

Original Article

Digital Taxation Policies and Global Economic Impact

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ABSTRACT

The rapid expansion of the digital economy has fundamentally transformed global business models, enabling multinational enterprises to generate substantial revenues across jurisdictions without maintaining a significant physical presence. This evolution has challenged conventional taxation systems that were originally designed for traditional brick-and-mortar businesses. Governments worldwide have therefore introduced digital taxation policies aimed at ensuring fair taxation, preventing profit shifting, and protecting domestic tax revenues. However, the implementation of these policies has generated significant economic, legal, and diplomatic concerns due to differences in national tax frameworks, risks of double taxation, compliance complexities, and potential trade disputes. This study presents a comprehensive analysis of digital taxation policies and their impact on global economic development. It examines the evolution of digital taxation, international regulatory initiatives led by the Organisation for Economic Co-operation and Development (OECD), and the adoption of Digital Services Taxes (DSTs) by various countries. Furthermore, the research investigates the implications of digital taxation on multinational corporations, government revenues, investment decisions, digital innovation, and cross-border trade. A systematic literature review and comparative policy analysis are employed to evaluate existing taxation frameworks and identify research gaps. The findings indicate that while digital taxation contributes to enhanced revenue mobilization and improved tax fairness, inconsistencies in implementation continue to pose significant challenges for international economic cooperation. The study concludes by emphasizing the importance of globally harmonized taxation policies that balance fiscal sustainability, technological innovation, and long-term economic growth.

KEYWORDS

Digital Taxation, Digital Economy, Digital Services Tax (DST), OECD Pillar One, OECD Pillar Two, Global Economy, Multinational Enterprises, Tax Policy, Cross-border Taxation, International Trade.

1. INTRODUCTION

1.1. Background

Over the last 20 years, digitalization has become one of the most important engines of economic change in the world, transforming the way businesses work, compete and generate value. The explosion of cloud computing, e-commerce, online platforms, social media, fintech services, digital advertising, and streaming has allowed businesses to transact across country lines without having to establish a physical operation in every market. Modern international tax principles, based on the notion of 'permanent establishment' to define a tax liability, are less and less suited to the new digital business models. Consequently, numerous multinationals have been able to repurpose profits to low-tax jurisdictions by using Base Erosion and Profit Shifting (BEPS) strategies, which has led to a decrease in tax revenue collected by governments and a tax fairness issue. To counter these actions, governments have enacted Digital Services Taxes (DSTs), Equalization Levies, and other tax changes, and the OECD/G20 Inclusive Framework has called for coordinated solutions on a global level, including the OECD Two-Pillar Framework. The developments underscore the increasing significance of digital taxation for promoting fair revenue distribution, improving fiscal sustainability, and the long-term viability of the global digital economy.

1.2. Need for Digital Taxation Policies

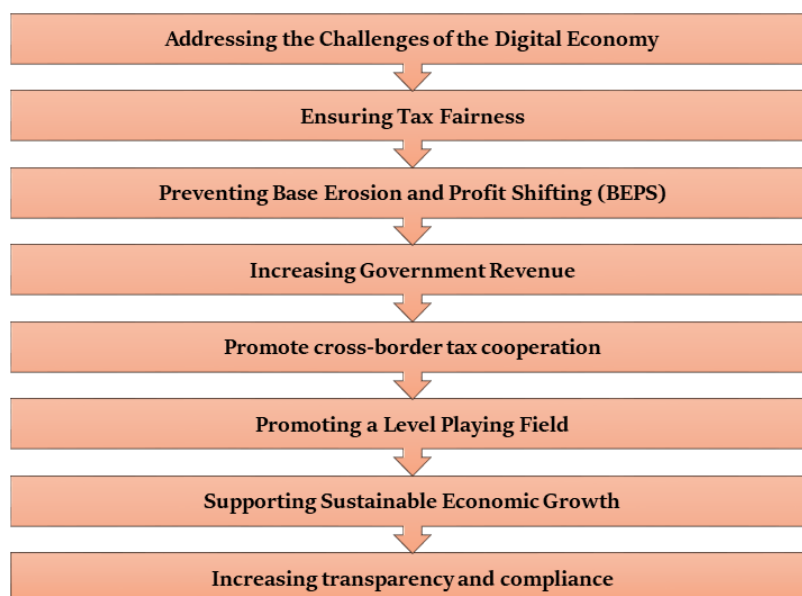


Fig 1 - Need for Digital Taxation Policies

1.2.1. Addressing the Challenges of the Digital Economy

Traditional tax regimes are less effective in the light of the growing digital economy which has changed how businesses make revenue. Digital companies may have no physical presence in one country but be active in others, which can pose difficulties for the governments of those countries in deciding which one the company should be taxed in. Digital taxation policies are thus essential to make taxation systems relevant in the current business landscape.

