

Digital Taxation in Countries

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There is no concise definition for the digital economy as the description is used to refer to various economic activities. Digitalization has intensified globalization and economic interactivity between countries both developed and developing, increasing the complexity and lack of transparency in economic activities.

digital economy

digital taxes

economic growth

1. Digital Taxation Defined

There is no concise definition for the digital economy as the description is used to refer to various economic activities. [Becker \(2021\)](#) asserts that the digital economy includes platform-supported services such as Uber, online platforms such as Amazon, Facebook, and Google, trading electronic services such as e-books, video games, and films as well as online delivery of software and mobile-enabled technologies and applications. The fundamental feature of digitalization is that it enables companies to do business in places where they have no physical presence ([Ismail 2020](#); [Ndulu et al. 2021](#)). Existing international tax laws were such that multinational enterprises (MNEs) paid tax where production took place as opposed to the country where consumers were based. More countries are arguing for digital taxation through corporate tax to target users of digital services in the countries they are located ([Asen and Bunn 2021](#)). Countries worldwide are lobbying for efficiency in taxing digital transactions as a means of mobilizing revenue, especially in the face of the COVID-19-induced problems.

Defining digital taxes has equally been confusing and controversial. Researchers offer varying definitions for taxes and their nature and the structure varies with national contexts. What is referred to as digital taxes differs from one nation to the other. [Kelbesa \(2020\)](#) defines digital service taxes (DSTs) as direct taxes that are applied to non-residents with no physical presence in the taxing country but only have customers and users. [Megersa \(2020\)](#) and [Bunn et al. \(2020\)](#) contend that the nature and scope of digital taxes differ from one country to another. Countries have taken varying approaches to defining businesses that would be legally obligated to pay corporate taxes in their countries in relation to the customers accessing digital services within the countries' borders. For example, India, Kenya, Nigeria, and Indonesia as examples ([Kelbesa 2020](#)). India proposed to tax digital businesses based on the significant economic presence test, though concise definitions and thresholds remain unclear. Indonesia proposed to levy tax on digital transactions based on the domestic market activity through digital means. The tax policy targets gross revenues from digital transactions. Kenya's digital tax is levied on income accruing from digital marketplaces and similar to Indonesian tax; it targets the gross revenue from digital businesses. Nigeria on the other hand taxes online business profits to the extent that the profit is significantly linked to the economic presence in Nigeria. [Bunn et al. \(2020\)](#) posit, "Digital taxes include policies that specifically target businesses which provide products or services through digital means using a special tax rate or tax base". These digital taxes include Value Added Tax (VAT) on digital services, corporate tax on digital transactions, withholding taxes, and income taxes on digital transactions ([de Lima Carvalho 2020](#); [Kelbesa 2020](#); [Kofler and Sinnig 2019](#); [Low 2020](#)). Others have split these into direct (digital services tax such as income taxes) and indirect digital taxes (consumption taxes such as VAT). [Bunn et al. \(2020\)](#) assert that "digital services taxes are gross revenue taxes with a tax base that includes revenues derived from a specific set of digital goods or services or based on the number of digital users within a country". Most of the regulations have unclear and underdeveloped parts that would perhaps be cleared and ironed out for the controversies and ambiguities.

2. Digital Taxation and the International Context

Digital tax policies have targeted social media MNEs such as Facebook, Google, and Amazon, web-based services as well as other e-commerce marketplaces to widen the tax base by extending existing legislation to new players or directing new tax legislation specifically to new businesses and platforms that were previously not subjected to tax. For example, VAT policies have been reformed in countries such as Zimbabwe and South Africa to cater to expansion in products and services traded digitally, even in cases where companies have no physical presence in countries where they are offering a service to users.

Corporate tax policies have been reformed to bring digital services into the tax net ([Bunn et al. 2020](#)). There is a need for international consensus on digital tax policy structures, implementation, and implications. The lack of international agreement would lead to contradictions and intersections in different countries' individual tax laws resulting in double or over-taxation.

