



**MULTIDISZCIPLINÁRIS KIHÍVÁSOK
SOKSZÍNŰ VÁLASZOK**

GAZDÁLKODÁS- ÉS SZERVEZÉSTUDOMÁNYI FOLYÓIRAT

**MULTIDISCIPLINARY CHALLENGES
DIVERSE RESPONSES**

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**THE CHALLENGES OF DIGITAL ECONOMY
TAXATION IN THE EU PUBLIC ADMINISTRATION**

**A DIGITÁLIS GAZDASÁG ADÓZTATÁSÁNAK KIHÍVÁSAI
AZ UNIÓS KÖZIGAZGATÁSBAN**

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ABSTRACT

Currently, the world, as well as the European Union, has been challenged by digital transformation. In the present time, digitalization has become the defining characteristic of modern society, slightly influencing several aspects of society, specifically by developing new economic platforms and transforming in trade patterns. The European Green Deal and Digital Transformation strategy represents the critical feature in shaping our modern world by integrating digital technologies and employing their potential, the European Union public administration faces the challenges of effectively implementing digital economy taxation instruments that enhance economic growth and sustainable development. To address the challenges, the European Union adopted a new strategy to ensure transparent and fair taxation. On March 21, 2018, the European Commission proposed new rules to ensure digital activities are taxed in a fair and growth-friendly in the European Union. The study aims to review the new European Union regulations related to digital activities and consolidate academic evidence regarding tax challenges initiated by digitalization. The study's determination to present a new perspective on these issues is intended to address the challenges of new tax policy and how the European Union will achieve green and digital transformation goals by encouraging a transition to fair and greener industries, as the digital economy has brought many new opportunities and benefits to citizens and companies. However, public service still questions adapting and certifying fair competition in this century. The European Union is playing an important role in this ongoing process and policy implementation. To promote good tax governance and cooperation within the European Union and globally. It will be beneficial to the European Union to contribute to economic development in the new digital era, together with ensuring fair competition and new cooperation.

ABSZTRAKT

Jelenleg a világot és az Európai Uniót is kihívások elé állítja a digitális átalakulás. Napjainkban a digitalizáció a modern társadalom meghatározó jellemzőjévé vált, és a társadalom számos aspektusát enyhén befolyásolja, különösen az új gazdasági platformok kialakításával és a kereskedelmi minták átalakításával. Az európai zöld alku és a digitális átalakulás stratégiája a

digitális technológiák integrálásával és a bennük rejlő lehetőségek kihasználásával modern világunk alakításának kritikus eleme, az Európai Unió közigazgatásának pedig a gazdasági növekedést és a fenntartható fejlődést elősegítő digitális gazdasági adózási eszközök hatékony végrehajtása jelent kihívást. A kihívások kezelése érdekében az Európai Unió új stratégiát fogadott el az átlátható és igazságos adózás biztosítása érdekében. Az Európai Bizottság 2018. március 21-én új szabályokat javasolt annak biztosítására, hogy a digitális tevékenységek adóztatása igazságos és növekedésbarát módon történjen az Európai Unióban. A tanulmány célja, hogy áttekintse a digitális tevékenységekkel kapcsolatos új európai uniós szabályozásokat, és összegyűjtse a digitalizáció okozta adóügyi kihívásokkal kapcsolatos tudományos bizonyítékokat. A tanulmány eltökélt szándéka, hogy új perspektívát mutasson be ezekkel a kérdésekkel kapcsolatban, arra irányul, hogy az új adópolitika kihívásaival foglalkozzon, valamint arra, hogy az Európai Unió hogyan fogja elérni a zöld és digitális átalakulás céljait a tisztességes és zölddebb iparágakra való áttérés ösztönzésével, mivel a digitális gazdaság számos új lehetőséget és előnyt hozott a polgárok és a vállalatok számára. A közszolgálat azonban még mindig kérdéses, hogy ebben az évszázadban hogyan alkalmazkodik és hogyan igazolja a tisztességes versenyt. Az Európai Unió fontos szerepet játszik ebben a jelenleg is alakuló folyamatban és a politika végrehajtásában. A jó adóügyi kormányzás és együttműködés előmozdítása az Európai Unión belül és globálisan. Az Európai Unió számára előnyös lesz, ha a tisztességes verseny és az új együttműködés biztosításával együtt hozzájárul a gazdasági fejlődéshez az új digitális korszakban.