1.2.2. Ensuring Tax Fairness

The first need of digital taxation policies is to foster fairness in corporate taxation. It is common for multinational digital firms to report large profits in the countries where they do business, but low taxes for those countries. Digital taxation is about making sure companies pay a fair tax wherever the value is created, making the tax system more equitable.

1.2.3. Preventing Base Erosion and Profit Shifting (BEPS)

Digital taxation policies help reduce aggressive tax planning strategies such as Base Erosion and Profit Shifting (BEPS). Multinational companies may shift profits to low-tax jurisdictions in order to reduce their tax burden. Digital tax measures can work to combat these practices and preserve and strengthen national tax bases by enhancing the distribution of taxing rights between countries.

1.2.4. Increasing Government Revenue

Stable income streams are essential for governments to sustain their funding for public services, infrastructure, healthcare, education and digital transformation. Digital taxation policies broaden the tax base by implementing tax on income created by digital activities which couldn't previously be taxed. This helps to achieve enhanced fiscal sustainability and promotes long-term economic development.

1.2.5. Promote cross-border tax cooperation

Internationalised digital business activities have gained relevance, making coordinated international taxation more relevant. Digital taxation policies promote cooperation between countries, including the OECD/G20 Two-Pillar Solution, globally adopted principles. Coordinated action helps avoid tax disputes and tax double taxation, and ensures uniformity of tax administration across the world.

1.2.6. Promoting a Level Playing Field

Digital taxation promotes level playing field between traditional enterprises and digital enterprises. In general, conventional businesses are taxed in the countries where they are physically present, while digital businesses might not have to pay the same taxes. Digital tax policies have to be appropriate so that they can facilitate fair competition while ensuring more consistent taxation rules across business models.

1.2.7. Supporting Sustainable Economic Growth

Crafted digital taxation policies achieve a balance between revenue collection and economic growth and innovation. Governments can promote business investment by creating clear and predictable tax policies to provide for sufficient public revenue. This balance will foster sustainable economic development and boost investor, business and consumer confidence.

1.2.8. Increasing transparency and compliance

Digital taxation policies help promote transparency in cross-border taxation through the adoption of common reporting obligations and increased enforcement. These measures support and

incentivize voluntary tax compliance, limit tax avoidance possibilities and enhance accountability of multinationals. Greater transparency also helps instill greater trust in the integrity of the national and international tax systems.

1.3. Problem Statement

The digital economy is rapidly developing and has revolutionized the way business is done around the world, which poses a major challenge to traditional international taxation systems. Traditional tax rules were developed for businesses with a physical presence in the countries in which they do business, such as offices, factories, or permanent establishments. In recent years, however, the majority of digital companies are able to generate considerable value online, on cloud services, digital advertising, e-commerce, streaming, and through business models based on data without having a strong physical footprint in the jurisdictions where their users reside. This change has revealed enormous gaps in current tax systems, as it is hard for governments to establish where value is added and to where profits are taxed at a company level. In doing so, a number of multinational companies have implemented Base Erosion and Profit Shifting (BEPS) tactics, which involve shifting profits to low-tax countries, which reduces overall global tax collection by governments. To this end, some countries are enacting unilateral measures, including Digital Services Taxes (DSTs) and Equalization Levies, in order to defend their domestic tax base. But the lack of a worldwide consensus on digital taxation also has resulted in disparate regulatory approaches, overlapping tax liabilities, greater compliance costs and double taxation risks for multinationals doing business in several jurisdictions. The policy differences also add to legal uncertainty, administrative complexity and international trade tensions, which can detract from foreign direct investment and affect business confidence. While the OECD/G20 Inclusive Framework and the Two-Pillar Solution make important strides toward coordinated global tax reform, there is a lack of uniformity in how they are being implemented across different countries, stemming from varying legal systems, administrative capacities and national economic priorities. As a result, the effectiveness of current digital taxation policies and their economic consequences need to be assessed. This study aims to meet this need by studying the development of digital taxation, evaluating its effects on government revenue, tax fairness, investments, innovation, and international economic cooperation, and highlighting the challenges of implementation and offering policy recommendations to ensure transparency, fairness, administrative efficiency, and long-term stability in the fast-changing international digital economy.