Owing to the concerns over the adequacy and appropriateness of commonly applied tax legislation in capturing the digital economy into the tax net, there have been concerns from both developed and developing countries on the need to bring digital transactions under the ambit of tax laws. The Organization of Economic Cooperation and Development (OECD) is working on guidelines to be informed by the outcomes and conclusions of discussions with over 130 countries on how the concerns on the digital economy and taxation could be addressed ([OECD 2020](#)). [Becker \(2021\)](#) puts the countries at 141 countries in 2021. The organization is working towards consensus-driven solutions to the challenges of taxing the digital economy ([Mekgoe and Hassam 2020](#); [OECD 2019](#); [Megersa 2020](#)), by considering new business models and ways of distributing taxing rights in a way that also benefits consumer countries of digital services ([Deloitte 2020](#)). The OECD Action 1 on BEPS sought to address the taxation of digital transactions. This was in recognition of the fact that the digital economy was likely to bring more risks to BEPS and even fundamentally increase the prevailing BEPS risks. The BEPS Action 1 brought about the need for improved legislation on transfer pricing activities, permanent establishments, and controlled foreign entities' operations to minimize the likelihood of new risks emerging or increasing in those general risks already in existence. The OECD two-pillar framework approach speaks to BEPS in relation to the digital economy. The OECD/G20 Inclusive Framework on BEPS addresses the key challenges of digitalization of the economy and distribution of taxing rights ([Becker 2021](#); [OECD 2020](#)).

The OECD two-pillar framework aim at simplifying digital taxation and increasing tax compliance, reducing or preventing double taxation that could emerge due to unharmonized respective countries' digital tax legislation as well as minimizing disputes. By countries agreeing on the legislation and committing to its implementation as well as having a consensus on the formulation of a transparent and acceptable dispute resolution mechanism, this would bring standardization to digital tax administration and enforcement. Pillar one of the Inclusive Framework addresses the fairer distribution of profits. The pillar targets MNEs operating in sectors other than the extractive and financial services sectors with a global turnover in excess of 20 billion and profit before tax exceeding 10%. The pillar further prescribes that a residual profit of 20 to 30% of the profit above 10% of revenue be distributed to market jurisdictions where the services or goods were consumed. Pillar 2 speaks to the introduction of a global minimum corporate tax of about 15% to protect the tax bases of individual countries and reduce harmful international tax competition. Despite the provisions of the two-pillar framework, there are still several challenges that remain unaddressed. For example, the sale of tangible goods through digital platforms (lack of digital presence in the country the goods are delivered), variations in thresholds for digital taxes, and the complexity that comes along with digital taxes, thus compromising the simplicity principle that the OECD ought to uphold ([Megersa 2020](#)). According to [Latif \(2019, 2020\)](#) due to the expansion of the digital economy, MNEs have generated profits in ways that have challenged the propensity of governments to mobilize tax revenues from this economy by relying on conventional international tax rules. The inadequacy of traditional international tax laws signaled the urgency of having novel and relevant digital economy-focused tax rules ([Turina 2018, 2020](#)).

Frustrated by the delay and the lack of consensus on the implementation of the multilateral OECD-driven DSTs framework, both developed and developing countries have introduced unilateral or country-specific DSTs. These taxes would possibly have different opportunities, challenges, and effects in developed and developing country contexts. The variations could be linked to the differences in political and economic setting, political and economic power imbalances, tax administration capacity, technology advancements as well as financial resources availability. The tax rates generally do not vary significantly for developed and developing countries as shown in [Table 1](#), [Table 2](#) and [Table 3](#). DSTs are based on revenue similar to a turnover tax (TOT) used by tax administrators for the informal sector. [Table 1](#) gives a snapshot of DSTs in developed countries.

Table 1. Digital Services Taxes in Selected Developed Countries.

Country	Rate (Revenue Being the Base)	Threshold	Effective Date
Austria		€750 million global income and €25 million for domestic companies	January 2020
France	3%	€750 million global income and €25 million for domestic	July 2019

Country	Rate (Revenue Being the Base)	Threshold	Effective Date
		companies	
Italy	3%	€750 million for global revenue and €5.5 million for domestic income	January 2020
Poland	1.5%	-	July 2020
Spain	3%	€750 million in global revenue	January 2021
United Kingdom	2%	£500 million in global incomes and £25 million in domestic revenue	April 2020
Turkey	7.5%	€750 million global revenue and TRY 20 million for domestic incomes	March 2020