INTRODUCTION

The digital economy has enlarged rapidly in recent years, influenced by the development of big data and artificial intelligence, and continues multiplication, playing a key role in transforming various industries, including trade and e-commerce, and. The nations across the world recognize the strategic significance of the digital economy as a prominent catalyst for encouraging economic growth. The digital sector is blooming as fast as it can catch up with traditional business. In the modern global economy, the current tax rules fail to capture the operations

and impact of digital enterprises. Undeniably, the digitalization of the economy impacts the contemporary, evolving international tax environment (Athanasaki, 2023). That leads to a totally different business and corporate structure. The European Union plays an important role in the work of adapting the taxation system to promote tax good governance (European Council, 2023), as well as addressing the challenges of the digitalization of the economy (European Council, 2023), and strengthening cooperation between tax authorities in the European Union member states (European Council, 2023). However, the taxation of digital goods has become a significant challenge for public administration in the European Union (European Council, 2023).

The “Digital Economy” is always characterized by intangible assets such as data, including the element of the economic transaction that relies on data-encoding technology and any business model that comprehend one or more digital element, for instance, digital communication, digital content, digital automation, digital distribution and digital payment (Cristian Óliver & Junquera-Varela, 2021). Which can be challenging to value and tax and the need to develop tax policies to address the emerging business models. These challenges require a good design of the implementation mechanism, innovative solutions, and international cooperation to ensure that the European Union member states can effectively tax the digital economy and collect the appropriated amount of revenue.

In recent years, the European Union has made a significant step towards the digital era in the field of taxation. The effectiveness of the measures depends on many components, particularly legislation and law enforcement (Ponomareva, 2022). The European Commission proposed new rules for digitalization in 2018 (European Council, 2023). The European Union perceives the importance of fair and effective taxation in the digital economy. Following are some significant steps of the European Union tax development.

- 27 Nov 2020, the European Council had approved the conclusion on fair and effective taxation (European Council, 2023).

- 22 Mar 2021, the European Union Council adopted a new rule for digital platforms (European Council, 2023).
- 15 Mar 2022, the European Council adopted conclusions on the implementation of the Value Added Tax e-commerce package (European Council, 2023). New Value Added Tax rules for online shopping came into force on 1 July 2021 as part of efforts to ensure a more level playing field for all businesses and strengthen the EU Single Market (European Council, 2023).
- 24 Oct 2022, the European Council adopted an European Union single window for customs, aiming to make international trade easier, expedite customs clearances, and reduce the risk of fraud (European Council, 2023).
- 12 Dec 2022, the European Council adopted rules on the minimum level of taxation for the largest corporations. These rules aim to reduce the risk of tax base erosion and profit shifting while ensuring that the largest multinational groups pay the agreed global minimum rate corporate tax (European Council, 2023).

Taxing the digital economy can be a tool for creating new sources of revenue. Likewise, the development of digital economics overturned the traditional approach by challenging the government to derive income from those services without having a presence in the territory (Cristian Óliver & Junquera-Varela, 2021). Indeed, the lack of physical presence of the digital platforms presents questions regarding the roles and responsibilities in the administration of consumption taxes on digital transactions in the collection of indirect taxation from online transactions, such as registration, collection, remittance, and enforcement mechanisms, as well as the new regulatory regulation's effectiveness in being implemented (Cristian Óliver & Junquera-Varela, 2021)

The paper determined to (i) review the European Union's new regulation related to digital activities and present a new perspective on the digital economy; (ii) address the challenges of new tax policy on the digital economy and how the

European Union will achieve Green and Digital Transformation goals by encouraging a transition to fair and greener industries; (iii) review the current literature on how the new regulation has been adopted and implemented as the digital economy has brought many new opportunities and beneficial to citizens and companies, but public service still needs to understand how it can adapt and certify fair competition in this century (Cristian Óliver & Junquera-Varela, 2021).

The study objective

The objective of this study is to analyze the new European Union tax regulation related to digital activities and present a perspective on the digital economy based on the theoretical and practical to identify digital activity along with the innovation of policy in public administration and to address the challenges of the new tax policy on how this new regulation will help the European Union achieve Green and Digital Transformation goals and outlined how the European Union adopt new regulation and being implemented. The study aims to contribute current knowledge on the taxation of the digital economy in the European Union by providing a comprehension analysis together and a valuable contribution to the academic literature on the use of tax policies.

