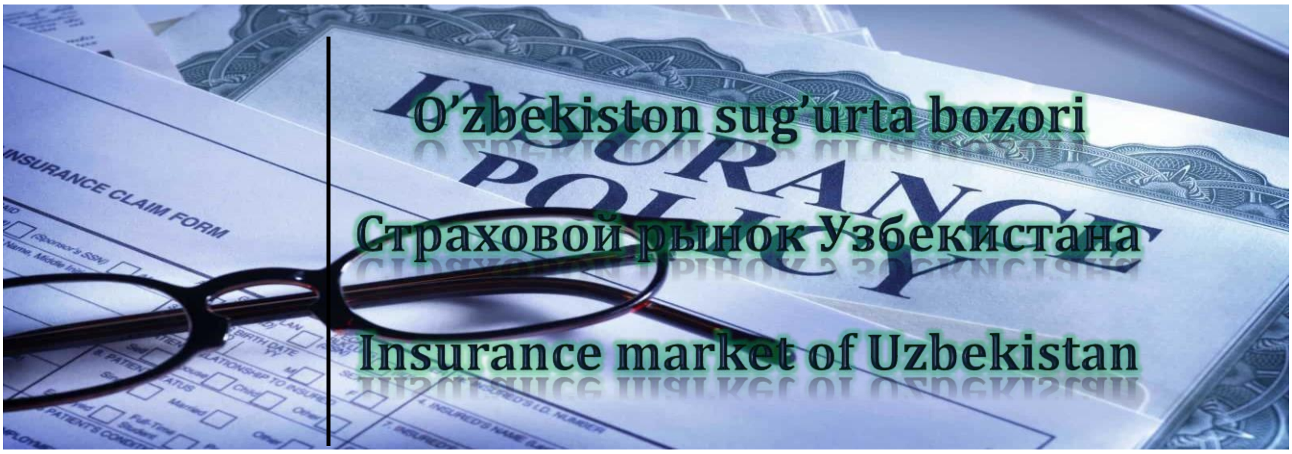

THE IMPACT OF THE DIGITAL ECONOMY AND E-COMMERCE ON TAXATION FOR ENSURING INCLUSIVE GROWTH

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ARTICLE INFORMATION	ABSTRACT
Volume: 1 **Issue: 5** **DOI:https://doi.org/10.55439/INSURE/vol1_iss5/a13**	This article investigates the influence of the digital economy and e-commerce on taxation systems. It addresses the evolving landscape of the digital economy and its implications for tax policies and administration. Through extensive research, the study examines the challenges and nuances of implementing and complying with taxation rules in the digital economy. This includes an analysis of the unique characteristics of digital transactions and e-commerce platforms. The research highlights key problems such as the difficulty tax authorities face due to the borderless nature of digital transactions, the absence of a physical presence, and the complexities introduced by digital platforms. These factors pose significant challenges in monitoring and enforcing tax laws effectively. The article offers recommendations and solutions to address these challenges. It underscores the need for adaptive taxation rules and robust enforcement mechanisms to effectively manage taxation in the rapidly evolving digital economic landscape.
KEYWORDS	*digital economy, electronic commerce, tax, taxation, consumer, materiality.*

INTRODUCTION

The digital economy and e-commerce are becoming increasingly important in the modern era due to their transformative effects on various aspects of society and economy. This is because the digital economy and e-commerce have enabled businesses to break down geographic barriers, expand markets beyond traditional borders, and reach a global customer base. This has facilitated cross-border trade and opened up new opportunities for business. Also, e-commerce has enabled consumers to shop online from home, saving time and effort. It has also simplified business processes and supply chains, making them more efficient and cost-effective.

The digital economy and e-commerce have fostered innovation and entrepreneurship by providing opportunities for new business models, products and services. Startups and small businesses can use digital technologies to compete with larger enterprises and disrupt traditional industries.

At the same time, the digital economy and e-commerce have disrupted traditional industries such as retail, media, finance and transportation, leading to fundamental changes in business models, consumer behavior and market dynamics.

The digital economy is changing the composition of capital as a factor of production, and with it the sources of wealth accumulation. "Digital capital not only replaces various types of human labor, but also reproduces itself easily and cheaply with minimal costs under the influence of other factors. By combining existing sources of labor and capital and creating new products, services and business models, new "digital" technologies displace labor and material and intellectual capital [1].

Now, the digital economy and e-commerce also pose challenges to taxation systems , as traditional tax systems may not always be well-suited to cover the unique features of digital transactions and cross-border e-commerce, which leads to debate.