Country	Rate	Provisions	Threshold	Effective Date
Malaysia	6%	Foreign suppliers to register to collect and remit 6% tax on the digital sales to Malaysian customers	RM500,000 (estimated US\$120,000) in 12 months	1 January 2020
Indonesia	10%	Digital companies making taxable supplies exceeding the threshold from customers or users in the country to register for VAT	6000 million Indonesian Rupia or IRD50 million per month must register for VAT	1 August 2020
Vietnam	10%	High-performing media businesses such as Amazon, Facebook, Netflix, and others to pay VAT on the supply of entertainment content, software supply, advertising, and the sale of information technology infrastructure	N/A	Initially scheduled to start from July 2020 and postponed to 2021
Chille	19%	VAT on digital services	N/A	1 June 2020

Source: Own Compilation based on [Bunn et al. \(2020\)](#) and [Becker \(2021\)](#).

Table 3. Direct DSTs implemented in African countries.

Country	Effective Implementation Date	Tax Rate	Provisions/Base	Threshold
Zimbabwe	1 January 2019	5%	Gross income received or accrued from satellite broadcasting services in relation to the delivery or provision of television or radio programs. In addition, income received by or accruing to e-commerce operators delivering or proving goods and/or services to persons resident in Zimbabwe	Revenue exceeding US\$500,000 in any year of assessment.
Tunisia	1 January 2020	3%	Gross income from the sale of digital services and computer applications	n/a
Nigeria		30%	Taxable income of foreign companies which transmit or receive signals, messages, images, sound, and/or data of any kind by radio, cable, electromagnetic systems, or any other wireless or electronic devices in Nigeria in respect of any including such activities as high frequency, e-commerce, application store, electronic data storage, online payments, and adverts and other participative online network platforms, to the extent that the company has a significant economic presence in Nigeria and the profit can be attributed to such activity	NGN 25 MILLION (approximated at about US\$65,000)
Kenya	1 January 2021	1.5%	Income accruing through a digital marketplace. A digital marketplace is considered a place that enables buyers and sellers of goods to directly interact through electronic means	n/a

The structure of direct DSTs in developed countries is based on the terms of the tax base (revenue) and high thresholds as well as that big technology giants are the targets. In addition, tax revenue mobilization and reduction of tax avoidance seem to be the driving motives for the implementation of DSTs globally, these taxes also suffer from similar criticism in both developed and developing countries. For example, in Australia, the taxes are advocated for based on revenue generation and the fact that the reliance on mobile and intangible assets by digital giants weakens the competitiveness of domestic companies, traditional media firms, and small digital firms. Even researchers focusing on developed countries link DSTs to the reclaiming of value created through market jurisdictions. The issue of value creation is problematic, especially how to measure it since there is no cash exchange involved. The taxes are also criticized for resulting in increases in input costs for businesses, weakening international competitiveness, and the possibility of creating trade wars ([Hathorne and Breunig 2020](#); [Lowry 2019](#)). DSTs are also disapproved of in developed countries because of being discriminatory, unreasonable, burdensome, and targeted at constricting the United States' e-commerce ([Kennedy 2019](#)). [Noonan and Plekhanova \(2020\)](#) criticize them for violating international trade agreements and leading to double taxation challenges in developed countries such as Spain and Britain. While developed and developing countries might share similar motives and criticisms, the opportunities and challenges of DSTs will differ in developed countries and African country contexts. The tax environment of developing and developed countries differ due to political and economic power differences, financial and technical resource capacities as well as other economic and social vulnerabilities affecting developing countries. African countries have a high informal sector, high levels of financial exclusion and digital inclusion as well as fragile technical and tax administration capacities. For example, challenges of DSTs relating to value creation as well as the increase in administrative and compliance costs might affect both developed and developing countries, the level, and impact would differ in line with capabilities capacities, and competencies

3. Digital Taxation in Developing Countries

Despite the possible challenges of digital taxes and their infant nature, a few developing countries (both African and non-African) have put in place digital taxes while waiting for the OECD digital tax proposal to be finalized. **Table 2** gives a summary of direct DSTs in the selected non-African developing countries.

