How to Deal with Unilateral Tax Impact under the Background of Digital Economy

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Abstract: The national policy conference proposed to unswervingly build a digital China, the digital economy has become the general trend. The transformation from the real economy to the digital economy has broken through the "barriers" of traditional tax collection and administration, and caused a great distortion of international tax rules. At present, all countries are actively exploring an optimal taxation path to maintain tax fairness, and unilateral digital tax schemes are being promoted across the world. At present, our country does not have the conditions to set up such a tax, but we must actively deal with the impact of unilateral tax on our national economy. We should combine the existing tax system to improve the tax system of digital economy, and actively participate in the establishment of international tax rules of digital economy to expand the power of discourse to maximize the tax benefit of our country.

Keywords: Digital Economy; Digital Tax; Tax Challenges; Tax Reform

1. Introduction

With the rapid development of modern information technology such as the Internet of Things, the digital economy is becoming a key force to change the global competition pattern. However, the concealment and virtuality of the digital economy also bring great challenges to the international tax rules. Many countries have introduced unilateral tax policies in order to safeguard their own interests. At present, as a big country in digital production and consumption, although China has not followed other countries to levy digital tax, but faced with the impact of unilateral tax on enterprises and countries, we need to meet the challenge, actively participate in international tax cooperation, expand the power of discourse to safeguard our own interests.

2. Digital economy challenges the traditional tax system

As an emerging economic form, digital economy has brought great challenges to international tax rules. First, because their business has broken the constraints of time and space, although their economic activities are under the supervision of many countries, they can still move their permanent institutions to regions with low or zero tax rates, so as to subjectively avoid tax, resulting in a large amount of tax loss. [1] Second, in the context of digital economy, there are more online businesses, tax payers are scattered, and the scope of economic business is extremely wide. This economic model increases the difficulty of digital tax collection and administration. Take cross-border e-commerce as an example, the boundary of tax payers is ambiguous, which increases the difficulty of identification. [2] Third, the digital economy has the characteristics of concealment, virtuality and digital, and the existing tax criteria can no longer measure the newly generated digital tax, which will lead to the corrosion of the tax base. Fourth, compared with traditional enterprises, digital enterprises have a faster upgrading speed. According to the European Union's research on the tax payment of transnational enterprises, the actual tax burden of traditional enterprises is 20.9%, while that of digital enterprises is only 9.5%, which results in a serious imbalance of tax burden. [3]

3. Practice of international digital tax Scheme

With the development of digital economy, digital tax is also expanding globally. In order to ensure their own fiscal revenue, digital consumption countries have appealed to the international tax reform. However, due to the different levels of development, the unilateral color of digital service tax is more prominent. As early as 2018, the European Union proposed a 3% digital tax to solve the financial problems caused by the digital economy era.

As a digital exporting country, the United States has enjoyed a lot of dividends for years. In December 2020, the United States imposed retaliatory tariffs on the grounds that "digital tax discriminates against the United States." The Organisation for Economic Co-operation and Development has a "two-pillar" approach to the challenges of the digital economy. Pillar one is to ensure that the world's largest multinationals can distribute their benefits and taxes more equitably between countries, and pillar two is to impose a global minimum corporate tax rate of 15 per cent on large multinationals. In addition, the implementation of the global digital agreement tax reform may be extended from the original 2023 deadline.

Table 1 Digital tax collected by some countries

country	rate	Global thresholds	Domestic thresholds	Effective time
France	3%	750 million euros	25 million euros	Effective in 2019 and suspended until December 2020
United Kingdom	2%	£500 million	£25 million	April 2020
Italy	3%	750 million euros	5.5 million euros	January 2020
Austria	5%	750 million euros	25 million euros	January 2020
Turkey	7.5%	750 million euros	3.1 million euros	March 2020
India	2%	not applicable	Rs 100,000	Effective from 2016 and amended in 2020

As can be seen from the above table, the tax rates set by different countries take full account of their national conditions. Countries with high tax rates are generally those with relatively poor digital economy, while those with low tax rates are vice versa.

4. Analysis of the economic impact of digital tax collection

Digital economy has become a new business form of global economic development. Many multinational digital enterprises have made extensive tax planning by taking advantage of the tax blank policy of digital industry. At present, many countries have levied digital tax in order to seek tax dividends for their own countries. As a big country of digital consumption and production, the digital economy industry may face greater external risks.

4.1 Enterprises in a dominant position can shift the tax burden

As a major exporter of digital services, American multinational enterprises have an absolute advantage in the digital market, while compared with other European countries, which mainly rely on the United States to carry out online business activities, they are at a relative disadvantage in the market. In this way, the tax burden of the enterprise will be reduced and the international competitiveness of the collecting country will be weakened. Most Chinese enterprises rely on Google and Facebook to launch overseas, and are at the lower end of the economic value chain in the digital market. In 2018, ByteDance bought a $300 million AD service to promote Tiktok, making it one of Google's biggest customers. Levying taxes on Internet companies that provide digital services may cause upstream companies to transfer the tax burden to consumers and enterprises by raising prices, thus forcing the country to bear the tax burden, seriously harming the interests of small and medium-sized enterprises and taxpayers.

4.2 Increase the cost of enjoying digital services and curb market competition

Although the digital tax makes the digital exporting countries bear a certain tax burden, it transfers the new tax burden by raising the price, so that the enterprises relying on digital services will be greatly affected: for the digital service trading platform, the digital tax increases its cost and reduces its profit. On the one hand, some enterprises will give up consumption of digital services to resist the digital tax [4]. On the other hand, it may inhibit market competition. Because countries have set thresholds for the amount of turnover covered by digital taxes, this makes the overall digital market less dynamic and stifles economic growth.

5. The countermeasures of our country

According to the White Paper on the Global Digital Economy released in 2022, China's digital economy reached 7.1 trillion U.S. dollars in 2021, ranking second in the world. As a large digital country, our country will inevitably be affected to realize our national benefit maximization under the new tax system.

5.1 Improving the existing tax system for digital tax

At present, in order to ease the financial pressure and reduce the threat of foreign enterprises to local digital industry, countries temporarily set up digital tax, after a period of implementation, it has shown a strong distortion. Considering the risk and challenge of digital tax on Chinese enterprises, enterprises that want to "go out" to increase the implementation of preferential measures, and in the face of the tax burden transfer, our country can establish a long-term cooperation mechanism with the relevant enterprises on the economic chain and the bottom of the digital market, discuss the tax processing together, and avoid the transfer of related tax burden as far as possible.

5.2 Participating in international consultation and cooperation on digital economy

The digital tax is a new tax started by countries to defend their rights and interests. As the member of BEPS, our country has signed the BEPS multilateral convention and other legal documents. Before the multilateral digital service tax agreement is concluded, our country can sign bilateral agreements with other countries to maintain our legitimate rights and interests with regard to digital transaction. Avoid other countries to deliberately suppress Chinese enterprises, safeguard the legitimate rights and interests of Chinese enterprises and consumers, and form a unique "China plan" in the game of taxation rights.

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