METHODOLOGY

To study the challenges of digital economy taxation in the European Union public administration, the researcher employs a quantitative research methodology to investigate the past and ongoing situation and the implementation of the regulation.

The researcher conducts the study by performing a comprehensive literature review to examine the existing theoretical and previous related research on how the European Union's public administration in the context of the digital economy taxation. The study explores how the new regulations for digital economy may affect taxation system within the European Union and its implications for the

future. Therefore, the study aims to identify current studies on how the European Union will achieve Green and Digital Transformation goals by encouraging a transition to fair and effective taxation. The theoretical analysis will be complemented by including relevant statistical data to draw the conclusion. In this research, a comprehensive analysis of 30 papers has been conducted.

The researcher employs the study by gathering secondary data from OECD, European regulation data, recent research from Scopus, books, relevant databases such as Web of Science and Google for analysis.

Research Question

The research questions aim to address.

1. What are the implications of digitalization for taxation?
2. What are the challenges of the European Union's digital economy taxation?
3. How the European Union will achieve green and digital transformation goals by encouraging a transition to fair and effective taxation?

LITERATURE REVIEW

New development of the European Union regulation

Fair and effective taxation

Fair and effective taxation is essential for the sustainability and growth of the digital economy (Collosa, 2015). Over the years, the value-added tax (VAT) has evolved remarkably, transforming into a pivotal and essential source of revenue for countries worldwide. Representing a progressively larger share of the world's economic activity (Bopp, 2022). As governments increasingly recognize the potential of the Value Added Tax, it has emerged as a significant contributor to national budgets. In the context of ensuring fair and effective taxation in the digital economy, it becomes significant to address the issues of profit shifting on how the business transfers profit (OECD, 2014). Thus, fair and effective taxation in the digital economy entails enlarged transparency and cooperation in the compliance and system. Tax fairness can reflect the effectiveness of public policy

design to ensure that rising inequality can be addressed (OECD, 2014). The rise of several digital activities is essential that all sectors of our economies pay their fair share of taxes and contribute to the functioning of our societies (European Council, 2023). The European Union is ambitious to work toward growth, boosting Investments and Deepening the integration of the economy (European Commission, 2018a).

In 2020, the European Commission proposed a new package for measures to contribute to European Recovery and Growth (European Commission, 2020b):

- *The Tax Action Plan* presents 25 distinct actions to make taxation simpler, fairer, and better attuned to the modern economy over the coming years. These actions will make life easier for honest taxpayers by removing obstacles at every step, from registration to reporting, payment, verification, and dispute resolution. The Action Plan will help member states to harness the potential of data and new technologies, fight tax fraud better, improve compliance and reduce administrative burdens (European Commission, 2020b).
- *The proposal on administrative cooperation (DAC 7)* extends the European Union tax transparency rules to digital platforms so that those who make money through the sale of goods or services on platforms pay their fair share of tax. This new proposal will ensure that member states automatically exchange information on the revenues generated by sellers on online platforms. The proposal also strengthens and clarifies the rules in other areas in which member states work together to fight tax abuse, for example, through joint tax audits (European Commission, 2020b).
- *The Communication on tax good governance* focuses on promoting fair taxation and clamping down on unfair tax competition in the European Union and internationally. To this end, the European Commission suggests a reform of the code of conduct, which

addresses tax competition and tackles harmful tax practices within the European Union. It also proposes improvements to the European Union's list of non-cooperative jurisdictions, which deals with non-European Union countries that refuse to follow internationally agreed standards. This list has so far encouraged third countries to adopt tax good governance standards, but more needs to be done. The European Commission also outlines the European Union's approach to working together with developing countries in the area of taxation, in line with the 2030 sustainable development agenda (European Commission, 2020b).

Fair taxation is essential for sustainable revenue as fair taxation is central to the European Union's social economic model. The European Commission is working to make tax systems more transparent, accountable, and effective to ensure that all companies pay tax where they profit (European Commission, 2018a).