4. Digital Taxation in African Countries

There has been a consequential surge in internet usage in Africa, especially on digital services and social media platforms as well as cloud computing. As proclaimed by [Becker \(2021\)](#), with the increased growth in information, communication, and technology infrastructure and internet usage, the internet-linked population rose from 4.5 million to 526 million between 2000 and 2019 (signifying 39.3% connectivity and 11.5% of global internet-connected population). The suggested approach was released by the African Tax Administration Forum (ATAF) in September 2020 (African Tax Administration Forum ([ATAF 2020](#))). This infers considerable growth in the digital economy and untapped tax base.

Several Sub-Saharan African countries are members of the OECD inclusive framework. These countries include South Africa, Angola, Kenya, Benin, Namibia, Mauritius, Nigeria, Togo, Sierra Leone, and Senegal. The ATAF has raised concerns on the relevance and contextual applicability of the OECD two-pillar framework to African countries. The Forum lacks or has minimal advantages for the application of the framework to the African continent as well as the likelihood of the ineffectiveness of the provisions in Africa. The organization further raises concerns on the complexity of the proposals, pointing out that the framework could result in inconsequential profits being re-allocated to smaller market jurisdictions similar to most of the African Nations ([Becker 2021](#); [Bunn et al. 2020](#)). The ATAF proposes that the re-distribution of profits must be computed based on a proportion of the MNEs' overall profit as opposed to its residual profit. This would arguably bring about simplicity and fairness in the re-allocation of profits. In cases where residual profit is to be retained the ATAF advocates for at least 35% of the residual profit to be shared with the market jurisdiction. The administration forum raised concern on the 15% proposed tax rate, suggesting that at least a 20% tax rate would be more beneficial to the African continent. The tax rate would productively protect African economies' tax bases and reduce illicit financial flows from Africa ([Becker 2021](#); [OECD 2021](#)).

The ATAF released a policy document named "Domestic Resource Mobilisation-Digital Services Taxation in Africa in 2020 as the forum continued working towards the development of a 'Suggested Approach to Drafting Digital Services Tax Legislation'. This was done to guide African countries on the structure and framework for implementing DSTs that consider the unique challenges of the African continent ([Becker 2021](#); [Deloitte 2020](#); [ATAF 2020](#)).

The ATAF suggests a direct DST rate from 1% to 3% on the gross annual revenue from digital transactions accruing in market jurisdictions. (Becker 2020) The ATAF encourages countries to be proactive and not to solely wait for the OECD-driven solutions to the implementation of digital taxation systems, as these might take longer to be agreed on and disseminated for use. The delays might be costly, as significant revenues may remain untapped from the digital economy, therefore negatively affecting already economically vulnerable cash-strapped African governments ([Becker 2021](#); [Deloitte 2020](#)). Despite the encouragement for proactiveness, the ATAF in its suggested approach points out the need for members to evaluate carefully whether they will be committed to repealing their national digital taxation systems in line with the requirements of the OECD international framework the consensus-driven digital taxation solutions. The framework requires that member countries who would have implemented their own individual country digital taxes to repeal them in favor of the OECD-directed ones ([ATAF 2020](#)).

According to [Levin \(2022\)](#) "one of the most efficient ways of promoting long-term inclusive development is to ensure domestic financing through a stable, broad-based and fair tax system". African countries face challenges of weak domestic revenue mobilization due to aggressive tax planning, tax avoidance, and evasion by MNEs which are aided by the weaknesses in transfer pricing legislation ([Oguttu 2016, 2017, 2020](#)).

As pointed out earlier in the introduction, several African countries broadened the purview of indirect taxes such as VAT to encompass e-commerce activities, with only a minority enacting tax laws toward direct taxation of digital services offered to non-resident customers or consumers, who are not physically domiciled in the taxing country ([Simbarashe 2020](#); [Kabwe and van Zyl 2021](#)). While in 2019 Egypt made indications towards the consideration of implementing a digital tax on social media and other advertising platforms, the actual possible implementation dates, and the nature as well as the structure of envisioned digital tax laws to be implemented remain hazy. South Africa has focused on the taxation of digital transactions indirectly through VAT; efforts to implement direct DSTs remain unclear. Perhaps the reduction in revenue and the overstretched public budgets necessitated by the COVID-19 pandemic might stimulate debates on the possibility of implementing direct digital taxes. Despite the enactment of digital taxation legislation, African countries must strike a balance between mobilizing tax revenue from digital transactions and the need to attract foreign direct investment to stimulate economic growth. Care must be taken to ensure that countries remain competitive in the global market environment and to guard against double taxation or double non-taxation of income received or accruing from the sale of digital goods and services. The individual countries' digital taxation laws must take note of the nation's unique economic and political environments, policies, and envisaged risks. It is also key for the countries to guard against promulgating novel tax policies that are distortive or go against the principles of a good tax system.

