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Research on the development of global digital tax and countermeasures of Chinese digital tax

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Abstract. International taxation faces challenges brought by the development of the digital economy. Countries around the world and relevant international organizations, based on different positions, advocate or oppose the establishment of digital tax collection policies. This paper aims to summarize the development status of digital tax collection supervision policies of major countries and international organizations, to analyze the impact of the digital tax in combination with the development of China's digital economy, and try to put forward policy suggestions for the development of China's digital tax.

1 Policy dispute over digital tax development

The digital economy is based on modern information networks, takes digital knowledge and information as production elements, takes digital technology innovation as a driving force, integrates digital technology and the real economy, and makes traditional industries more digital and intelligent. It is a new economic form (China Academy of Information and Communication Technology 2017).

Due to the imbalance of economic development, asset-light strategy, transnational, rich sources of income, and fuzzy boundaries, the current tax system is designed based on the traditional industry. It isn't easy to make fair and reasonable taxation to the digital economy enterprise. Due to tax imbalance, the digital economy and the enterprise tax burden are unfair, resulting in a digital tax dispute.

The legal basis of taxation: First, not taxing digital products violates the principle of tax fairness for traditional goods trade (Mao 2020). Secondly, in the current tariff system, the positioning of digital products is not precise, and the taxation of digital products lacks appropriate legal provisions, which violates the principle of legal taxation (Dai 2015). Third, as the most active market players in the international trade of digital products, small and micro-businesses and individual business operators have small operating quotas and significant uncertainties. Therefore, taxing them violates the principle of tax efficiency (Zhang 2021). Fourth, if a company maintains a permanent establishment in its own country, it does not follow international tax principles to levy digital taxes. Fifth, digital tax is a separate tax levied based on the existing tax of enterprises, which violates the principle of "no heavy tax."(Hou and Bai 2020; Cao 2021)

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Table 1. Digital tax legislation and implementation of countries and digital tax policies.

Country	Time	Rate	Digital Tax Policy
Hungary	2014	7.5%	Online advertising revenue of 100 million forints or more
Slovakia	2018	21%	Foreign enterprises providing transportation and accommodation intermediary services through digital platforms
The French	2019	3%	Global digital business annual turnover of more than 750 million euros, France annual revenue of more than 25 million euros
Zimbabwe	2019	5%	Any business that provides digital services and has revenues in excess of $500,000 in the year of assessment
Angola	2019	14%	Foreign digital service providers and local digital service providers with revenues above $250,000
Italy	2020	3%	Companies with annual digital services revenues of more than 750 million euros worldwide and at least 5.5 million euros in Italy
Austria	2020	5%	A global digital business with annual revenues of more than 750 million euros and an Austrian company with annual revenues of 10 million euros
Tunisia	2020	3%	A business that provides computer applications and digital services
Malaysia	2020	6%	Foreign digital service providers
Kenya	2020	2%	A digital service provider or any person receiving payment for a digital service
Poland	2020	3%	Global digital services with annual revenues of more than 750 million euros and Spanish companies with annual revenues of more than 3 million euros
Turkey	2020	7.5%	Global digital business with annual revenues of over 750 million euros
India	2020	2%	Foreign companies providing digital services in India
Britain	2020	2%	Companies with annual digital services revenues of more than £500m globally and £25m in the U.K.
Spain	2020	3%	Companies with annual digital services revenues of more than 750 million euros worldwide and 3 million euros in Spain

Table 2. National digital tax policies that have enacted or are in the process of legislating but have not yet imposed digital taxes.

Country	Digital Tax Policy
Germany	A 15 percent tax imposed on online ads on foreign-owned platforms, the timing of which is yet to be determined
Australia	A digital tax on Google, Facebook, Twitter, Uber, and others is being proposed at a date to be determined
Canada	Tax companies providing digital services from January 2022
Mexico	A proposed 3% tax on digital services with annual revenues of more than 100 million Mexican pesos
New Zealand	A 2 to 3 percent tax on remote digital services provided offshore, for a time to be determined
Thailand	A value-added tax on e-commerce sales levied on Internet companies such as Amazon and Facebook, and a separate digital services tax levied on foreign companies that derive revenue from Thailand
The Czech republic	A 7 percent tax imposed on companies with annual digital services revenues of more than 750 million euros worldwide and 100 million kroner in the Czech Republic with more than 200,000 users, for a time to be determined

Table 3. Countries that levy digital taxes under other tax headings without separate legislation and their policies.

Country	Digital Tax Policy
Singapore	From January 2020, taxes levied in the form of a GST on cross-border digital businesses, as well as Singapore consumers and businesses importing services from overseas
Russia	In January 2017, it imposed a 15.25% VAT tax on non-Domestic companies providing digital services to Russian individuals
Myanmar	Digital service income tax levied on enterprises providing digital services overseas

The definition of taxation jurisdiction: According to whether establishing agencies and offices in the country, the traditional tax classifies enterprises into resident and non-resident taxpayer taxpayers, who need to take the international income tax obligations, and non-resident taxpayers only need to afford their income tax liability, whether the source of income is related to its in the country established institutions. However, digital enterprises do not need to set up relevant institutions but operate virtually based on the modern information network. Moreover, digital enterprises that have set up institutions are also finding it tricky to judge whether their income sources are related to those institutions, which affects the definition of jurisdiction of digital tax collection (Bai and Yue 2021).