2. LITERATURE SURVEY

2.1. Evolution of Digital Taxation

The digital economy has revolutionized the way businesses operate and make profits across borders and has been a catalyst in the evolution of digital taxation. Until recently, corporate taxation was enacted under the "physical presence" principle, which held that a company could only be taxed in a country where it had a "permanent establishment," such as an office, factory or branch. Multinational companies, however, could generate huge revenues in countries where they didn't have a physical presence thanks to digital business models like e-commerce platforms, cloud computing, online advertising, social media, streaming services, and digital markets. This innovation revealed the inadequacies of the current international tax framework, which had been developed for

bricks-and-mortar companies. Further, the increasing significance of intangible assets, intellectual property, user-generated data, and the digital platform added further challenges for government to identify where value is created and where profits should accrue. Consequently, many countries have implemented unilateral measures like Digital Services Taxes (DSTs) and Equalization Levies with the aim of safeguarding their own tax bases and making sure that big digital firms pay their fair share in taxes. As time went by, issues of double taxation, trade conflicts, and conflicting national tax policies brought a need for increased international coordination. Digital taxation has therefore become more than a question of national action; it now looks to international coordination to increase tax justice, curb profit shifting, boost transparency and to build a fair international tax system for the digital economy.

2.2. OECD and Global Frameworks

The Organisation for Economic Co-operation and Development (OECD) has taken over as the main international forum for tackling the tax issues posed by digitalisation and, in collaboration with the G20 Inclusive Framework, is implementing coordinated solutions. One of the most significant steps taken in this regard was the introduction of the Base Erosion and Profit Shifting (BEPS) Project in 2013, which provided strategies for the reduction of profits by multinationals through shifting profits to low-tax jurisdictions and minimising their global tax burden. The OECD adopted the Two-Pillar Solution as a successor to the BEPS project, to restructure and modernise the current international tax framework and to establish a fairer distribution of taxing rights. At its core, Pillar One redistributes some of the profits of very profitable multinationals to market jurisdictions where consumers and users are found, without requiring the company to have a physical presence there. The purpose of Pillar Two is to eliminate tax competition between countries and tax arbitrage by imposing a minimum tax rate of 15 percent on companies. The reforms aim to cut down on disputes among nations, to encourage fairness, boost government revenues, to enhance tax certainty and to build international cooperation. While the OECD has gained widespread international endorsement and is an important extension of global tax harmonisation, researchers still have identified issues about implementation, administration, legal harmonisation, political negotiations and different economic priorities between developed and developing nations.

2.3. Economic Impacts

Digital taxation has profound economic consequences for governments, multinationals, consumers and the world economy and is one of the most discussed issues in international tax policy. Many empirical pieces of evidence suggest that Digital Services Taxes and other digital tax measures have led to a rise in government revenue as a result of broadening the tax base of digital markets that are growing at a high rate. These extra funds enable governments to have more fiscal space to invest in critical public services like healthcare, education, digital infrastructure, and economic development initiatives. It also brings new compliance and operational requirements for multinationals which can impact investments, business profitability, and decision to expand on certain markets, however. Some firms react by shifting some of this extra tax cost onto consumers via increased prices, subscription fees or service fees, which may negatively affect consumer welfare. There have also been concerns about double taxation, administrative complexity and international trade tensions that

could result from the simultaneous application of various national digital tax systems. Moreover, foreign direct investment and cross-border business activities can be influenced by the uncertainty about changing tax laws. New research indicates that in principle, internationally agreed tax coordination mechanisms, especially those of the OECD, can help limit regulatory uncertainty, avoid tax conflicts, promote fair competition and preserve tax incentives for innovation—without sacrificing governments' right to collect tax revenues. The overall economic effects of digital taxation will depend greatly on how effective the policy design is, how it is implemented and how much international cooperation is realized.

