

# TOPICAL TAXATION ISSUES IN CONDITIONS OF DIGITAL MARKET

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## ABSTRACT

*Topical issues of taxation connected with the digital market in Ukraine and in the entire world are considered in the article. It was mentioned that the rapid growth of the digital services market has raised the issue of taxation of this type of activity by the states. Taking into account that the sale of goods and the provision of services in the digital market is carried out through digital platforms, their particular economic characteristics are listed. It was noted that Italy, as one of the initiators of the digital services tax, first introduced a 6% web tax, paid by entities that buy advertising services on Google and Facebook. It was found that in the Russian Federation, instead, there was a suggestion to introduce a special tax regime under which transaction data would automatically go to the tax services, which in turn would levy a tax rate of 3% and 0.5% for foreign Internet companies. Based on the report, it is concluded that the most optimal is to tax the profit of the digital platform under the law of the country where it has a digital presence. The relevant conclusion was made about the expediency of consolidating this approach in a single international document and acts of national legislation, including the Law of Ukraine "On E-Commerce" in 2015 and the Tax Code of Ukraine.*

**Keywords:** Digital Market, Digital Platform, Tax, Taxation Regime, Tax Policy, Web Tax.

## INTRODUCTION

The existence of a competitive economy of any state is impossible without an effective tax policy. Effective tax policy, as a rule, is a source of economic growth, a evidence of the financial stability of the state, the growth of its business environment, the standard of population life, the implementation of strategic development projects at the state level. While the creation of new activity areas makes it necessary to find the solution of their taxation. One of these areas since the 2000s has been the digital economy. The digital economy made up almost 6% of global GDP in 2017.

### Formulation of the Problem

The rapid growth of the digital economy raises the question of taxing digital market activities to states at both national and regional, international levels. Therefore, studying the

modern taxation aspects in the digital market will reveal the trends of the digital market, the gaps in the legal regulation of its taxation and offer directions for its improvement in order to create a proper legal framework for the digital market functioning.

## **LITERATURE REVIEW**

The development of the digital market has attracted the attention of a range of scientists to its functioning, one of the major aspects is taxation. According to Kulish et al. taxes are one of the most effective levers of influence on the state's economy (Kulish et al., 2018). Moreover, Agrawal & Fox point out that the rapid spread of e-commerce has raised the issue of taxing such activities, goods and services to states (Agrawal & Fox, 2017).

According to Gashenko et al. taxation in modern technology development environment should be based not only on constitutional principles of taxation, principles of tax administration and resolution of tax disputes, but also on the principles of innovative technologies. The feasibility of such concept is based on a research devoted to the study of the tax system dependence of the Member States of the European Union on existing electronic services (Gashenko et al., 2019).

Tang and Bussink rightly point out that modern business conditions are becoming more and more global and digital, and, therefore, corporate income tax paid at the state level is no longer meeting the requirements of modern life (Tang & Bussink, 2017). Dimitropoulou also emphasizes that fair taxation in e-commerce is an urgent issue today. Taking into account these facts, it has been proposed, within the European Union, to introduce a digital services tax (DST-digital service tax) (Dimitropoulou, 2019). However, according to Bunn the digital economy is not something that can be easily distinguished from the rest of the world economy, as nowadays the whole economy is already digital, which makes it impossible for it to be taxed separately. Therefore, it is advisable to take a careful approach to the introduction of such a tax, as its imperfection can hinder innovation development, reduce the quality of digital services provided to the public (Bunn, 2018).

## **METHODOLOGY**

The analysis of theoretical and practical aspects of taxation in the digital market was carried out using common scientific and special methods of scientific research. These methods helped to ostend the features of the digital market in the modern environment, to find out the peculiarities of the profits taxation concerning digital services platforms, as well as, to identify the disadvantages and possibilities of such taxation. The critical analysis method is one of the main methods that made it possible to critically analyze the regulatory and doctrinal sources of taxation in the digital market. A comparative method was used to find out the essence of different countries' initiatives for taxing the profits of digital services platforms.

## **FINDINGS AND DISCUSSIONS**

Wie Cui while examining the concept of the digital service tax pays attention to the fact that digital platforms have special economic features:

1. Network effects that generate market power;

2. The existence of two-or multilateral business models that cause difficult pricing choice while maximizing profits;
3. Low marginal costs;
4. Geographical mobility at the point of service and getting profit.

The main questions remain whether there are enough indications to separate the tax base for the digital services tax for each country (Wie, 2018). Kennedy is convinced that the introduction of a digital tax will inevitably lead to complex issues and tasks.

First of all, the tax will not apply to all sectors of the economy, which will inevitably discriminate certain institutions. In particular, the UK provides the introduction of a special digital service tax for three business areas - search engines, social media platforms and online markets. Secondly, the mechanism of this tax will hinder the development of digital companies. For example, in the UK, if a company's profit exceeds £ 500 m in worldwide turnover and £ 25 m in its native country, it automatically becomes a digital tax payer. This significantly reduces the motivation of firms to grow, as well as attracting foreign investment, etc.. Also, interesting is the fact that online platforms that sell goods from different manufacturers are taxed with this type of tax, while online platforms that get income from selling a single manufacturer's goods will be exempted from duty to pay it. Similar is the situation with collecting user data, if such activity is carried out with the aim of improving the quality of goods, maintaining the platform, forming a customer base for their own needs, it will not have to pay tax on digital services. However, if the purpose is to sell the goods to other companies, individuals, to create advertising based on the information received, then the digital service tax must be paid (Kennedy, 2019).