The scope of taxation and the determination of tax rates: Due to the different development stages of the digital economy in different countries and national interests, the range and tax rate of digital tax formulated by different countries and regions may cause unfair taxation or tax discrimination among enterprises in different countries.

2 Digital tax position in major countries

2.1 Countries opposed to digital taxes

The United States has long argued for a permanent exemption from tariffs on digital goods to promote international digital trade. In 1997, the United States formulated the Global E-commerce Policy Framework, holding that the government should not add new taxes and fees to digital products traded through the Internet. And it suggests that the Internet space should build into duty-free zones to promote the development of digital trade. In 2003, the United States amended the Uniform Commercial Code of the United States to exclude information from the definition of goods. Its relevant judicial practice considers that mixed products of information with the physical carrier are not goods to maximize the promotion of digital trade liberalization. As the largest exporter of digital products, the United States owns more than two-thirds of the global digital trade network companies. If the digital product trade is taxed, the United States will be the biggest beneficiary, opposing the digital tax. In addition, some countries, such as Ireland and Luxembourg, oppose the digital tax because they believe that it will reduce the attractiveness of the original low tax rate to foreign investment. Sweden, Finland, Denmark, and other countries also oppose the digital tax, arguing that it may cause "anti-globalization" and hinder innovation development.

2.2 Countries in favour of digital taxation

According to the legislation and implementation progress of digital taxation, this paper divides the countries in favor of digital tax into three categories.

Here are countries that have enacted digital taxes and implemented them. So far, France, the United Kingdom, India, Spain, Hungary, Slovakia, Zimbabwe, Angola, Italy, Austria, Tunisia, Malaysia, Kenya, Poland, Turkey, and other countries have adopted relevant legislation on digital tax and put it into effect, as shown in Table 1.

Countries that tax digital services under other tax headings without separate legislation. Including Singapore, Russia, Myanmar, and others.

3 Position of international organizations on digital taxation

3.1 The world trade organization (WTO)

WTO has not formed a formal and permanent resolution on the issue of tariff exemption for digital products. In 1998, the Second Geneva Conference of WTO formulated the Outline of Global E-commerce, which clarified the attitude of digital product trade liberalization. WTO recommended a zero-tariff policy for digital products and issued the WTO Memorandum on Tariff Exemption for electronic Transmission. It needs to be discussed again at the ministerial meeting held once every two years whether to agree to the extension of "suspension of tariff on digital products." The WTO is committed to designing digital trade rules, and significant member states have been actively submitting digital trade proposals. As the digitalization of international business continues to develop, economic and trade links among economies rely more and more on the Internet. More member states participate in international digital trade. WTO will invite more members to formulate global digital trade rules to promote digital commerce's liberalization, facilitation, and transparency.

3.2 Organization for economic cooperation and development (OECD)

In 2013, OECD and G20 launched the BEPS project. In 2015, OECD released 15 BEPS action plans and believed that the digital economy has three characteristics: dependence on intangible assets, participation of data and users, and disembodied cross-border operations. In 2019, BEPS129 members agreed on a policy framework based on "double pillars": Pillar one focuses on redistributing taxation rights. It considers "user participation," "intangible market assets," and "significant economic presence" comprehensively. It identifies two types of taxable profits of global digital platforms and reviews and revises profit distribution and connection rules. Pillar two addresses the problem of uncoordinated cross-border tax regulation. For example, it sets a minimum tax rate, ensuring that multinational enterprises pay a minimum level of tax. And it solves the problem of base erosion and profit shifting caused by unclear tax jurisdiction.

On July 1, 2021, the BEPS Inclusive Framework made the latest progress, with the two-pillar approach supported by 130 countries and jurisdictions, accounting for more than 90% of the global economy. Pillar one ensures that large multinationals, including the digital industry, pay fair taxes in the markets where they make their profits. Pillar two controls fiscal and tax competition among countries by setting a global minimum tax rate. On October 8, 2021, 136 members issued "The Statement on Responding to the Challenges of Digitalized Taxation of the Economy, " which agrees on crucial core technical details of the "Dual Pillar" plan. It is a substantial step forward in the reform of the international tax system. After the Biden-Harris administration took office, it changed the previous U.S. administration's attitude towards the two-pillar negotiation and actively promoted the conclusion of the two-pillar plan.