2.4. Research Gap

While the existing literature offers a good amount of insights into digital taxation, there are certain research gaps that merit further research and study. Previous studies on the subject have focused on legal aspects of international tax rules or implementation of Digital Services Taxes in individual countries with limited comparative analysis in different economic contexts. Moreover, very few studies have taken a comprehensive approach to considering the links between digital taxation, economic growth, international trade, foreign direct investment, tax fairness, government revenue generation, and multinational corporate behavior together in an integrated analytical framework. Another significant constraint is that a number of empirical studies were completed prior to the OECD Two-Pillar Solution being put into practice, which means there is a lack of evidence regarding the long-term effectiveness, practicability and overall effects of the OECD Two-Pillar Solution on the global economy. Moreover, despite the fact that developing countries may be confronted with specific challenges around administrative capacity, digital infrastructure, technological readiness and fiscal reliance on corporate taxation, this dimension is underrepresented in the literature. There is also limited existing literature to evaluate how unilateral DSTs might interact with multilateral OECD changes and the impact of their interplay on investment stability, international tax cooperation and global economic competitiveness. The present research builds on this and takes a holistic economic and policy approach to assess digital taxation, to offer a more comprehensive understanding of its implications and to help the design of more balanced, efficient and internationally coordinated taxation policies.

3. METHODOLOGY

3.1. Research Framework

The research framework offers a structured way to analyze digital taxation policies and their economic implications. It combines the theory with analysis of policy and economic evaluation to meet the research goal. The outline of the framework is well structured and starts with the formulation of the research problem and ends with the interpretation of its results and the formulation of policy recommendations. The structured approach provides a consistent and reliable analysis of digital taxation reforms and ensures it is comprehensive.

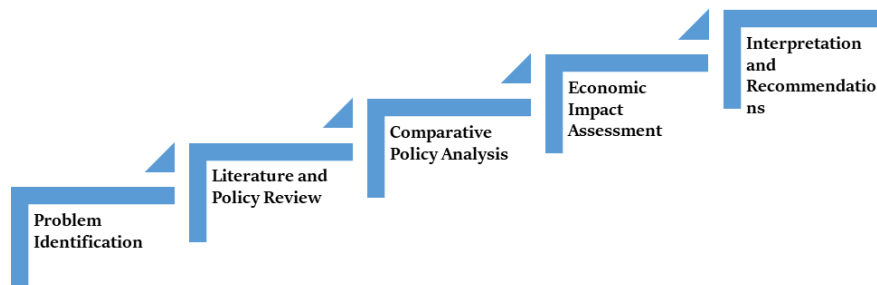


Fig 2 - Research Framework

3.1.1. Stage 1: Problem Identification

The first phase aims to identify the main issues related to modern taxing of digital business models. The traditional tax systems are founded on the notion of physical presence, a concept that may not apply to digital operations of businesses. This means that multinational digital firms can be highly profitable without paying proportional taxes in the market jurisdictions. This raises questions about the equity of the tax, tax avoidance and taxes lost.

3.1.2. Stage 2: Literature and Policy Review

The second step is to conduct a literature review on academic papers and international policy documents on digital taxation. The study is based on theoretical and policy sources including OECD reports, G20 publications, government policies and research articles. The review highlights key issues such as Digital Services Taxes (DSTs), Base Erosion and Profit Shifting (BEPS), and the OECD Two-Pillar Solution. This stage aims to establish current knowledge and policy developments, and research gaps.

3.1.3. Stage 3: Comparative Policy Analysis

This stage is the comparison of digital taxation policies across the different countries, based on common criteria. Policy goals, revenue, administrative efficiency, international compatibility, impact on investment, corporate compliance, and economic sustainability are discussed. The comparative analysis highlights the similarities and differences between the national approaches to digital taxation. It will also identify best practice and implementation issues in different jurisdictions.

3.1.4. Stage 4: Economic Impact Assessment

In the fourth phase, the economic impact of digital taxation is assessed based on selected macroeconomic indicators. This study considers effects on government tax revenue, profitability of multinational enterprises, foreign direct investment (FDI), digital market development, consumer welfare, innovation and international trade. These outcomes are evaluated using data from international organisations and published research. In this phase, the overall effectiveness of digital taxation policies for the economy is decided.

3.1.5. Stage 5: Interpretation and Recommendations

The last phase is to analyze the research results and assess the impact of current digital tax policies. It highlights strengths of policies, implementation problems, and further needed improvements. The analysis leads to recommendations for supporting fair, efficient and coordinated digital tax systems internationally. These are recommendations to improve tax compliance, tax competition and tax cooperation at a global level, and to foster sustainable economic growth.

