for every point of rate above 4%, reaching 21% at 10%. As a result, doubling the rate from 5% to 10% multiplies revenue by about 1.8, and 15% raises about 2.5 times what 5% does.

| Total 2028-2032, € bn | 5% | 10% | 15% |
|---|---|---|---|
| Low case | 10.9 | 20.0 | 27.3 |
| Central case | 23.4 | 43.2 | 59.5 |
| High case | 42.2 | 78.1 | 108.1 |

For scale, the four EU countries with a digital services tax raised about €1.9bn from it in 2025. A 10% Terminator Tax would raise almost three times that in its first year in the central case, and more than that even in the low case, because AI revenue is growing much faster than digital advertising.

## Who actually pays

Part of the levy will be passed on to European customers. The best evidence comes from the digital services taxes. Muddasani and Langenmayr found that Amazon raised its seller fees by roughly half the amount of the tax, and that sellers largely passed those higher fees on to consumers (WU Vienna, 2025). Google and Apple added explicit surcharges in several DST countries.

AI providers have more pricing power than Amazon has over its sellers, so we assume pass-through of 50-100%. At a 10% rate, that means AI prices to European users would end up 5-10% higher than they otherwise would be. That is a real increase, but small against the market's own trend. Epoch AI estimates that the cost of reaching a given level of AI capability falls 5-10 times a year (Epoch AI, February 2026). At that pace a 10% price increase is wiped out in two to three weeks, so it is very unlikely to change whether a European firm adopts AI.

The effect on where firms invest should be close to zero. The levy follows the customer, not the data centre or the headquarters, so a provider cannot avoid it by building in another country or booking profits elsewhere. That is the main economic advantage of a revenue base over a profit base, and the reason we excluded hardware: taxing chips and servers would fall directly on European infrastructure investment.

The real economic risks are narrower:

- **Reclassification.** Providers have an incentive to fold AI features into general software subscriptions so that no separate AI revenue appears. The definition of the base has to catch AI functionality bundled into a wider product, or the base will shrink over time.
- **Cascading.** If AI services bought by businesses are taxed at each stage, the levy compounds along the supply chain. Charging only the first sale to a European user, with intra-group transactions excluded as in the Italian DST, avoids most of this.
- **Competition at the margin.** A flat rate on revenue weighs more heavily on low-margin providers, which can include European challengers. The €750m threshold keeps most of them out, but the thresholds should be revisited as European firms grow.

These risks grow with the rate. At 10% we assume about a fifth of the gross base is lost to avoidance, reclassification and the compliance gap, plus a demand response of around 4%, as set out under Revenue scenarios. Getting the definition of the base right matters more at 10% than it would at 3%.

## EU-wide policy

An EU levy would bring in more money, sit on firmer legal ground and be harder to retaliate against than any national version. The obstacle is unanimity.

**Legal route.** There are three ways to do it, and all of them are slow. A directive harmonising national levies needs unanimity in the Council under Article 113 or 115 TFEU. Making the revenue an EU own resource needs an Own Resources Decision under Article 311, which also requires unanimity and ratification by every national parliament. The fallback is enhanced cooperation among at least nine member states. That keeps the idea alive if a few governments block it, but the financial transaction tax has been stuck in that procedure since 2013.

**Fit with the 2028-2034 budget.** In July 2025 the Commission proposed five new own resources for the next MFF, including CORE, a flat annual charge on companies with turnover above €100m, expected to raise about €6.8bn a year. It dropped the EU digital levy that had been discussed earlier (PwC summary). Germany has already objected to CORE. That leaves room for an alternative: in our central case a 10% Terminator Tax would raise about €8.5bn in 2030, a quarter more than CORE is meant to bring in. It is narrower than CORE, targeted at a sector that is booming and largely foreign-owned, so for some governments it may be easier to accept.

**Existing DSTs and the OECD.** France, Italy, Spain and Austria raised about €1.9bn from digital services taxes in 2025 (ItaliaOggi on CCIA data). Those taxes cover advertising, platforms and data, not AI services, so the overlap is small. Where it exists, the national DST can be credited against the EU levy. The OECD's Pillar One, which would have required DSTs to be withdrawn, remains unresolved.

