

THE TAX CHALLENGES OF THE DIGITALIZATION OF THE ECONOMY AND THE SEARCH FOR GLOBAL TAX FAIRNESS

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Abstract

The phenomenon of the digitalization of the economy is essentially characterized by the dematerialization, also described by the expression ‘scale without mass’. The development of business activities without any physical presence in a given jurisdiction where companies create value for its products or from where enterprises derive a significant income, imposes challenges on ‘where’ and ‘how’ to tax these new digitalized business models. Therefore, the article points out that these challenges are mainly connected with the need to tackle the consequent grow of opportunities for aggressive tax planning in cross-border activities, with the raise of ‘stateless income’ and the need to discuss the (re)allocation of taxing rights among ‘source’ and ‘residence’ jurisdictions. The thoughts presented seek to contribute to the aim of achieving global tax fairness and to optimize the social welfare of the global community.

Purpose – The paper aims to highlight the tax challenges of the digitalization of the economy – to fight tax avoidance measures (aggressive tax planning), on the one hand, and to discuss the need for the reallocation of taxing rights at an international level. With that understanding, it is the purpose of the paper to present the guidelines for a ‘consensus-based solution’ to be adopted by the international community as a multilateral measure to deal with the emphasized challenges, in order to provide ground for a more effective global tax fairness.

Methodology – In order to structure the research, the paper adopts a comparative method of analysis. The considerations depart from the Reports drafted by the OECD on the Tax Challenges of the Digitalization of the Economy – mainly connected with the Task Force from BEPS Action 1. Secondly, the findings and political choices represented at these reports, as well as from other international documents, should serve as a basis for the considerations made upon the main proposals. Finally, the paper should present

an original idea for a solution to the challenges detected, considering the strengths and weaknesses of the main proposals today in discussion.

Finding – The paper found that the social and economic transformations brought by the digitalization of the economy resulted in an increase at the general number of cases of aggressive tax planning (tax avoidance) and also tax evasion, ultimately leading to a considerable decrease in the tax collection of most countries and the raise in the amounts of ‘stateless income’. Moreover, the paper also found that, in order for there to be a global tax fairness, it is needed to rethink where to allocate the taxing rights of digital activities, balancing both source and residence taxation. Therefore, the paper concluded that there is the need for a multilateral ‘consensus-based solution’, politically viable, respecting the so-called ‘Ottawa Framework’ and within the limits already in place at the OECD BEPS Inclusive Framework.

Research limitations/implications – The research aims to provide guidelines for a ‘consensus-based solution’ to the issue. Nevertheless, it is not part of the scope of this paper to provide for the detailed technicalities of the above-mentioned solution. This would be a second step for the implementation of the adopted strategy and would also require another specific research.

Practical implications – This paper is aimed to have a practical impact at the contemporary rounds of discussions about the tax challenges of the digitalization of the economy, especially in connection with the international effort that must culminate in the presentation, by the OECD until the end of 2020, of a detailed ‘consensus-based solution’ to be internationally implemented.

Originality/Value – The paper represents the original contribution of the author, expressed by the proposed solution. This originality is limited only by the assumption that any solution which aim to be practically applicable in a short to mid-term, should take into account the existing international framework. Therefore, the paper does not provide for a revolutionary solution, on the other hand, it presents that changes are urgent and must be implemented, but with the usage of the already available tools. This is necessary for the existence of a ‘consensus-based solution’.

Keywords: Digital Economy; Taxation; Global Tax Fairness; Consensus-Based Solution.

Research type: viewpoint.