New European Union Value Added Tax Role for E-commerce

The European Union introduced new Value Added Tax rules for E-commerce in 2021 as a tool of digital taxation to address the challenges of taxing digital goods services and to overcome the barrier to cross-border sales (European Commission, 2021a). This new rule ensures that digital business activities are taxed in a fair and growth-friendly way in the European Union (European Commission, 2018b). It applies to all cross-border sales of goods to customers within the European Union, where dispatch is arranged by or at the supplier's expense and will be subject to Value Added Tax, in the country to which the goods are dispatch or transported. In Value Added Tax e-commerce is typically defined along two dimensions (Tilburg, 2016). Under the new rule, businesses that sell digital goods and services to customers within the European Union (European Commission, 2021b). The rules aim to simplify the Valued Added Tax regulation for cross-border sales within the European Union and ensure that tax

is paid where the values is created (European Commission, 2018b). E-commerce sellers need to have Value Added Tax legislation with a threshold of €10,000 or above. The tax must be paid in the member states where the goods are delivered (European Commission, 2021c). Online sellers can register for the ‘One Stop Shop’ electronic portal. For non-European Union seller, Applying for the electronic system called 'Import One Stop Shop' is also required, ensuring more transparency for customers in the process (European Commission, 2021c).

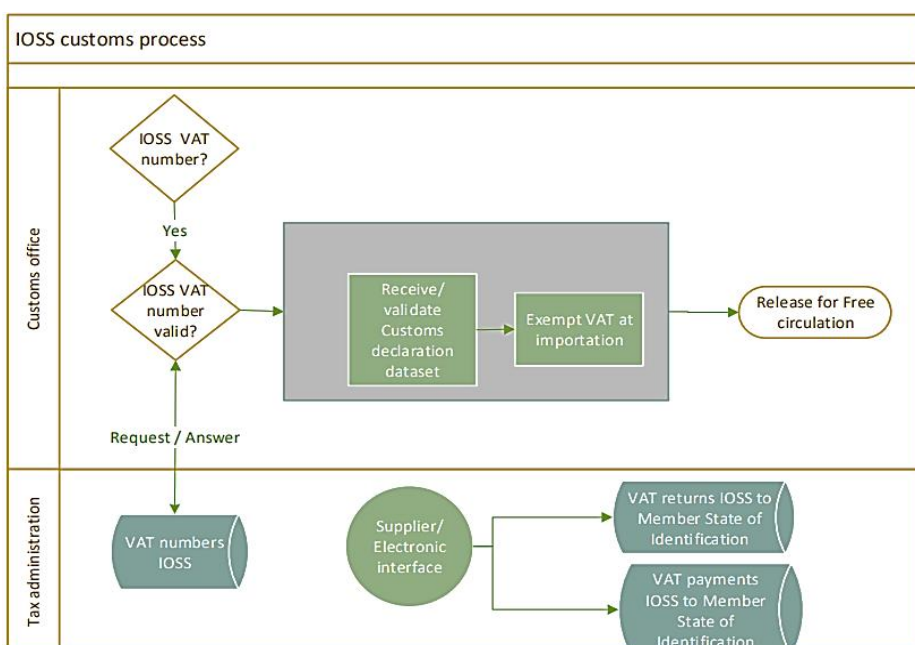


Figure 1. A special VAT regulation, IOSS Customs Process
Sources: European Commission, 2020a

The new Value Added Tax rules have been implemented successfully as the result of the first six months of operation, and member states collected €6.8 billion in Value Added Tax revenues via the expanded IOSS portals. In addition to this €6.8 billion, over €2 billion in Value Added Tax revenues was collected on imports of low-value consignments not exceeding €150 (European Commission, 2021c)

However, the implementation of the new European Union Value Added Tax rules for E-commerce has also presented some challenges. The recent regulatory development need to fully address all the accurate assessment of Value Added Tax and custom duties for goods and services traded over the internet (European Court of Auditors, 2019), Including Information and Technology system integration and cross border transactions. Consequently, both businesses and tax administration must work diligently to ensure effective compliance with the new rules while also minimizing the administrative burden on businesses. One aspect of concern is the ineffective collection of Value-Added Tax, which is exacerbated by digitalization, especially in business-to-consumer (B2C) and consumer-to-consumer(C2C) transactions where the cost of collecting Value Added Tax on low-value transactions of goods can sometime exceed the actual tax revenue collected (Papis-Almansa, 2019).

