TAXATION ISSUE IN A DIGITAL ECONOMY: AN OVERVIEW AND PERSPECTIVE OF SELECTED COUNTRIES

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Abstract

The study examines the taxation issues in the digital economy, focusing on the perspectives of India, the European Union (EU), the Organization for Economic Cooperation and Development (OECD) and Nigeria. This is to take a cursory look on the challenges and approaches adopted by these countries in addressing the complexities of taxing digital transactions and business models. The study employs a comprehensive literature review, analysis of policy documents, and examination of relevant reports to assess the taxation frameworks and initiatives implemented by India, the EU and OECD country. It explores the key concepts, theories, and practices underlying digital taxation and evaluates the impact of digitalization on traditional tax systems in these jurisdictions. In India, the introduction of the "significant economic presence" (SEP) concept and the implementation of the digital services tax (DST) have been significant steps toward taxing digital companies. The EU has pursued a digital services tax proposal, while the OECD has led international efforts through its BEPS 2.0 project to update tax rules for the digital economy. Nigeria has also made efforts to address digital taxation

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challenges, considering the rapid growth of the digital economy within its borders. The findings highlight the common challenges faced by these jurisdictions, such as the difficulty of "ring-fencing" the digital economy for tax purposes and the need for international cooperation. The study identifies potential solutions and offers recommendations for effective digital taxation strategies, including the importance of clarity in tax laws, the promotion of cross-border cooperation, and the adoption of technology-driven tax administration systems. This study contributes to understanding taxation issues in the digital economy from the perspectives of India, the EU, the OECD, and Nigeria. It is also beneficial to policymakers, tax authorities, and stakeholders in developing robust and adaptable tax frameworks that support the growth of the digital economy, ensure tax compliance, and foster sustainable revenue generation.

Keywords: Taxation; Digital Economy; Indian; The European Union; OECD and Nigeria

1. Introduction

Taxation in the digital economy has been a challenging issue for governments worldwide due to the evolving nature of digital business models and the difficulty of capturing and taxing digital transactions. India, the European Union (EU), and the Organisation for Economic Co-operation and Development (OECD) have all been actively engaged in addressing taxation issues in the digital economy. Several key issues arise in this context, including the determination of tax jurisdiction, profit allocation, and ensuring a level playing field for traditional brick-and-mortar businesses. One of the main challenges is determining the tax jurisdiction for digital companies. Traditional tax rules are often based on physical presence, such as a permanent establishment, which may not apply to digital businesses operating across borders. To address this, countries like India have introduced the concept of "significant economic presence" (SEP), allowing them to tax digital companies with a significant user base but no physical presence within their jurisdiction (Business Today, 2021). Profit allocation is another crucial issue. Thus, digital companies generate substantial profits from a user base in different jurisdictions, making it difficult to attribute these profits to specific countries.

India has been actively addressing taxation issues in the digital economy through policy reforms and the introduction of new tax measures. One of the significant challenges faced by Indian tax authorities is capturing the income generated by digital companies that lack a physical presence in the country. In response to this challenge, India introduced the concept of "significant economic presence" (SEP) in 2016 (Business Today, 2021). SEP allows taxation of digital companies with a significant user base in India, even if they do not have a physical establishment within the country. This concept enables the Indian tax authorities to tax the income

generated by these companies within India. In addition to the SEP concept, India has implemented a digital services tax (DST) since 2020 (The Economic Times, 2020). The DST levies a 2% tax on specific digital transactions, targeting non-resident e-commerce companies operating in India. This tax aims to ensure that digital businesses contribute their fair share of taxes and create a level playing field for traditional brick-and-mortar businesses. These taxation measures in India's digital economy demonstrate the government's efforts to adapt tax policies to the changing business landscape. By introducing SEP and DST, India aims to capture the income generated by digital companies and ensure a fair and equitable tax system in the digital economy.