Taxation is an important aspect of any economy, including the digital economy and e-commerce. As the digital economy and e -commerce grow in importance, they will create unique challenges and opportunities in the field of taxation . Traditional tax systems may not always be well equipped to effectively capture the complex and evolving nature of digital transactions and cross-border e-commerce. This is causing debate on tax policy and reforms in the digital age . Therefore, taxation is a relevant and important topic in the context of the digital economy and e-commerce. Ensuring that tax policies and frameworks are effective, fair and responsive to the evolving nature of the digital economy and e-commerce requires careful consideration of the specifics and challenges of the digital world, which underpins the relevance of our chosen research work .

LITERATURE REVIEW

The impact of the digital economy and e-commerce on taxation is an important topic of discussion and research among scholars, policy makers and practitioners. There are different views, concepts and debates on this topic. In the literature, several issues in the taxation of the digital economy, including the intangibility of digital goods and services, the global nature of the digital economy, and the use of digital platforms pose challenges to traditional tax systems designed for physical transactions.

Within this topic, M.R. Pinskaya's work on international taxation [2] and a number of publications on the taxation of electronic services transactions [3] should be noted.

However, according to the analysis of the aforementioned works of Russian scholars, it was concluded that insufficient attention is paid to improving the taxation of digital business in the context of creating customer value. In modern scientific literature, issues related to taxation, including the distribution and determination of the object of taxation (property, turnover or profit), determination of the category of taxpayer (corporation, digital tenant, consumer of digital services) and the moment of the obligation to pay tax (when a certain scope of activity is reached) is recognized as one of the most relevant [4].

A.N. Kozyrev said that "in the debates on the digital economy, its possibilities, prospects, new forms of business based on digital platforms and blockchain technology are being discussed, but we can say that the issues related to taxation and its creation, the destruction of value are all economic despite the fact that it concerns the interests of the operating entities, including the population, entrepreneurship and the state" [5].

Two purposes of the tax have been officially announced. The first is to impose a fair tax burden on digital business giants that use legal tax optimization methods in the EU, such as the IP-Box regime [6].

In 2018, the UK held an open discussion on the taxation of corporate income in the digital economy and believes that it is necessary to introduce an additional tax on digital business , not only the formation of an operational database of customers, for which the collection of information about users will result from a wider and more active interaction with the company. There are four channels through which users themselves become participants in the value chain: content creation, deep and long-term interaction with the digital platform, a network involving a large number of users, and external effects and user contributions. [7].

Italy's 2019 budget introduced a similar indirect tax of 3 percent for companies with a domestic turnover of more than 5.5 million euros. The tax base is formed from the amount of income received from digital services (excluding value added tax). [8].

Thus, strong tax competition among countries to extract revenue from large taxpayers in the digital sector leads to the promotion of tax on digital services. In order to develop effective and fair international taxation of income from the provision of digital services, it is necessary to:

1) recognition of user participation as an important value factor in some types of business;

2) development of a method for measuring user participation;

3) to determine the system of criteria for classification of enterprises as payers to the economic group;

4) granting the right to tax non-resident companies without a permanent establishment in the jurisdictions where the users are located;

5) to develop a method for determining the share of the profits of these companies created by users, which should be distributed among countries with the right to tax [7].

" Digitization can improve taxation by collecting more and more reliable data on the economic performance of taxpayers and improve equity efficiency by introducing more sophisticated tax systems to better target income redistribution. In doing so, digitization potentially allows governments to lower tax rates to collect the same amount of revenue or redistribute revenue as in current tax systems " [10].

The literature emphasizes the need for tax policies compatible with the digital economy and e-commerce. While some scholars support a digital services tax that taxes digital transactions based on user participation or digital presence, others argue for neutrality in taxation between digital and traditional businesses. The potential impact of tax policy on digital innovation, investment, and competitiveness is also an important topic discussed in the literature .

In conclusion, the literature on the tax implications of the digital economy and e-commerce reflects a complex and evolving picture. It focuses on defining the scope of taxable digital transactions, monitoring and enforcing tax compliance, and dealing with international tax consequences. It also highlights the need to consider tax policies that are compatible with the digital economy, the role of technology in shaping taxation, and policy objectives.

RESEARCH METHODOLOGY

The research methodology was the development of a theoretical framework that synthesizes the identified theoretical perspectives and concepts related to the impact of the digital economy and e-commerce on taxation systems. Qualitative and quantitative approaches were also used. Based on the qualitative approach, it includes scientific research within the framework of interviews with politicians, tax experts and digital business representatives, while the quantitative approach includes the analysis of data on tax policy, international tax treaties and economic indicators, and conclusions and recommendations are developed within the research .

ANALYSIS AND DISCUSSION OF RESULTS

As we know, e-commerce refers to the buying and selling of goods and services over the Internet, including online marketplaces, online retailers, and electronic payment systems. It includes different business models such as B2S (Business to Consumer), B2B (Business to Business) and S2S (Consumer to Consumer) transactions.