**The US response.** On 26 June 2026 President Trump threatened a 100% tariff on imports from any country that taxes digital services provided by US companies (Euronews). A levy that falls mostly on American firms will draw the same threat. At EU level, trade policy is a Union competence: retaliation has to target the whole bloc, and the EU can answer with its anti-coercion instrument. Because it is collective, the EU route is safer for every member state, Italy included.

## Italy alone

Italy could introduce the levy quickly and cheaply, but it would raise modest sums and take on most of the political risk by itself.

**How it would work.** The simplest route is a new section of the imposta sui servizi digitali, which the Agenzia delle Entrate already collects from large foreign platforms. Since 2025 the Italian DST has no domestic revenue threshold, only the €750m worldwide one, and it is paid in two instalments: 30% in November and the balance the following May (edotto). An AI and robotics section could use the same registration, sourcing and payment rules, so the administrative cost would be low and the levy could be in the 2027 budget law.

**The Italian base.** We put Italy at 8% of the EU's in-scope AI and robotics revenue, with a range of 6.5-10%. That is below its 12% share of EU GDP (Euronews on Eurostat data), because Italy adopts AI more slowly: 16.4% of Italian firms used AI in 2025 against an EU average of 20%, and 19.9% of Italians had used generative AI against 32.7% across the EU (Eurostat, via TIM). The Politecnico di Milano measured the Italian AI market at €1.8bn in 2025, up 50% in a year (Teleborsa), and Italy's public and hybrid cloud market at €5.8bn (QuiFinanza).

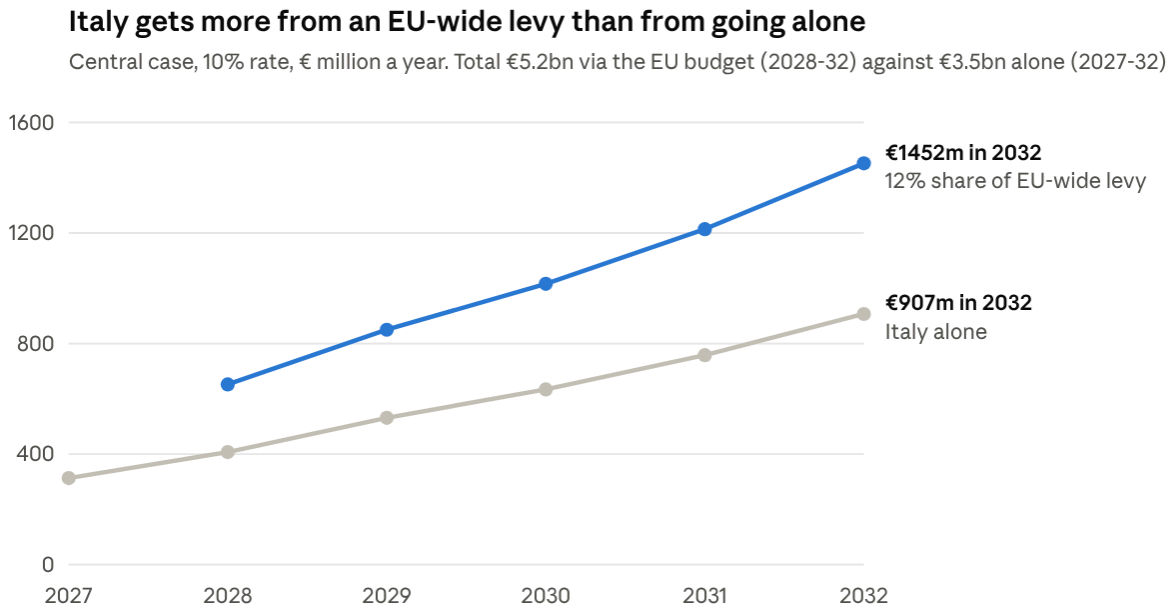
**What it would raise.** At 10%, the central case gives about €310m in 2027, €630m in 2030 and €910m in 2032. The low and high cases for 2030 are €240m and €1.4bn. By 2030 the levy would bring in about as much as the Italian DST, which raised €637m in 2025. We assume more erosion than at EU level, a baseline of 15-30% rather than 10-25%, because a single tax authority has less leverage over providers with no presence in the country.