The EU has been at the forefront of addressing taxation issues in the digital economy. The EU has proposed the introduction of a Digital Services Tax (DST) that would impose a 3% tax on the revenues generated by large digital companies within the EU. This European Union (EU) has been grappling with taxation challenges in the digital economy, aiming to ensure fair taxation of digital companies and a level playing field between digital and traditional businesses. One of the key issues faced by the EU is the determination of tax jurisdiction for digital companies operating across borders. To address this challenge, the EU has proposed the introduction of a Digital Services Tax (DST) (Financial Times, 2021). The DST aims to tax large digital companies' revenues within the EU. However, reaching a consensus among all EU member states on the implementation of a pan-European DST has proven challenging, resulting in delays (Reuters, 2021). As a result, some individual member states have started implementing their digital taxes, such as France and the United Kingdom. Therefore, EU efforts also extend to the broader international landscape. The EU has actively participated in the OECD's work addressing taxation challenges in the digital economy. As a member of the OECD, the EU has been actively engaged in discussions and negotiations to shape these proposals. These initiatives highlight the EU's commitment to addressing taxation issues in the digital economy and ensuring a fair and effective tax system that encompasses digital activities. While the implementation of a pan-European DST has faced hurdles, the EU's participation in international efforts, such as the OECD's two-pillar approach, underscores its dedication to finding global solutions to digital taxation challenges.

The OECD has been leading international efforts to address tax challenges in the digital economy. The OECD's work on this issue is part of its broader Base Erosion and Profit Shifting (BEPS) project, which aims to ensure that companies pay taxes where their economic activities generate profits. In 2020, the OECD released a two-pillar approach to address taxation in the digital economy (OECD, 2021). Pillar one

focuses on reallocating taxing rights and profit allocation, particularly for highly digitalized businesses. The Pillar Two aims to establish a global minimum tax rate to prevent profit shifting to low-tax jurisdictions. The OECD is currently working towards reaching a consensus among its member countries on the implementation of these proposals. The OECD has actively engaged its member countries and other stakeholders to build the consensus on these proposals. The goal is to create a globally accepted framework that addresses the tax challenges posed by the digital economy while promoting fairness and preventing harmful tax practices.

In Nigeria, the digital economy has played a crucial role in promoting entrepreneurship, job creation, and economic diversification. It has provided opportunities for small and medium-sized enterprises (SMEs) to reach wider markets, reduced barriers to entry for new businesses, and enhanced efficiency in service delivery. The digital economy has also facilitated financial inclusion by providing access to digital financial services to previously unbanked or underbanked individuals. Nigerian governments establish tax laws and regulations in implementing and administering the collection and management of tax revenues. Tax authorities, such as national revenue agencies, ensure that taxpayers meet their tax obligations and maintain fairness and integrity in the tax system. Taxation is a complex and evolving field, subject to ongoing debates and reforms. Governments continually evaluate and adjust tax policies to address economic, social, and environmental challenges. These policies aim to strike a balance between promoting economic growth, ensuring social welfare, and maintaining a sustainable fiscal framework. Thus, the study aims to examine the taxation issues on digital economy with a specific interest in Indian, the European Union, OECD and Nigeria.

2. Concept of Digital Taxes

Digital taxes refer to taxes specifically designed to address the unique challenges posed by the digital economy and the activities of digital companies. With the rapid growth of digital business models, traditional tax rules and frameworks often struggle to capture the full extent of economic activity and profits generated in the digital sphere. Digital taxes aim to ensure that digital companies contribute their fair share of taxes and create a level playing field with traditional brick-and-mortar businesses. One common form of digital tax is the digital services tax (DST). DSTs are typically levied on the revenue or turnover generated by specific digital services, such as online advertising, online marketplaces, and data transmissions. These taxes

target companies with a significant digital presence but may not have a physical establishment or substantial taxable presence in a particular jurisdiction.

Countries have implemented or proposed digital taxes to capture revenue from digital activities. For example, India introduced a 2% DST in 2020, targeting non-resident e-commerce companies (The Economic Times, 2020). Similarly, several European Union (EU) member states have pursued their own DST initiatives with the aim of harmonizing these efforts at the EU level (Financial Times, 2021). However, the implementation of digital taxes has not been without challenges. One major challenge is achieving international consensus and avoiding potential trade disputes. The lack of a global agreement on digital taxation has led to unilateral measures by individual countries or regions, which can create conflicts and trade tensions. Efforts are underway to address these challenges at the international level. The Organisation for Economic Co-operation and Development (OECD) has been leading discussions through its BEPS project, proposing a two-pillar approach that aims to address tax challenges arising from the digitalization of the economy (OECD, 2021). These efforts seek to establish a framework that ensures fair and effective taxation in the digital economy while promoting international cooperation and avoiding harmful tax practices.