3.2. Data Collection

The present study mainly uses secondary data sources that are trustworthy, authoritative and well known in the international community in order to focus on the development, application and economic effects of digital taxation policies. The use of secondary data is appropriate as digital taxation is a policy oriented subject that governments, international institutions and research institutes routinely publish comprehensive reports, statistical databases, policy documents and economic analysis. Secondary data are available for existing policy processes and economic results for various countries and are available in a reliable and standardized fashion which enables comparison in the global context, in contrast to primary data collection techniques like surveys or interviews. This study employs data from various sources including the Organisation for Economic Co-operation and Development (OECD) publications, the reports of the G20 Inclusive Framework, the International Monetary Fund (IMF), the World Bank, the United Nations Conference on Trade and Development (UNCTAD), and official government tax authorities. Further, peer-reviewed journal articles, conference papers, books, research reports, and policy briefs are reviewed to provide a theoretical basis and to aid comparative analysis. These sources offer in-depth knowledge on Digital Services Taxes (DSTs), Base Erosion and Profit Shifting (BEPS), OECD Two-Pillar Solution, corporate taxation reforms, government tax revenues, foreign direct investment (FDI), growth of the digital economy and international trade. These data are carefully gathered in terms of relevance, authenticity, accuracy and consistency with the objectives of the research. Recent publications and official statistical reports are given priority, as are well-established academic papers for reliability. The information gathered is presented in a systematic way based on the objectives of the research and later analyzed descriptively and comparatively to find the similarities and differences between policies and problems in their implementation, as well as the economic implications. By leveraging secondary data, the researcher is able to explore the dimension of digital taxation from an international point of view and reduce the time and costs involved in primary data collection. In addition, the accessibility of the standardised global data adds to the validity, reliability and comparability of the research results, which facilitate evidence-based conclusions and recommendations for the design of effective and coordinated international digital taxation policies.

3.3. Analytical Model

The analytical model created for this analysis offers a structured approach to the effectiveness assessment of digital taxation policies and their impact on general economic results. The model combines policy assessment and economic evaluation to analyse the implications of various digital taxation measures for governments, multinational companies, consumers and the economy. It aims to link up tax policies and main macroeconomic indicators, and incorporate fairness, revenue raising,

administrative simplicity and international cooperation objectives. The model reflects a number of policy key features such as introduction of Digital Services Taxes (DSTs), OECD Base Erosion and Profit Shifting (BEPS) initiatives, OECD Two Pillars solution, tax policy goals, compliance standards, revenue allocation, administrative burden, international policy coordination. These policy variables are examined along with key economic metrics like government tax revenues, foreign direct investment (FDI), profit of multinational corporations, and development of digital markets, consumer welfare, innovation, and international trade performance. The analytical model is based on comparison and description of policy frameworks in various countries and their economic impacts, based on published statistical information and policy documents. Data gathered from international bodies, government documents, and research from academic institutions is systematically processed and analysed for patterns, similarities and differences in policy implementation and economic performance. The model also takes account of the interactions between unilateral digital tax measures and multilateral international reform to understand the potential combined effect of both on investment stability, tax compliance, and global economic cooperation. Combining qualitative policy analysis and quantitative economic data gives a holistic perspective of the current digital taxation systems in terms of their strengths and weaknesses, and their effectiveness. Moreover, it allows identification of best practices, implementation challenges, and policy gaps to be addressed. The results obtained from this analytical model are used to inform analysis of the success of digital tax reforms and to formulate evidence-based recommendations to improve tax fairness, certainty of revenue, sustainability of the economy and international coordination of taxing the fast-growing digital economy.

3.4. Evaluation Metrics

The effectiveness of digital taxation policies can be measured using evaluation metrics from both economic and policy perspectives. These metrics are used to evaluate the impact of tax reform on the goals of increased government revenue, equity, investment, innovation and consistency internationally. Multiple evaluation criteria allow for the ability to evaluate digital taxation outcomes on a country-by-country basis and across various digital tax frameworks.

3.4.1. Revenue Performance

Revenue performance gauges the success of digital taxation policies in enhancing government tax revenues from digital economic activities. It assesses if new taxes increase the base and provide regular public revenues. The evaluation takes into account factors including digital tax revenue growth, tax base expansion and stability of long-term revenue. The ability of tax policies to bolster public finances is linked to strong revenue performance.

3.4.2. Tax Fairness

Tax fairness assesses the fairness of the tax payers of multinationals who operate in countries that create economic value. Its goal is to minimize tax avoidance and provide a level playing field for companies competing in the same markets. Some of the key indicators are decreased profit shifting, equated taxation among firms and better allocation of taxing rights. Improving tax fairness leads to greater transparency and public trust of the tax system.