Reform the European Union corporate tax

Digital platforms play an essential role in our social and economic life, contributing to fair and effective taxation. The European Union tries to enhance the laws to regulate these new services. As the current competition tool is ill – equip to cover theses new development era. On 21 March 2018, the European Commission proposed new rules to ensure digital business (European Commission, 2018b). One of the proposals was directing the first initiative to reform corporate tax rules. The Commission suggests a long-term solution by enabling member states to tax profits generated in their territory, even a company does not have a physical presence there. According to the proposal a digital platform will be deemed to have a taxable ‘Digital presence, a virtual permanent establishment in a member states if it fulfills one of the following criteria (European Commission, 2018b):

- It exceeds a threshold of €7 million in annual revenues in a Member State (European Commission, 2018b).

- It has more than 100,000 users in a Member State in a taxable year (European Commission, 2018b).
- Over 3000 business contracts for digital services are created between the company and business users in a taxable year (European Commission, 2018b). The European Commission stated that the new rules will also change how profit are allocated to member states, reflecting how companies can create value online. Additionally, this new system secures an actual link between where digital profits are made and where they are taxed (European Commission, 2018b).

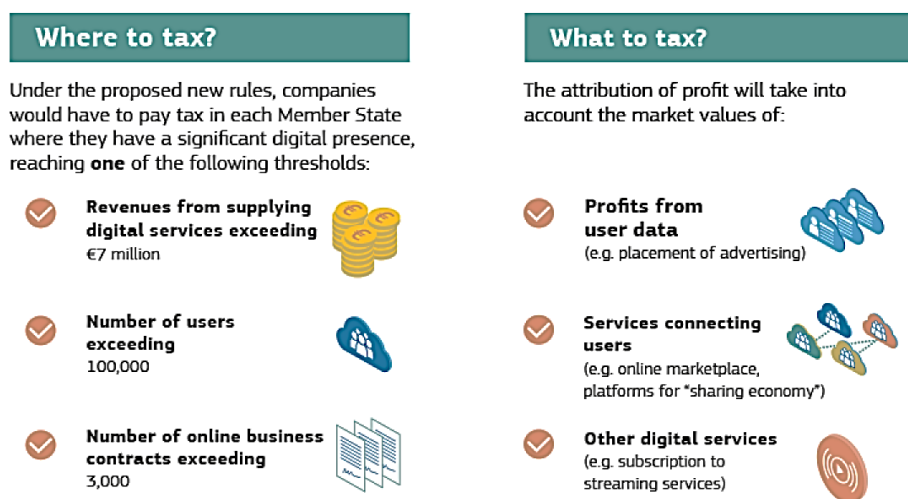


Figure 2. Purposed digital taxation by the European Commission.

Source: European Commission, 2018b

The OECD addressed the challenges of the Digital Economy

The OECD categorized the challenges in concerning to nexus, user data, and the characterization as follow (OECD, 2014).

- *Nexus*: The possibility to conduct business without physical presence thanks to technological advancements (OECD, 2014).

- *Data User*: It is difficult to attribute value to data generated using personal information of end-users personal information (OECD, 2014).
- *Characterization*: The creation of new products and new ways of delivery can make the characterization of payments uncertain in new digital business models. For instance, in the case of cloud computing, which facilitates the storage of data and programs at external services, it saves space on the consumer's own computer (OECD, 2014).

Related research

The relationship between digitalization and environmental sustainability is complex and uncertain. While certain digitalization technologies have the potential to contribute to slowing down environmental degradation, the production and use of digital hardware and data-intensive applications also consume significant resources. (Santarius et al., 2023) Investigated into the digitalization and sustainability. A Call for Digital Green Deal. According to the author, the primary objective of such a deal should be to achieve enhanced policy coherence: Current digital policy initiatives should include measures that service environmental goals, and environmental policies must address risks and advance opportunities of digital technologies to promote sustainability transformation. The study finds that Information and Communication Technologies can significantly improve environmental monitoring and provide real-time data on the earth system and socio-economic indicators. Also, digital applications can increase energy and resource efficiency. For example, Smart factories, at the same time, efficiency improvement, can generate rebound effects that intensify use patterns and induce new applications of digital technologies. Digitalization can potentially substitute physical goods and movements with digital service, as it occurs when workers replace some of their commuting with teleworking. The researcher mentioned some promising examples of how artificial intelligence could play a role in climate change mitigation and adaptation by predicting use patterns and