The Nigerian government acknowledges the imperative of ensuring equitable tax contributions from digital businesses operating within its jurisdiction. Measures have been undertaken to formulate suitable tax policies and regulations tailored to tackle the distinct challenges posed by the digital economy. For instance, the Federal Inland Revenue Service (FIRS) has introduced guidelines regarding the taxation of digital transactions and services, encompassing aspects like digital advertising and online platforms (FIRS, 2020). The concept of the digital economy in Nigeria encompasses economic activities facilitated by ICTs and the proliferation of digital platforms across various sectors. This phenomenon has played a pivotal role in fostering entrepreneurship, stimulating job creation, and promoting economic diversification. Recognizing the potential of the digital economy, the Nigerian government has initiated endeavours to bolster its growth. Nevertheless, hurdles such as digital infrastructure, accessibility to affordable internet, and tax implications remain to be addressed comprehensively to fully harness the benefits of the digital economy in Nigeria.

Tax revenue is a vital source of income for both developing and developed countries. It constitutes compulsory payments imposed by tax authorities on individuals, businesses, and other entities. The Organization for Economic Co-operation and

Development (OECD, 2017) affirmed that tax revenue accounted for over 50% of government revenue in the EU States. In the past decades, it was projected to reach $5.6 trillion out of the forecasted $6.7 trillion fiscal year of 2018. Similarly, tax income serves as a fundamental means of generating revenue for various developed economies. However, the situation differs in several African countries, where tax revenue, although contributing significantly to economic growth in some cases, does not hold the same prominence.

3. Tax Economy in Indian, EU, OECD and Nigeria

The concept of tax economy in India, the European Union (EU), and OECD countries refers to the overall framework, policies, and practices related to taxation within these jurisdictions. Each of these regions faces unique challenges and adopts specific approaches to taxation to address the evolving economic landscape, including the digital economy. In India, the tax economy encompasses the tax policies, laws, and administration that govern the collection and management of taxes. India has been actively working on tax reforms, especially in the digital economy. The introduction of the concept of "significant economic presence" (SEP) in 2016 is an example of India's efforts to capture the income generated by digital companies with a significant user base in the country (Business Today, 2021). Additionally, India has implemented a digital services tax (DST) since 2020, levying a 2% tax on certain digital transactions (The Economic Times, 2020). These measures reflect India's commitment to adapting tax policies to address the challenges the digital economy poses. The European Union tax economy refers to member countries' tax systems and policies and the coordination of taxation at the EU level. The EU faces challenges in taxing the digital economy due to cross-border activities and the need for a level playing field. Efforts to introduce a Digital Services Tax (DST) at the EU level have faced delays, but some individual member states have implemented digital taxes (Financial Times, 2021). The EU has also actively participated in the OECD's work addressing taxation challenges in the digital economy, aiming to find global solutions (Reuters, 2021). At the OECD level, the tax economy encompasses member countries' tax policies and practices, as well as international cooperation on tax matters. The OECD has addressed taxation challenges in the digital economy through its Base Erosion and Profit Shifting (BEPS) project. The OECD has proposed a two-pillar approach to tackle issues such as profit allocation and global minimum tax rate (OECD, 2021). This framework ensures fair and effective taxation in the digital economy while promoting international consensus and cooperation.

The concept of the digital economy in Nigeria refers to the economic activities facilitated by information and communication technologies (ICTs), such as the internet, mobile devices, and digital platforms. Nigeria, as a developing country, has witnessed significant growth in its digital economy, which encompasses various sectors, including e-commerce, digital financial services, online advertising, and information technology-enabled services (ITES). According to the Nigerian Communications Commission (NCC), the number of internet users in Nigeria reached 151.5 million as of December 2020, indicating the increasing penetration of digital technologies in the country (NCC, 2021). This growth has been driven by factors such as improved internet infrastructure, affordable smartphones, and the increasing adoption of digital platforms for various economic activities.