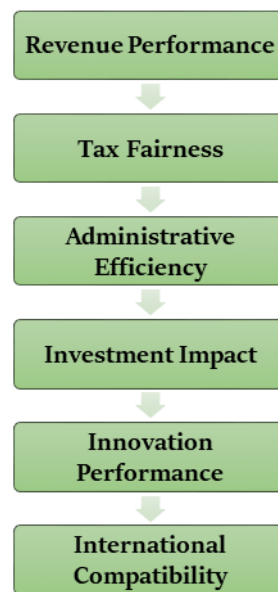


Fig 3 - Evaluation Metrics

3.4.3. *Administrative Efficiency*

Administrative efficiency measures the ease and effectiveness of implementing and administering digital tax policies, both for governments and taxpayers. Efficient tax systems minimise the compliance burden, and maximise tax administration and enforcement. The Evaluation incorporates compliance requirements, reporting difficulty, enforcement ability and administrative expenses. Improved administrative efficiency leads to higher tax compliance, reducing implementation costs.

3.4.4. *Investment Impact*

Investment impact involves the impact of digital taxation policies on domestic and international business investment. It tests whether tax changes stimulate or deter foreign direct investment and growth of business. The assessment is on the basis of Foreign Direct Investment (FDI), business confidence, market attractiveness, and capital inflows. A balanced tax policy contributes to competitive investment climate and equitable tax distribution.

3.4.5. *Innovation Performance*

Innovation performance reflects the degree of innovation enabled by digital taxation policies and digital economic growth. Good tax systems need to foster innovation while not placing undue costs on business. The assessment takes account of research and development investment, the development of the startup ecosystem, investment in digital infrastructure and technology uptake. Innovation is an important part of the long-term economic competitiveness and digital transformation.

3.4.6. *International Compatibility*

International compatibility is an assessment of the compatibility of national digital taxation policies with worldwide accepted taxation standards. It examines how much each country is converging with international frameworks like the OECD Two-Pillar Solution. More compatibility lowers the probability of double taxation, decreases tax controversy, and makes international collaboration easier. This metric will help to build a more efficient and environmentally responsible global tax system.

4. RESULTS AND DISCUSSION

4.1. Analysis

The analysis carried out in this study offers a comprehensive assessment of digital taxation policies based on the six major performance dimensions in the framework of the proposed methodology. These aspects are measured by revenue performance, tax fairness, administrative efficiency, investment impact, innovation performance and international compatibility. They provide a complementary tool to evaluate the success of digital taxation reforms by various countries and international institutions. Data used for the analysis is secondary data obtained from both academic publications and reports from authoritative sources such as Organisation for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), World Bank, United Nations Conference on Trade and Development (UNCTAD), government policy documents. The contribution of each of the performance dimensions to overall policy success is analysed separately and in relation to the interdependencies of these dimensions. The performance of income has been examined to gauge whether digital tax has led to increased tax revenues and widened tax base. Tax fairness is measured by the success of policy in lowering profits shifting and making sure that multinationals pay tax in countries where economic value is added. Administrative efficiency is concerned with the ease in which a policy can be implemented, requirements for compliance, reporting processes and how policies are enforced. The investment impact dimension measures the impact of digital taxation on foreign direct investment, business confidence, market competitiveness and capital flows. Innovation performance refers to the ability of taxation policies to sustain technological dynamism, digital entrepreneurship, research and development and investments in digital infrastructure. Finally, international compatibility looks at the consistency of the national tax policies with the international standards in digital taxation, including the OECD Two-Pillar Solution, to reduce double taxation and improve tax cooperation internationally. The analysis examines the six dimensions of these policy frameworks, and highlights common strengths, challenges in implementation, and opportunities for improvement. The results offer an extensive overview of the impact of digital taxation policies on both economic outcomes and international tax governance, on which the evidence-based conclusions and concrete policy recommendations for the design of fair, efficient and coordinated digital taxation systems are based.

4.2. Comparative performance of digital taxation policies

The comparative performance analysis is based on six KPIs. These metrics assess digital tax reforms' effectiveness in increasing government revenues, improving tax fairness, increasing administrative efficiency, preserving investment stability, fostering innovation, and improving

international policy coordination. The percentages are based on the overall performance of each indicator, which has been performed through the comparative analysis of existing literature, policy reports.