flattening energy peaks in urban space. However, the study reveals that in all initiatives, there needs to be more policy coherence between digital policy initiatives and policies targeting sustainable development. The policies should set clear and ambitious energy standards for devices and data centers to ensure constant improvement of those standards over time (Ha, Huong an Thanh, 2022). An empirical analysis was conducted to investigate the impact of digitalization on environmental performance in a sample of 25 European countries from 2015 to 2020. The study utilized two dimensions, namely human health protection and ecosystem protection, to measure environmental performance, which was obtained from the Yale Center for Environmental Law and Policy. The study's findings indicate that the digital transformation process, particularly in terms of digital skills, business digitalization, and digital public services, positively contributes to environmental performance. The authors emphasize the significance of business digitalization and digital public services in improving environmental health, and the role of digital connectivity, digital skills, and business digitalization in enhancing ecosystem vitality. Notably, the positive impact of the current health crisis on the environment is mainly attributed to improvements in outdoor air quality resulting from restrictions on human contact and reduced travel. The advancement of digitalization also plays a crucial role in the effective collection, recycling, and reuse of electronic waste and materials, thereby promoting a circular economy.

Furthermore, information and communication technologies facilitate the efficient implementation of policies and enhance public awareness by visualizing and communicating biological data. Additionally, digitalization enables the development of business models that contribute to the preservation of biodiversity. The study concludes that the process of digital transformation, specifically the presence of human capital with digital skills, business digitalization, and digital public services, has a positive long-term impact on environmental performance, despite potential adverse effects in the short term. The authors

suggest that promoting digitalization can significantly contribute to enhancing environmental performance as evidenced by the findings from the international sample of 25 European countries. They highlight the evident influence of digitalization on both environmental health and ecosystem vitality.

The digitization of business operations can lead to Tax Revenue Loss, Facilitate Base Erosion and Profit Shifting (BEPS) and can result in double non-taxation and reallocation of taxable income (Terada-Hagiwara, Gonzales & Wang, 2019). Multinational companies in the PRC can avoid tax liabilities in several ways, including (1) avoiding local permanent establishment, (2) minimizing the scope of operations and assets to reduce taxable income, and (3) exploiting The People's Republic of China (PRC) tax treaty network with developing countries that generally impose lower tax rates. Under the current international tax rules, allow the source country to tax the nonresident's business profits only if its local presence constitutes a permanent establishment, whether it is a substantial physical presence or a dependent agent. However, in a digitalized world, the business can be conducted through a website in the market jurisdiction without any physical presence; even the website servers need not be set up locally. Typical examples are online advertising and social network platforms (Terada-Hagiwara, Gonzales & Wang, 2019).

Furthermore, the digital transformation of business models also challenges the exception clause of permanent establishment rules. Traditionally considered preparatory or auxiliary may become the core business model in the market country. In addition, with advancing digital technology, in-person services can be delivered online, allowing a business to avoid creating a permanent establishment in the market country (Terada-Hagiwara, Gonzales & Wang, 2019).

DISCUSSIONS OF FINDINGS

The challenges associated with policy implementation in the new digital economy have a profound impact on the attainment of fair and efficient public revenue.

The European Union public administration has faced the complexities of developing and implementing the tax policy. Cross-border trade in goods, services, and intangibles significantly challenges Value Added Tax collection, where private consumers acquire such products from suppliers abroad (OECD, 2014). The income tax base in the digital economy is jeopardized by the fact that large multinational enterprises are increasingly providing goods and services in countries without a physical presence; instances where customers pay for certain digital services by giving their data for free; artificial contracts made for the purpose of shifting profits; and circumvention of withholding laws (Hadzhieva, 2016)

Implications of digital for Taxation

Even when the taxes are collected, the average tax rate for digital companies is still much lower than for non-digital, traditional companies (Hadzhieva, 2016). The complexity of Value Added Tax collection on service and intangible transactions further complicates cross-border trade taxation. Specifically, when it comes to consumer-to-consumer (C2C) transactions, which represent an important part of the e-commerce landscape, the situation differs from transactions involving business-to-business (B2B) and business-to-consumer (B2C) markets, where a tax registration and administration system is already in place. Suppliers in C2C are generally individuals and households. However, if the current Value Added Tax system needs a specific registration and collection framework for individual suppliers, consumer-to-consumer transaction often remains exempt from Value Added Tax (KPMG, 2022).