**Legal exposure.** A national levy is compatible with EU law as long as it does not discriminate by nationality and does not work like VAT. In March 2020 the Court of Justice upheld Hungary's progressive turnover taxes on telecoms and retail, finding that turnover is a neutral criterion and that a tax falling mostly on foreign-owned firms reflects their market position, not discrimination; it also held that a tax not charged at every stage and carrying no right to deduct does not breach the VAT Directive (Court of Justice). In March 2021 it ruled that the Polish retail tax and the Hungarian advertising tax, both levied on turnover in progressive bands, were not state aid (Concurrences). A levy built on the Italian DST would rest on the same reasoning.

**Political exposure.** This is the weak point. In June 2021 the US Trade Representative found the Italian DST discriminatory and announced 25% tariffs on about $386m of Italian goods, against an estimated DST burden on US firms of up to $140m a year, then suspended them pending the OECD talks (WilmerHale). A new Italian levy would almost certainly reopen that file, now under an administration threatening 100% tariffs. Italy ran a €34.2bn goods surplus with the US in 2025 (Milano Finanza), so even narrow product-specific tariffs could cost exporters more than the levy brings in. The government's close relationship with Washington makes a unilateral step less likely, and more costly if it happens.

## EU-wide versus Italy alone

On revenue alone the EU route is better for Italy, even though it starts a year later. Italy pays into the EU budget roughly in line with its 12% share of EU GDP, but accounts for only about 8% of the AI base, so pooling works in its favour.




Our model, central case at 10%. Italy alone from 2027; EU levy from 2028, Italy's share at its ~12% weight in EU GDP

That comparison assumes the EU revenue reduces national contributions. If the money instead funds a new Transition Fund, Italy's share depends on how the fund is allocated, and a formula weighted towards displaced workers and lower-income regions would likely give it more than 12%.

| | EU-wide levy | Italy alone |
|---|---|---|
| Earliest start | 2028, with the next MFF | 2027, through the budget law |
| Legal route | Unanimity under Article 113, 115 or 311 TFEU, or enhanced cooperation among nine or more states | Ordinary national law, extending the DST |
| Administration | New EU framework, collected nationally | Existing DST registration and payment system |
| Avoidance | Lower: one rulebook, 27 tax authorities sharing data | Higher: one authority dealing with non-resident providers |
| US retaliation | Aimed at the whole EU, which can answer with the anti-coercion instrument | Aimed at Italian exports, with no collective response |
| Political value | The larger prize, but slow and open to a veto by any single government | A concrete bill that can be debated in every budget cycle |

The two routes are complementary rather than competing. The EU levy is the goal. A national levy in Italy, introduced through the budget law, would show that the tax can be collected with existing tools, and would raise the cost of saying no in Brussels.

## Beyond Europe

The Terminator Tax is designed so that any country can adopt it. To give a sense of scale elsewhere, we scaled our central EU estimate by each country's approximate share of AI spending relative to the EU, and applied the same higher allowance for avoidance we use for a country acting alone. The United States dominates because it accounts for more than half of all AI spending worldwide (IDC via Silicon UK). These figures are indicative orders of magnitude rather than country costings.

| Country acting alone, 10% rate | Revenue in 2030 | Total 2028-2032 |
|---|---|---|
| United States | €24bn | €120bn |
| Germany | €2.0bn | €10bn |
| United Kingdom | €1.7bn | €9bn |
| Japan | €1.6bn | €8bn |
| France | €1.3bn | €7bn |
| Canada | €0.8bn | €4bn |
| Italy | €0.6bn | €3bn |

China is not included: most foreign AI services are not sold there, and its market structure does not lend itself to the same method.

## Method and assumptions

No statistical office yet reports AI revenue as a category, so we built the base from published market research on cloud infrastructure, AI spending and service robots. For each segment we estimate the share billed as a distinct AI product by groups above the €750m threshold, using low, central and high values; the difference between those values accounts for most of the range between our scenarios. Revenue is then reduced for avoidance, reclassification, the compliance gap and the demand response, as described under Revenue scenarios. The Italian figures apply Italy's estimated 8% share of the EU base, with a higher allowance for avoidance.

Growth is the other key assumption. IDC expects European AI spending to grow about 35% a year to 2030 (Netzwoche on IDC). We use 22-40% to 2029 and slower growth after that. A sharp correction in AI valuations would hit the base quickly, which is one more argument for a revenue base: it falls less than profits do in a downturn.

## Sources


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