The digital economy presents unique challenges for taxation due to its cross-border nature, the intangible nature of digital products and services, and the ability to operate remotely without physical presence in certain jurisdictions . These challenges include determining taxable digital transactions, assessing the value of digital products and services, and enforcing tax laws in the digital realm.

Various principles and theories of taxation, including the ability to pay principle , the benefit principle , horizontal equity, and vertical equity. These principles shape how governments design tax policies and systems to achieve equity and efficiency in revenue collection.

Economic dependence refers to the concept that, even if it is not physically present, if it is a certain level of economic activity or presence, it should be taxed in the jurisdiction . This principle is relevant in the context of the digital economy, where businesses can operate across borders without a physical presence, but still generate significant economic activity and revenue.

Governments around the world are taking different approaches to taxation in the digital economy. These approaches include targeted taxation, source-based taxation, and formulaic allocation. While destination-based taxation focuses on taxing digital transactions based on the location of the consumer, source-based taxation focuses on taxing digital transactions based on the location of the seller. Formative apportionment involves apportioning the tax base of a multinational digital company between different jurisdictions based on a formula that takes into account factors such as sales, employees and assets.

Tax policies and systems can have a significant impact on e-commerce, including the costs of doing business, consumer behavior and market competitiveness. For example, profit tax or VAT on e-commerce transactions can affect prices, consumer preferences and market access, and compliance burdens and administrative complexities can affect small and medium-sized e-commerce businesses differently than large enterprises.

Developing countries may face unique challenges in taxing the digital economy and e-commerce due to limited infrastructure, technological capabilities and institutional capacity. These challenges include identifying and taxing digital transactions, addressing cross-border tax avoidance and evasion, and balancing tax revenue with promoting economic growth and digital inclusion.

Policymakers need to consider a variety of factors, including fairness, efficiency, simplicity and governance, when developing tax policies and systems for the digital economy and e-commerce. Policy implications may include international cooperation and coordination among countries to address cross-border tax challenges, and the adoption of technology-based tax administration.

It should be noted that taxation can be relevant to the digital economy and e-commerce for several reasons :

Revenue generation: Taxation is a major source of revenue for governments, and the growing digital economy and e-commerce provide tax authorities with opportunities to collect taxes from digital transactions and online sales. This includes digital goods and services, online marketplaces and cross-border e-commerce transactions, among others.

Fairness and level playing field: Taxation in the digital economy and e-commerce is also about ensuring fairness and level playing field. Traditional businesses are often subject to different taxes, such as property taxes, which may not apply to digital businesses. This has raised concerns about fairness and the need to establish a level playing field between traditional and digital businesses.

Compliance and enforcement: Taxation in the digital economy and e-commerce poses challenges in terms of compliance and enforcement. Digital transactions can be difficult to trace, and cross-border e-commerce transactions can involve complex tax issues, including determining the appropriate jurisdiction for taxation and dealing with tax avoidance or evasion.

Targeting : In the digital economy and e-commerce, taxation can be used as a policy tool to achieve specific goals , such as promoting local industries, protecting consumer interests, and encouraging specific behaviors such as digital inclusion and sustainability.

International Tax Consequences: The digital economy and e-commerce often transcend national borders, leading to international tax consequences. This includes issues such as transfer pricing, permanent establishment and the allocation of taxation rights between countries, which may affect the taxation of digital transactions and cross-border e-commerce.

Technological Challenges: Taxation in the digital economy and e-commerce also faces technological challenges such as the rapid pace of technological development, evolving business models and digital platforms that may require new approaches to taxation and tax administration.

At the same time, the digital economy and e-commerce have disrupted traditional taxation systems and principles, creating new challenges and complexities for tax authorities and governments . Several theoretical perspectives have been proposed to explain how the digital economy and e-commerce will affect taxation systems:

a) Nexus Theory: Nexus refers to the connection between a business and a particular tax authority , usually based on its physical presence. However, with e-commerce, businesses can operate remotely and sell goods or services to customers within multiple jurisdictions without physical presence. This has raised questions about how to define nexus and allocate tax liability in the digital economy.

b) Economic presence theory: Some scholars argue that the focus should shift from physical presence to economic participation in the digital economy. Economic presence refers to the level of economic activity or value produced by businesses in a given jurisdiction , regardless of their physical presence . This theory suggests that businesses that generate significant economic activity, such as online sales or data-based services, should be taxed to the extent of their authority to create such economic value, regardless of their physical presence.