4. Review on Digital Tax Economy

The concept of the digital economy encompasses the economic activities, transactions, and interactions that occur through digital platforms and technologies. It refers to the use of digital technologies, such as the internet, mobile devices, and data analytics, to create, distribute, and consume goods and services. The digital economy has significantly impacted various sectors, transforming business models, connectivity, and how people engage in economic transactions. In India, the digital economy has seen significant growth in recent years, driven by increasing internet penetration, smartphone adoption, and the government's focus on digital initiatives. The digital economy in India includes sectors such as e-commerce, digital payments, online services, and information technology-enabled services. It has contributed to economic development, employment generation, and increased service access (Ministry of Electronics and Information Technology, 2021).

In the European Union (EU), the digital economy is crucial in driving innovation, productivity, and economic growth. The EU has implemented various policies and initiatives to foster the development of the digital economy, such as the Digital Single Market Strategy. The EU's digital economy encompasses digital services, e-commerce, digital infrastructure, and data-driven industries. It aims to enhance competitiveness, cross-border digital trade, and the digital transformation of industries (European Commission, 2021). At the OECD level, the digital economy is a key focus area of analysis and policy development. The OECD recognizes the transformative impact of the digital economy on various sectors and has been working on addressing the tax, regulatory, and policy challenges that arise. OECD countries' digital economy encompasses digital platforms, digital content, e-

commerce, and the sharing economy. The OECD's work includes ensuring fair taxation of digital companies and the development of international tax rules to address the digitalization of the economy (OECD, 2019).

The Australian Government defines the 'digital economy' as the global network of economic and social activities facilitated by information and communications technologies (ICT), such as the internet, mobile networks, and sensor networks. This encompasses various activities, including communication, financial transactions, education, entertainment, and business operations conducted through computers, phones, and other devices (Department of Broadband, Communications and the Digital Economy, 2009). Australia has committed to becoming a leading digital economy, recognizing the importance of digital technologies for economic growth and innovation (Ibid, 2009). However, Australia faces competition from other countries that also prioritize the development of their digital economies. Access to appropriate categories of information is crucial for Australia to fully leverage the potential benefits and promote innovation in the digital economy (Ibid, 2009).

The 2015 BEPS addresses the Tax Challenges of the Digital Economy. The report acknowledged that digitalization and the business models it enables pose significant challenges for international taxation. It recognized the difficulty of "ring-fencing" the digital economy from the rest of the economy for tax purposes due to the pervasive nature of digitalization (OECD, 2015b, p. 11). This highlighted several key features of digitalization that have tax implications. It acknowledged that digitalization has accelerated and transformed global value chains as multinational enterprises (MNEs) integrate their operations worldwide. The report identified new phenomena such as data collection and exploitation, network effects, and emerging business models like multi-sided platforms, which further complicate existing tax rules. While the report concluded that digitalization does not create unique BEPS issues, it acknowledged that certain digital business models could exacerbate BEPS concerns. The consistent and widespread implementation of the BEPS package was expected to address many concerns related to double non-taxation caused by digitalization.

However, indirect taxation acknowledged the challenges of collecting value-added tax/goods and services tax (VAT/GST) on the growing volume of online purchases by private consumers from foreign suppliers. To address these concerns, the report recommended implementing the OECD's International VAT/GST Guidelines and adopting the destination principle for determining the place of taxation for cross-border supplies (OECD, 2017a). It also suggested that considering mechanisms for effectively collecting VAT/GST on the increasing imports of low-value goods from online sales. Regarding the broader direct tax issues associated with digitalization,

the Task Force on the Digital Economy (TFDE) analyzed various options but did not make specific recommendations. It was concluded that countries could introduce any options, provided they respected their existing international obligations, including those outlined in their tax treaties. The report recognized that the measures developed in the BEPS Project would address certain aspects of the tax challenges, and implementing measures to tackle VAT/GST, challenges would lead to more effective and efficient tax collection in the market jurisdiction.