3.3 European Union (E.U.)

The E.U. believes that an international digital tax is essential. First, it ensures the integrity and proper functioning of the single market. Second, it helps to avoid base erosion and promote fiscal sustainability. Third, it levels the playing field for the E.U. Fourth. It effectively cracks down on tax planning to avoid evading tax from international tax rules. The main features of the E.U. digital tax scheme: First, the clarification of taxation scope: enterprises with more than 100,000 users in member states, annual revenue of more than 7 million euros in one of the member states, or enterprises with more than 3,000 digital service business contract established during the tax year should be ensured the same tax base as traditional enterprises and digital enterprises. Secondly, provisional tax is levied on some digital economic activities to identify the data value and user value in the digital economy to further ensure the rationality of tax jurisdiction.

3.4 United nations

Following the current international taxation framework, the United Nations has incorporated automated digital services into the existing agreements by revising the model agreement. Based on the royalties in Article 12 of the original Agreement, the revised model includes digital services in withholding tax by providing that income derived from and paid to a Contracting State for digital services may be taxed in the other Contracting State. The tax base shall be the gross payment or net income, and the tax rate follows the withholding tax rate agreed by the Contracting States.

4 Suggestions on the development of China's digital tax

4.1 The possible impact of digital tax on China

4.1.1 Strengthen tax reform and improve the tax system

Digital enterprises are rapidly expanding their markets. China is a big consumer of digital economy products and services. However, the tax factors of the digital economy, such as taxpayers, tax objects, tax items, tax rates, and tax locations, are not clear. Traditional enterprises pay higher taxes, which is unfair. It is necessary to strengthen tax reform and improve the tax system.

First, fully demonstrate and comprehensively weigh the impact of digital tax and its advantages and disadvantages. China is home to large Internet companies such as Alibaba and Tencent. As a significant digital economy, China enjoys strong international competitiveness. In tax reform, it is necessary to comprehensively analyze the influence of digital tax, thoroughly balance the interests of users, enterprises, and the state, and establish the basic framework of digital tax scientifically and reasonably.

Second, promote the construction of China's digital tax legal system. Improve relevant systems and legal guarantee systems to help enterprises adapt to the increasingly strengthened international digital tax rules as soon as possible. In promoting tax reform legislation, the first step is to establish the legal basis of digital tax and create a fair tax system environment.

Third, do an excellent job in digital tax technology preparation. Establishing a tax approach that matches the digital enterprises' innovation model is essential. The collection and supervision of digital tax need corresponding information technology support.

Therefore, it is necessary to strengthen the research on digital enterprises' business models, strengthen tax systems' information construction, and establish an efficient and safe digital tax supervision system.

4.1.2 Strengthen international cooperation and promote tax consultation in regional cooperation

The digital tax has an important impact on the development of the digital economy, and China must actively participate in and promote the formulation of international tax laws and regulations.

First, we will actively form international rules on digital taxation to safeguard China's tax rights and interests. The collection scheme of digital tax is related to national sovereignty and tax interests and directly affects the development of the global digital economy and tax fairness. The imbalance of international digital economy development, the righteousness of tax interests, and the complexity of digital tax make it challenging to reach an agreement on the worldwide digital tax scheme. The European Union, OECD, G20, and other international organizations are speeding up establishing global digital tax rule systems. In order to safeguard China's tax rights and interests and promote the development of the digital economy, China should strengthen communication and cooperation with various international organizations, enhance its voice in international tax affairs and safeguard the country's tax rights and interests.

Second, actively participate in the consultation work of international organizations and promote the establishment of a multilateral tax mechanism. China is second only to the United States regarding the digital economy. To compete internationally, Chinese digital enterprises need a fair international business environment. Therefore, it is necessary to make full use of the right to speak in international organizations and actively carry out multilateral and bilateral consultations within the framework of relevant international organizations to create a better tax environment for Chinese enterprises going abroad.

Third, pay attention to international digital tax trends and build a rapid response mechanism for taxation. Before forming a unified global digital tax rule, different countries take different policies and measures. It is challenging to create an excellent digital tax collection regulatory order. Although the Statement on Addressing the Tax Challenges of digitization of the economy has achieved a relatively broad global consensus, several approvals and political decisions still need to be completed. China should pay close attention to the international development of digital tax, assess the impact of the digital tax plan on China, form a rapid response mechanism, and earnestly safeguard China's interests.

4.1.3 In light of the development trend of the digital economy, launch the China plan of digital tax

First, formulate a timetable and roadmap for the implementation of digital tax. Analyze the development status of the digital economy at home and abroad, learn and draw lessons from the international experience of digital tax policy, deeply analyze the "double pillar" policy framework and its development trend, and define the development goals of digital tax. In principle, it should conform to the development trend of the international digital economy and balance tax interests at home and abroad and closely combine China's national conditions and be conducive to the development of China's digital economy. It should accelerate China's digital tax plan into the tax reform agenda and formulate a timetable and roadmap for implementing a digital tax that suits China's national conditions.

Second, should carry out pilot projects in stages. Digital tax is not the same. The function of various regions and industries' comprehensive digital tax may cause adverse effects. Therefore, it can be based on investigation and select areas or industries to pilot. We can constantly adjust in the pilot, explore conforms to China's national conditions, and make the digital tax plan in China reproducible and promotional.

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