c) Value Creation and Intangible Assets : The digital economy and e-commerce have changed the nature of value creation. In traditional economies, value is often created through physical assets, labor, and tangible goods. However, in the digital economy, value is often created through intangible assets such as data, intellectual property, and user networks. This creates difficulties in determining how to tax such intangible assets, as traditional taxation systems may not effectively capture their value. Some scholars advocate a shift to taxation of the value created by intangible assets in the digital economy.

d) Source and residence theory: This view is based on the debate whether taxation should be based on the source of income (where the income is earned) or the residence of the taxpayer (where the business is headquartered). In the digital economy, businesses can operate across borders and receive revenue from customers in multiple jurisdictions, making it difficult to determine the appropriate tax authority. Source-based taxation states that income should be taxed in the jurisdiction where it arises, regardless of the taxpayer's residency, while residency-based taxation states that income should be taxed in the jurisdiction where the taxpayer has its headquarters. This perspective shapes the debate around international tax treaties and the distribution of taxing rights in the digital economy.

e) Digital Services Tax: This prospect proposes a separate tax on digital services such as online advertising, data sales and digital marketplaces. Digital services tax is seen as a way to raise revenue from digital businesses that do not have a physical or significant economic presence in a jurisdiction, but still generate revenue from users or customers in that jurisdiction. The approach aims to create a new revenue stream for governments and address concerns about tax avoidance by digital businesses, but there is debate over its potential impact on innovation, investment and international trade.

f) Taxation of Blockchain and Cryptocurrencies: This perspective focuses on the taxation of transactions involving blockchain technology and cryptocurrencies. As blockchain technology and cryptocurrencies gain popularity in the digital economy, questions arise about how to tax transactions, mining and other activities related to these technologies. While some propose treating cryptocurrencies as property and subjecting them to capital gains tax, others support a special tax policy that addresses the unique features of blockchain and cryptocurrencies . This perspective will shape the debate over how to regulate and tax the emerging field of blockchain and cryptocurrencies.

g) Simplification and Automation: This perspective emphasizes the need to simplify and automate tax systems to adapt to the digital economy.

h) Shared taxation: This perspective proposes international cooperation and coordination between countries to develop common tax rules for the digital economy and e-commerce. It proposes that countries work together to establish standardized tax principles and mechanisms to avoid tax loopholes and avoid double taxation. This perspective emphasizes the importance of global cooperation in addressing the tax challenges posed by the digital economy, which cross national borders and require concerted efforts to ensure tax fairness and efficiency.

i) Proactive Taxation: This perspective advocates proactive measures by tax authorities to adapt to the changing landscape of the digital economy and e-commerce. It suggests that tax authorities actively monitor and regulate digital transactions, introduce innovative tax solutions, and maintain continuous dialogue with stakeholders to ensure that tax legislation keeps pace with technological advancements. This perspective emphasizes the need for agility and flexibility in tax systems to effectively capture revenues from the digital economy and e-commerce.

j) Incentive-based taxation: This perspective proposes to provide tax incentives for the development of digital economic activities and e-commerce. It suggests that tax policy should be designed to encourage investment, innovation and growth in the digital economy by providing a favorable tax regime to digital businesses, start-ups and entrepreneurs. This perspective emphasizes the importance of creating a supportive tax environment that promotes the development of the digital economy and encourages e-commerce activities.

What we have discussed above are just some of the theoretical perspectives proposed to explain how the digital economy and e-commerce may affect taxation systems .

For information, it should be said that taxation of the digital economy in Uzbekistan is regulated by the Tax Code of the Republic of Uzbekistan, which defines the legal basis of taxation in the country. The Tax Code contains provisions on various types of taxes that can be applied to the digital economy, for example, from 2020, foreign legal entities engaged in the sale of services and goods in electronic form are recognized as taxpayers for such services in Uzbekistan. For information, as of December 1, 2022, 40 foreign companies providing electronic services were registered in the country, and during the 11 months of 2022, foreign electronic service companies paid 44.8 billion soums in taxes. [9].

CONCLUSIONS AND SUGGESTIONS

Now let's form our conclusions on the topic based on what we have considered above. First of all, it should be said that some potential problems in the taxation of the digital economy in Uzbekistan may include:

- lack of clear rules ;
- jurisdictional issues ;
- compliance and enforcement issues ;
- issues of justice and equality ;
- technological problems.

We should also mention some of our recommendations for solving these problems. In particular, based on the general principles and approaches that can be considered in solving the problems of taxation of the digital economy, some potential solutions that can be applied in Uzbekistan or any other country may include:

- clarifying tax regulations ;
- Development of effective compliance and enforcement mechanisms ;
- Strengthen international cooperation and coordination;
- Promotion of justice ;
- Increasing the capacity of the tax administration;
- Involving stakeholders in the policy-making process.

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