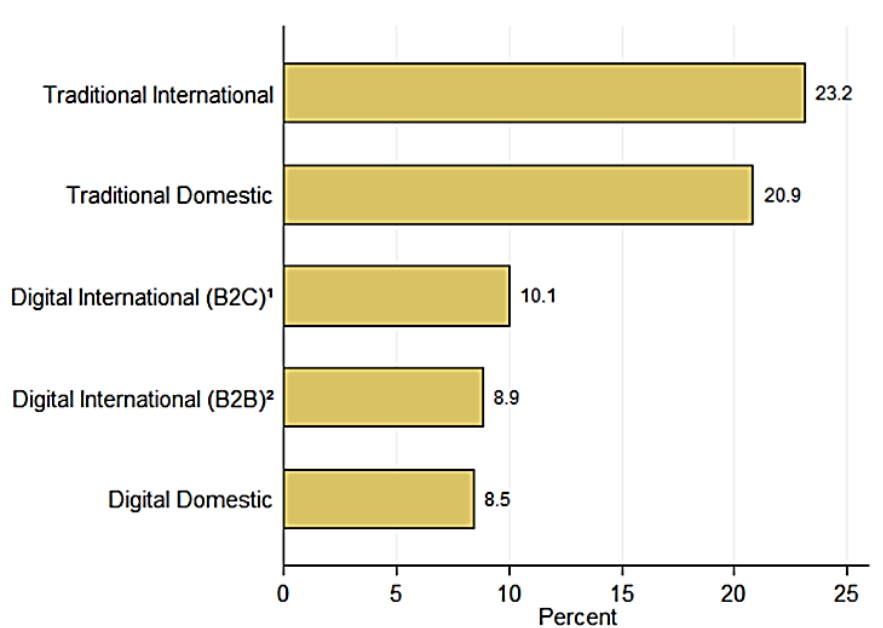


Figure 3. Effective average corporate tax rate by business model in EU-28
Source: Jakurti, 2017

In addressing tax collection in the digital economy, the OECD has determined two main types of tax collection: indirect and direct tax (OECD, 2014).

Firstly, indirect taxes involve the collection of Value Added Tax and Goods and Services tax on cross-border Business to Customer (B2C) transactions, with agreement on the destination principle and introduction of a simplified collection mechanism (OECD, 2014). Digital firms can now access foreign markets without incurring a taxable nexus per traditional standards requiring a substantial local presence. Indirect taxes can be complex, mainly when dealing with cross-border taxation and differing tax rates across various Jurisdictions. Consequently, collecting indirect taxes can be inefficient, especially for specific types of goods and services (Olbert & Spengel, 2019).

Secondly, regarding direct taxes, there are significant challenges in collecting them, primarily in the context of corporate income taxes. Digital firms are known to engage in more aggressive profit-shifting activities. One major challenge in

indirect taxation is that highly digitalized businesses can position their point of sale in low-tax consumption jurisdictions to minimize their Value Added Tax liability (Olbert & Spengel, 2019).

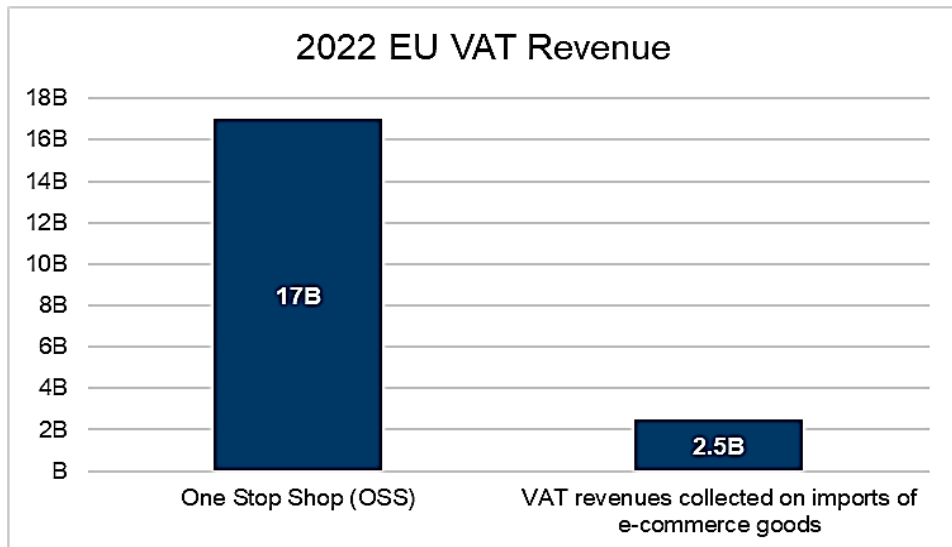


Figure 4. Author chart generated, source from Tax Foundation 2023.
Source: Bray & Weigel, 2023