Table 1: Comparative Performance of Digital Taxation Policies

Performance Indicator	Percentage
Government Revenue Improvement	88%
Tax Fairness Enhancement	84%
Administrative Efficiency	79%
Foreign Investment Stability	76%
Digital Innovation Support	82%
International Policy Coordination	81%

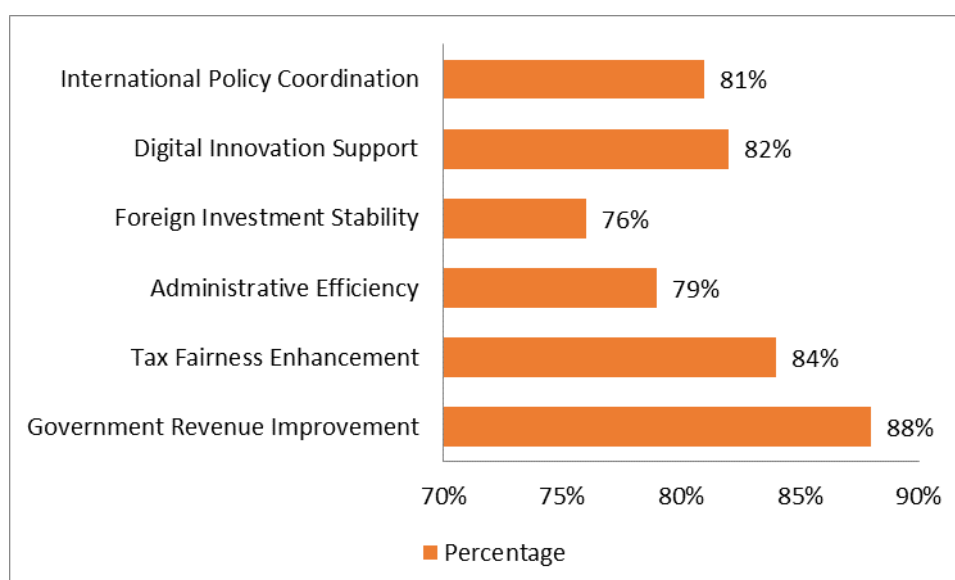


Fig 4 - Comparative Performance of Digital Taxation Policies

4.2.1. Government Revenue Improvement – 88%

Digital taxation policies have also scored the highest amongst all areas with government revenue improvement achieving 88%, showing that revenue collection has been strengthened. The implementation of Digital Services Taxes and related reforms has broadened the tax base to include revenues generated by digital businesses with cross-border activities. The additional tax income enables governments to finance public infrastructure, healthcare, education, and digital transformation initiatives. This finding confirms that the main issue with digital taxation policies continues to be the ability to generate revenue.

4.2.2. Tax Fairness Enhancement – 84%

There was significant progress in ensuring equitable taxation of multinationals digital businesses, with a score of 84% for tax fairness enhancement. Any tax reform of today's era creates less room for profit-shifting and can enhance the distribution of taxation rights among market

jurisdictions. This in turn means that businesses in the same sectors will be taxed uniformly. This enhances transparency, fairness and trust in the international tax frameworks.

4.2.3. Administrative Efficiency – 79%

Moderate success was reported for administrative efficiency, which scored 79%. While standardized reporting requirements and better enforcement tools have enhanced tax administration, compliance is complex in many jurisdictions. Governments still struggle to keep pace with the rapidly changing digital business models. More policy harmonization can enhance administration efficiency and compliance costs.

4.2.4. Foreign Investment Stability – 76%

The lowest score was assigned to foreign investment stability with 76%, which indicates that digital taxation policies could have an impact on investment decisions in some markets. Increased taxes and regulatory uncertainty may impact investor confidence and FDI. The risks, however, can be reduced with an attractive investment climate through well-designed and coordinated policies, coordinated across countries. Stable implementation is crucial to achieve a balance between taxation goals and economic growth.

4.2.5. Digital Innovation Support – 82%

The performance score for digital innovation support was 82 % showing that the majority of digital taxation policies still foster digital innovation and digital transformation. Adopting the right tax policies can raise public funds without having a large negative impact on incentivizing research, innovation or startup development. Good tax policies continue to have a positive impact on investments in digital infrastructure and technology uptake. This balance is crucial for sustaining the economic competitiveness over the long-term.

4.2.6. International Policy Coordination – 81%

There was also significant progress in coordinating international tax policies, with a score of 81% for international policy coordination. As a result, international efforts like the OECD Two-Pillar Solution have promoted greater cooperation between countries and minimized disparities in tax treatment. Better coordination will reduce double taxation, tax conflicts and profit shifting by multinationals. The effectiveness and sustainability of digital taxation at the international level will be further enhanced by continued international cooperation.

