



Tax Certainty in the Digital Economy in the Perspective of a Two-Pillar Program

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Abstract: The rapid development of the digital economy has brought new challenges to global tax administration, and traditional tax systems are facing numerous difficulties. As an important part of global tax reform, the "two-pillar solution" is of great significance in addressing tax issues in the digital economy. This paper first provides a brief overview of the two-pillar solution and its main contents. It then examines the issue of tax certainty in the digital economy, analyzes the importance of tax certainty for the digital economy, and the challenges it faces. Subsequently, policy recommendations are presented to address tax certainty issues in the digital economy, including international cooperation and coordination, improving tax data collection and information exchange, and promoting self-regulation and compliance in the digital economy. Finally, by analyzing the example of the EU digital tax proposal and the progress and implementation of international tax reform, the paper summarizes the importance of tax certainty in the digital economy, the prospects and challenges of the two-pillar solution, policy recommendations, and future prospects. This paper aims to provide ideas and references for researching tax issues in the digital economy and its solutions, in order to promote the reform and upgrading of the global tax system.

Keywords: two pillars, digital economy, tax certainty

1. Introduction

With the rapid development of the digital economy and the widespread use of digital technologies, a large number of cross-border digital transactions and business models without physical presence have emerged globally. The rise of this digital economy has posed significant challenges to traditional tax systems. Due to the unique characteristics of the digital economy, such as virtuality, borderlessness, and high mobility, traditional tax rules often struggle to effectively capture and fairly allocate the value and profits generated by digital economic activities. In response, the international community has initiated discussions and explorations to find new approaches to address tax issues in the digital economy. In this context, the reform of the international tax system has become a global focus, leading to the concept of the "two-pillar solution." This paper will explore the importance of tax certainty in the digital economy from the perspective of the two-pillar solution and propose relevant policy recommendations.

2. Tax Certainty Issues in the Digital Economy

2.1 Challenges and opportunities in the digital economy

The rise of the digital economy has brought numerous challenges and opportunities to the traditional tax system. Firstly, the virtual and borderless nature of the digital economy enables businesses to operate globally through cross-border digital transactions without the need for a physical presence. This has resulted in challenges in tax jurisdiction, as traditional tax rules often struggle to accurately capture and locate the benefits derived from these digital economic activities. Secondly, the high mobility and flexibility of the digital economy allow companies to minimize their tax burden by exploiting tax differences and preferential policies between different countries. This tax avoidance behavior greatly challenges the fairness and effectiveness of international tax administration. However, the rapid development of the digital economy also presents a range of opportunities for tax administration. The application of digital technologies allows tax authorities to collect, analyze, and exchange tax data more accurately and efficiently, thereby enhancing the efficiency and transparency of tax administration. In addition, the large amount of data transactions involved in the digital economy provides tax authorities with more information sources, helping to assess the tax capacity and tax liability of businesses more accurately. The issue of tax certainty in the digital economy is an important topic to be addressed worldwide. Tax certainty is not only related to government fiscal revenue and the provision of public services but also affects the compliance and sustainable development of businesses in the digital economy. The lack of tax certainty can lead to uncertain tax burdens and an increase in cross-border tax disputes, posing risks to business operations and investments [2].

2.2 Problems facing tax certainty in the digital economy

Under the digital economy, tax certainty is facing multiple challenges. Firstly, the cross-border and boundary-free nature of the digital economy makes it difficult for traditional tax rules to adapt to its unique characteristics, resulting in increased uncertainty and complexity in the application of tax laws and regulations. The digital economy involves a range of emerging business forms such as virtual economy, digital goods and services, and intellectual property, which make it difficult for tax authorities to accurately assess a company's tax-paying capacity and tax liabilities. At the same time, the high mobility and digitization of the digital economy have enabled businesses to flexibly transfer profits and avoid taxes, thereby weakening the fairness and sustainability of tax administration. Secondly, the tax rules under the digital economy lack global consistency and coordination, resulting in differentiation and conflicts. Tax rules and legislative systems vary among different countries, and combined with the digital economy's borderless nature, this may lead to multinational companies facing different tax rules and collection standards across the globe. This may lead to profit shifting and tax avoidance among businesses in different countries, weakening fair competition among countries. Finally, there are also certain technical and data-related challenges in the current tax rules and administration mechanism under the digital economy. The diversity of business forms and service objects involved in the digital economy, as well as data exchange and information collection, require the use of advanced technology and data governance concepts to address relevant issues. This also requires coordination and cooperation among countries to explore and practice cross-border data exchange and data standardization [3].

3. Policy Recommendations to Address Tax Certainty Issues in the Digital Economy

3.1 International cooperation and coordination

In order to address the issue of tax certainty in the digital economy, international cooperation and coordination are crucial policy recommendations. Due to the cross-border and boundary-free nature of the digital economy, individual countries find it challenging to independently solve tax issues involving multinational enterprises. Therefore, the international community needs to strengthen cooperation and coordination to jointly formulate and implement relevant tax policies and measures. Firstly, the international community should promote the coordination and harmonization of the global tax system. Countries can engage in dialogue and negotiation through platforms such as international organizations and tax cooperation mechanisms to collectively establish tax rules and standards, avoiding differentiation and conflicts. This helps to create a fair tax environment for competition, reducing profit shifting and erosion of the tax base among multinational enterprises. Secondly, the international community should enhance the exchange and sharing of tax-related data. In the digital economy, data is a vital source for tax administration. Countries need to strengthen data governance and information exchange to combat tax avoidance by multinational enterprises. Establishing mechanisms for international data exchange and data standardization can improve the efficiency and accuracy of tax administration, providing better support for tax certainty. Lastly, the international community should enhance innovation in tax systems and technology.

3.2 Improving tax data collection and information exchange

The diverse nature of business forms and service recipients involved in digital economic activities presents challenges in data exchange and collection. Therefore, it is necessary to enhance the capacity for data collection and information exchange to improve the accuracy and efficiency of tax administration. Firstly, countries should strengthen the collection and management of tax data. Establishing robust data collection systems allows for the accurate assessment of the tax-paying capacity and tax liabilities of multinational enterprises through monitoring and analyzing their transaction data and financial information. Secondly, the international community should enhance the exchange and sharing of tax information. Tax issues often involve the relationships between multinational enterprises and multiple countries, making international cooperation and information exchange crucial in addressing tax certainty. Countries should actively participate in international tax cooperation mechanisms and share tax information in accordance with international standards and agreements to collectively combat tax avoidance by multinational enterprises [4]. This will enhance the efficiency and accuracy of tax administration while reducing tax uncertainty risks. Furthermore, the international community can explore the establishment of unified data standards and interoperability. The development of the digital economy transcends national borders, and the tax data formats collected and managed by different countries may vary, posing challenges in the exchange and comparison of tax information. Therefore, through negotiation and cooperation, the international community can formulate consistent data standards and specifications to promote interoperability of tax data, facilitating better sharing and comparison of tax information [5].

4. Conclusion

The digital economy is an important component of the global economy today, and its development has brought great

challenges to global tax administration. In order to address the issue of tax certainty in the digital economy, the international community has proposed a two-pillar plan, which includes the digital services tax and the global minimum tax rate. The digital services tax primarily addresses the tax issues of digital giants, while the global minimum tax rate aims to prevent tax base competition and profit shifting. In addition, international cooperation and coordination, improving tax data collection and information exchange, and promoting the self-discipline and compliance of the digital economy are also important policy recommendations. These policy recommendations will help enhance the accuracy and efficiency of tax administration, promote the healthy development of the digital economy, and improve the fairness and efficiency of global tax administration.

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