In July 2021, the European Union agreed to eliminate a Value Added Tax exemption for goods imported into the European Union valued at less than € 22 by non-EU companies. As a result, the European Union can collect Value Added Tax revenues from E-commerce in 2022 about € 20 Billion, which an increase of 26% from 2021; this amount includes € 17 billion from online sales within the European Union, which were reported through the One Stop Shop (OSS) portal, and € 2.5 Billion from imports of e-commerce goods (Bray & Weigel, 2023). These changes highlight the substantial impact of digitalization on tax revenue collection.

Challenges of European Union Digital Economy Taxation

The European Union public administration faces several challenges in implementing cross-border digital transactions, and one key challenge is the need for good coordination among member states in order to accomplish the digital economy taxation policy (Marcin, 2021). The European Union public administration needs to adopt a new concept of Tax Administration 3.0, which involves the use of digital technologies and data analytics to improve the efficiency and effectiveness of tax collection and enforcement in the digital economy (Grima, Özen & Boz, 2022). The European Union needs to support the state in adopting the new policy in different tax systems. Achieving the goals among member states is challenging due to differences in political considerations, tax systems, and economic priority. Additionally, ensuring compliance with digital taxation regulations for tax administration can be difficult, specifically for smaller companies that might not have the resource to pass through complex tax rules (Bruckner, 2016). Enforcing the rule can be challenging the digital economy can be difficult to track and monitor.

Achieving Green and Digital transformation Goals through fair and effective taxation.

The European Union aims to achieve its Green and Digital transformation goals by transitioning to fair and effective taxation policy. Taxation should seek to be neutral and equitable between forms of electronic commerce and between conventional and electronic forms of commerce (Muench et al., 2022), ensuring that digitalization does not create unfair advantage or disadvantage for specific factor. Furthermore, achieving fair and effective taxation and tax implementation necessitates minimizing the compliance cost for taxpayers, and administrative costs for the tax authorities should be minimized as far as possible (Cham et al., 2022). The tax administration is one of the most crucial components. It is

necessary to improve the efficiency in the use of resources to achieve the best possible result.

It is fundamental to mark that a successful tax implementation centers on efficient tax administration. To achieve optimal outcomes, the tax authorities are required to enhance resource allocation and employment practices, which are the steps forward to achieve tax implementation effectively. This aspect is often underlined in several research and policymaker considerations, as it can suggestively impact the overall success of digital taxation strategies in the digital economy. To recognize the prominence of reformation tax administration practices to ensure that fair and effective taxation can be impeccably performed in this progressing landscape.

CONCLUSION

The challenges established by digitalization led the European Union to face considerable difficulties due to the digitalization of taxation. Digital economies moderately impact the fair and efficient collection of public revenue and construct the challenges that policymakers need to address. A complex taxation model is one of the leading associations of the digital economy. The collection of Value Added Tax (VAT) becomes challenging when large multinational enterprises engage in cross-border trade of goods, services, and intangibles without having a physical presence.

In July 2021, the European Union's decision to eliminate the Value Added Tax (VAT) exemption for low-value imports from non-European Union companies led to a significant increase in Value Added Tax (VAT) revenues from e-commerce, marking a 26% growth in 2022. This change highlights the considerable impact of digitalization on tax revenue collection. However, the EU faces coordination challenges among member states when implementing digital economy taxation. Achieving effective digital taxation is complex due to varying

considerations, and enforcing compliance can be challenging, especially for smaller companies.

The European Union needs to transition to fair and effective taxation policies to achieve Green and Digital transformation goals, it is required to ensure equity in taxation, minimize compliance costs, and employ efficient tax administration, employing digital technologies. To navigating the complexities is vital to achieving broader green and digital transformation objectives while fostering equitable taxation and efficient administration.

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