Numerous studies have been conducted internationally to investigate the role of Information Technology (IT) in tax compliance and its impact on tax revenue. For instance, Obert, Rodger, Tendaic, and Desderio (2018) conducted a study to examine the influence of e-taxation filing on tax compliance. The researchers collected data using structured questionnaires and analyzed it through correlation analysis. The study found a significant correlation (0.533) between electronic filing and accurate assessment of tax obligations, indicating that electronic filing positively influences tax compliance. In another study, Muturi and Kiarie (2015) explored the effects of an online tax system on tax compliance among small taxpayers. They employed a descriptive survey research design and analyzed the collected data using regression analysis. The study revealed a significant effect of the online tax system on tax compliance among small taxpayers in the selected area.

Alake and Olatunji (2012) conducted research to examine the impact of electronic taxation on tax avoidance and evasion in Nigeria. The study focused on banks and the Board of Internal Revenue in Ekiti State, and data were collected through well-structured questionnaires. The researchers used descriptive statistics and tested hypotheses using z-tests. The results rejected the null hypothesis, indicating that electronic taxation has a significant impact on reducing tax avoidance and evasion in Nigeria. Additionally, Alake and Olatunji (2010) conducted a survey on integrating ICT skills and tax software in tax education. The study targeted tax practitioners and aimed to identify the necessary skills required for taxpayers to utilize online tax systems effectively. The findings indicated that spreadsheet software, word-processing software, and email were crucial skills for taxpayers to interact meaningfully with technology-based tax systems. However, the study highlighted challenges such as low computer literacy and poor taxpayer behavior towards online systems, leading to limited adoption of the new online system in Malaysia.

Furthermore, the Nigerian government has recognized the potential of the digital economy and has implemented various initiatives to foster its growth. The National

Digital Economy Policy and Strategy (2020-2030) was launched to drive the development of the digital economy and leverage ICTs for socio-economic transformation (Federal Ministry of Communications and Digital Economy, 2019). The policy focuses on broadband infrastructure development, digital skills acquisition, e-governance, and digital entrepreneurship. However, despite the growth and potential of the digital economy in Nigeria, there are also challenges that need to be addressed. These include inadequate digital infrastructure, limited access to affordable internet services, low digital literacy rates, and cybersecurity concerns. Additionally, the tax implications of the digital economy have become a subject of interest for the Nigerian government.

5. Underpinning Theories

The study is hinge on the following theories: the ability to pay theory and the benefit theory.

5.1. Ability to Pay Theory

Ability-to-pay theory posits that taxation should be proportionate to an individual's or entity's capacity to withstand the tax burden. This principle considers both the income and wealth of taxpayers. According to this theory, those with higher incomes or wealth should shoulder the larger portion of the tax burden, reflecting their capability to do so. It advocates for tax policies that are tailored to an individual's financial capacity (Muturi & Kiarie, 2015). Central to this theory is the notion of progressive taxation, wherein the tax burden increases with higher income levels. It contends that taxpayers with more substantial financial means should contribute a greater share of taxes (Julia, 2018). Conversely, a flat tax rate would disproportionately affect individuals with lower incomes.

5.2. Benefit Theory

Benefit theory posits that taxation should be based on the benefits individuals and entities receive from public goods and services provided by the government. According to this theory, those who derive greater advantages from government-provided services should contribute a larger share of tax revenue. It suggests that taxes levied by the government should be commensurate with the benefits and services received from the state. Within this framework, individuals' tax payments should be directly tied to the specific advantages they gain from government initiatives and projects. Nonetheless, critiques have been levelled against this theory. Scholars such as Wicksell (1896), Mogeni (2012), Wasao (2014), and Obert, Rodger,

Tendai, and Desderio (2018) argue that taxpayers are likely to perceive additional benefits beyond direct access to services like education and healthcare. They maintain that generating significant revenue will motivate taxpayers to fulfil their tax obligations promptly.