One of the digital services tax initiators was Italy, which was the first among the Member States of the European Union to release a law on the "*web tax*". Companies that purchase Google and Facebook advertising services are expected to pay a tax of 6%, while advertising services purchased by individuals or legal entities for a maximum value of \$ 30 will be tax-free. It should be noted that this was the first proposal developed for the introduction of a new tax type, but the initial rate of 6% was lowered afterwards to 3% (Weichenrieder, 2018).

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A bit different is the experience of the Russian Federation, where in order to activate Internet services, including in the international market, it is suggested to introduce a special tax regime for which information about transactions will be automatically transmitted to the tax services and the latter will be charged a tax at a reduced rate of 3%, and for foreign Internet businesses, this tax is expected to be about 0.5% of their income. Such a model of taxation, according to Aksenova et al. will allow building an information economy in the Russian Federation (Aksenova et al., 2019). This idea successfully corresponds to the fact that fiscal authorities in each state implement a policy to resist tax crime (Muljavka & Reznik, 2013). That is why, while introducing a new tax for profits got from digital platforms, it is also necessary to provide a mechanism for controlling the accrual and collection of such tax, identifying the situations of tax evasion, etc.

Tang and Bussink point out that the shortage of a unified approach to taxation of digital services at European Union level creates a situation where digital services are provided to users across Europe, but their companies register their incomes in countries with the most optimal tax regime, in particular, in Ireland and Luxembourg. For example, in Ireland, Google uses around 5,000 people, in Italy nearly 40,000, and in Germany more than 70,000, while the amount of

company revenue is in Ireland (over \$ 22 million), Germany (\$ 4 million) and Italy (\$ 2 million). Such a disproportion is quite important, as it indicates that the budgets of other countries are losing significant amounts of money (Tang & Bussink, 2017).

However, it is also difficult to link revenue from digital services to where you receive it. Thus, in order to address the issue of taxation of digital services revenue, it should be noted that their provision is made in the absence of official representation of digital platforms in a particular country, and therefore cross-border operation allows them not to tax the revenue received in the countries where such services are actually provided. This also denies the advisability of taxing digital service income through value added tax.

Fuchs notes that the following participants are involved into public relations in the digital service industry:

1. Online platform;
2. Users;
3. Advertisers.

All of these entities may be placed in different countries. At the same time, users of online platform services are content producers and participate in the creation of databases in parallel, which makes advertising work, so these entities are very important for the functioning of digital platforms and affect their profitability. Considering everything mentioned above, the scientist considers it advisable to tax the revenue of digital platforms in the States in proportion to the percentage of users who viewed the advertising, clicked on the site, purchased the product, etc.. The location of users may be set by the IP address stored for each access (Fuchs, 2018). But the question of who will track the number of users of digital platforms by country remains unfinished, since without this it is impossible to implement the provided model of taxation of digital platform profits.

Given the relevance of this topic, it was proposed in 2015 to tax the profits of digital platforms under the law of the country where it actually receives it. Not the physical but the digital presence of the company should be taken into account.

Therefore, if a resident of one country provides or offers access to a digital platform, including mobile applications, databases, online stores, information stores to users in another EU country, and the revenue from such activity per year is € 5 million, in such case the revenue received must be paid into the budget of the country where the digital presence of such a platform takes place (Tang & Bussink, 2017).

It is worth noting, that the Law of Ukraine "*On E-Commerce*" (Law of Ukraine, 2015) refers the following to the list of electronic information services:

1. Distribution of advertising;
2. Creating opportunities to find necessary information and access to it;
3. Transfer and storage of information;
4. Placing information on the order of another person;
5. Passing information at the request of a person or sending commercial electronic messages;
6. Other actions in the sphere of e-commerce.

However, the legislator does not determine the basis for taxation of the profits received from digital platforms from the provision of the services provided, which is undoubtedly a significant disadvantage of the current national legislation, which needs to be eliminated.

## RECOMMENDATIONS

Taking into account the rapid development of information technology and the growing number of users of digital services platforms at European Union level, it is recommended to develop and adopt a common mechanism for taxing the revenues of digital services platforms. This will allow avoiding situations where it is taxed in a country where their taxation system is optimal, rather than where the largest number of users of such services, result in individual states losing a lot of revenue to the budget. Among the top priorities are the following questions: which criteria's digital services platforms should meet in order to be taxable; which state legislation will govern the taxation of these institutions; which should be the rates of such tax. In turn, the legislator of Ukraine should determine in the Law of Ukraine "On E-Commerce" 2015 and the Tax Code of Ukraine how the revenue of digital platforms is taxed.

## CONCLUSIONS

The rapid development of the digital market has made it possible to obtain services and purchase goods through digital platforms, but the issue of taxation of the revenue generated by the companies that own these platforms is still unresolved. Nowadays, every country understands the importance of this issue, that is why Italy and Russia have already introduced the tax from the profits earned with the help of digital platforms. The most acceptable method internationally is to tax the profits of digital service providers under the law of the country where the digital presence of that company actually takes place. However, this idea has not yet been consolidated in a specific document. The situation in the legislation of Ukraine is similar. Thus, in the Law of Ukraine "On E-Commerce" 2015 and the Tax Code of Ukraine the legislator needs to determine how the income of digital platforms is taxed.

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