4.3. Discussion

The results of this research help to highlight how digital taxation has become a key part of fiscal policy in the current context, as governments strive to respond to the tax challenges arising from the fast paced digital transformation. The traditional international tax systems, which also rely on the physical presence or permanent establishment principle, fail to adequately tax multinationals that conduct significant physical activities in market jurisdictions, yet make a large amount of revenue from online platforms, cloud services, digital adverts, e-commerce, and use-generated data. By comparing, it can be concluded that the digital taxation policies have considerably enhanced the

revenue generation by governments by broadening the tax base and also by securing that the digital economic activities are contributing to the revenues of the governments. Governments can use the revenues for future economic growth, digital transformation, healthcare, education, and public infrastructure. The study also shows significant strides in greater tax fairness with the introduction of Digital Services Taxes (DSTs) and the OECD Two-Pillar Solution, which will limit tax avoidance arising from profit shifting and give more taxing rights to the countries where the economic value is generated. Some of these implementation hurdles remain relevant, however, and are identified in the analysis, which further affects the effectiveness of digital taxation policies. Differences in legal and administrative requirements, reporting obligations, and tax rates lead to higher compliance expenses for multinational companies and uncertainty for cross-border transactions. Also, the parallel implementation of unilateral Digital Services Taxes and multilateral OECD changes introduces an issue of double taxation and conflicts with the tax obligations. The results indicate that from an economic point of view, a tax policy that is both balanced and designed properly could simultaneously assist in maintaining fiscal sustainability, fostering investment stability, and technological innovation. A high level of tax burden can have a negative impact on FDI, and on incentives to expand businesses, while well-designed inter-agency tax cooperation can offer more certainty and stimulate long-term economic growth. In conclusion, the study highlights that improving international cooperation, administrative procedures, transparency of regulations, and harmonizing internationally agreed tax standards will be essential to the success of digital taxation in the future. These coordinated policy measures will increase the fairness of taxation, increase compliance, increase investment confidence and increase the sharing of the benefits of the digital economy between Government, business and society.

5. CONCLUSION

The fast development of the digital economy has dramatically altered how businesses operate and the ability of the international taxation framework to deliver the results expected under the concept of physical presence. Governments have come into severe difficulties in ensuring fair and effective taxation, as digital businesses are able to generate significant revenues online without having a physical presence in the countries in which they operate, through the use of cloud computing and digital advertising, e-commerce, and data-driven services. The study explored the development of digital taxation policies and studied their effects on the worldwide economy, covering the most significant international taxation reforms, the Digital Services Taxes (DSTs), the Base Erosion and Profit Shifting (BEPS) project, and the OECD/G20 Two-pillar framework. The research shows that digital taxation is now an integral part of the new fiscal approach, where it enhances tax equity, boosts government revenue, lowers the possibility of profit shifting and ensures that multinational companies pay their taxes at more equitable levels. The comparative analysis also showed that countries that have adopted structured and well-designed digital taxation policies have seen a significant increase in tax revenue collection, the expansion of their tax base, and greater transparency for international tax administration. The OECD Two-Pillar Solution is a significant step to ensure international taxation is modernized to shift taxing rights to the market jurisdiction and to establish a global minimum tax rate that reduces harmful tax competition and tax planning. While

positive steps are taken, the study also highlighted a number of implementation obstacles, such as the differences in the tax laws of various countries, the administrative complexity, reporting requirements, legal interpretation, and the implementation of unilateral Digital Services Taxes alongside multilateral OECD reforms. These problems raise the compliance cost for multinational companies, make cross-border business activity unpredictable and could have implications for investment decisions unless resolved through greater international coordination. The results further indicate that a policy framework for digital taxation, which is balanced and transparent, can advance sustainable economic development by fostering government revenues while maintaining incentives for technological innovation, entrepreneurship, foreign direct investment and digital market growth. Digital taxation should thus strike a right balance between tax revenues generation and a competitive business environment. In conclusion, this study finds that the long-term effectiveness of e-taxation will rely on the ongoing collaborative efforts between nations, harmonization of policies, administrative efficiency, and uniform application of international norms and principles for taxation. Millions of people should be able to benefit from a digital tax policy that is fair, transparent, and flexible, and that can address future changes in the digital economy, so governments, international organisations, and policy makers must continue to work together. The long-term economic consequences of the OECD Two-Pillar Framework should be studied, the impact of the Framework in developing economies needs to be analysed, and the impact of new technologies like artificial intelligence, blockchain, cloud computing, decentralised digital platforms and other tech innovations on international taxation in the future should be explored. The work will help to continually improve digital taxation systems and to enhance the design of a more equitable, efficient and sustainable global tax system.

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