6. Discussion of Findings

Taxation issues in the digital economy have been a subject of concern and discussion worldwide, including in India, the European Union (EU), and the Organization for Economic Cooperation and Development (OECD). Discuss the findings of these three entities. India has recognized the challenges posed by the digital economy to taxation. The Indian government has taken various steps to address these issues. One key aspect is the introduction of the Equalization Levy in 2016, commonly known as the "Google Tax." This levy aims to tax certain digital transactions carried out by foreign companies with a significant economic presence in India. Additionally, India has been actively participating in international discussions on digital taxation, including within the framework of the OECD. The EU has also been actively addressing taxation challenges in the digital economy. In March 2018, the EU proposed a digital services tax (DST) that would apply to certain digital activities and target large tech companies. The aim was to ensure that these companies contribute their fair share of taxes in the countries where they generate significant revenues. However, due to difficulties in reaching a unanimous agreement among EU member states, the proposal for a DST has not been implemented. Instead, the EU has shifted its focus to ongoing international discussions on digital taxation within the OECD framework. The OECD has been at the forefront of international efforts to address taxation issues in the digital economy. The 2015 Base Erosion and Profit Shifting (BEPS) Action 1 Report recognized the challenges posed by digitalization. It highlighted the need for international cooperation to ensure that companies operating in the digital economy are taxed appropriately. Due to its pervasive nature, the report acknowledged the difficulty of "ring-fencing" the digital economy for tax purposes. It also identified issues such as data collection, network effects, and new business models exacerbating tax challenges. The OECD has been working on developing a global consensus on digital taxation through its "BEPS 2.0" project. The aim is to update international tax rules to address the digital economy's unique characteristics and ensure that companies pay taxes where they create value. The project focuses on two pillars: Pillar One aims to reallocate taxing rights to

market jurisdictions, and Pillar Two introduces a global minimum tax to prevent profit shifting.

7. Conclusion and Policy Recommendations

The study concluded that taxation issues in the digital economy pose significant challenges that require attention and collaboration at both national and international levels. India, the European Union (EU), and the Organization for Economic Cooperation and Development (OECD) have acknowledged these challenges and have taken steps to address them. India has implemented the Equalization Levy to tax certain digital transactions and has actively participated in international discussions on digital taxation. However, further reforms and clarity in tax policies are needed to ensure a fair and effective taxation framework for the digital economy in India. The European Union's initiative for implementing a Digital Services Tax (DST) targeted at taxing major tech corporations has encountered hurdles in garnering unanimous agreement among member states. It is imperative for the EU to persist in its efforts to reach a consensus and explore alternative approaches to ensure equitable tax contributions from digital companies. Concurrently, the Organization for Economic Cooperation and Development (OECD) has spearheaded international endeavours to tackle digital taxation issues through its BEPS 2.0 project. This initiative seeks to modernize international tax regulations to better align with the digital economy. It remains critical for the OECD to sustain its advocacy for global collaboration and consensus-building among nations to establish a fair and comprehensive framework for digital taxation.

Based on these reviews, the following policy recommendations were made:

1. Nations ought to persist in international dialogues and cooperate to formulate shared principles and guidelines for digital taxation. Such collaboration will foster an equitable environment and mitigate tax avoidance and the occurrence of double taxation.

2. Tax policies must strike a balance between fostering innovation, encouraging investment, and stimulating economic growth in the digital sphere, while also ensuring that companies fulfil their tax obligations equitably. These policies should take into account the distinctive characteristics and challenges inherent in the digital economy.

3. Enhanced transparency and the exchange of data among tax authorities can facilitate the identification of tax responsibilities within the digital economy and

counteract tax evasion. Countries should explore mechanisms for sharing information and collaborating on tax enforcement efforts.

4. Tax authorities should furnish precise and up-to-date guidance on the application of tax regulations to digital business models. This will aid taxpayers in comprehending their duties, diminishing uncertainty, and reducing compliance expenses.

5. With the evolution of the digital economy, it is imperative to monitor advancements and adjust tax policies accordingly. Regular evaluations and assessments of the efficacy of tax measures in the digital realm are essential to ensure their continued relevance and responsiveness to shifting circumstances.

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