Table 3 gives a synopsis of the implementation of direct DSTs by a few African countries. While the above countries have implemented direct DSTs, most of the other African countries are hoping to do so in the future, with the notable ones being South Africa and Egypt. Though the possible implementation dates remain unknown the countries have had deliberation pointing towards the consideration to have direct digital taxes implemented ([Becker 2021](#); [Simbarashe 2020](#)).

5. Opportunities, Challenges, and Implications Administering Direct DSTs

There has been intense debate among researchers on the opportunities, challenges, and implications of direct DSTs taxes in Africa ([Munoz et al. 2022](#); [Rukundo 2017](#)). In relation to opportunities, most researchers allude to the revenue generation possibilities. Various researchers have alluded to the increase in tax revenue mobilization emanating from the implementation of digital taxes ([Megersa 2020](#); [Bunn et al. 2020](#); [Deloitte 2020](#)). Even though there is evidence to back the argument in developed countries (such as Australia) and the European Union, there is little evidence in the African context and much of it has been mixed, contradictory, and contested. In relation to VAT on digital sales, revenue was estimated to have increased by US\$ 5 billion and in Australia, US\$242 million was approximated to have been mobilized through taxation of digital services ([Bunn et al. 2020](#); [Megersa 2020](#)).

Several researchers proffer various challenges facing African countries in implementing digital taxes ([Ahmed and Gillwald 2020](#); [Ndajiwo 2020](#); [Philip et al. 2021](#); [Rukundo 2020](#)). While [Rukundo \(2020\)](#) emphasizes administrative challenges, [Ahmed and Gillwald \(2020\)](#) point to the design of digital tax systems that can lead to the taxes being regressive and [Philip et al. \(2021\)](#) allude to the weak or absence of enforcement frameworks, lack of awareness and tax avoidance and evasion strategies. [Akpen \(2020\)](#) states that the "ability to be everywhere and nowhere is the strength of the digital economy", but that

is also what makes its taxation problematic. [Santoro et al. \(2022\)](#) posit that digital tax administration is affected by difficulties in accessing quality data, political barriers, and the lack of digitization tax administration as well as poor technology in Africa. This is affirmed by [Eliffe \(2021\)](#) who refers to six challenges of mobilizing tax revenues from the digital economy. These are (1) the invisibility of digital transactions and the inability to tax them (2) the challenge of data availability in relation to the contributions made by digital users, the justifiability and measurement of value creation (3) the mobility of and dependence on intellectual property or assets (4) how to characterize digital incomes and transactions (5) the inadequacy of transfer pricing regulations to regulate the activities of MNEs or even curb their tax avoidance and evasion challenges (6) the weaknesses in the residence based tax systems and the general trade competition by nations. [Magwape \(2022\)](#) alludes to the inadequacy of technical and financial resources characterizing African countries (under-resourced), the complexity of MNE transactions and digital transactions in general, and the weaknesses and slowness in adapting to the evolving international tax discourse. [Nicholas et al. \(2017\)](#) contend that the implementation of DSTs would be difficult to implement as they lack the necessary political support and cooperation from institutions such as financial institutions. In Tanzania, [Liganya \(2020\)](#) alludes to the lack of clear legislation towards taxing e-commerce activities.

[Irimia et al. \(2021\)](#) table the shortcomings of the DSTs structure in support of the criticism of the tax policy as well as its lack of acceptance by some stakeholders. These weaknesses include (1) the fact that the taxes are calculated on revenue leads effectively to rates that are high as no deductions are allowed. The tax does not take into consideration either profits or taxable income. (2) Direct DSTs inordinately affect businesses with high volume but low margin transactions and products. The total tax revenue might be seemingly high, yet the company makes very minimal profits. This could lead to vulnerability of companies and possible closure due to an overly heavy tax burden (3) Direct DSTs lead to companies having tax obligations even when there are incurring losses or generating low profits (4) The taxes could lead to race bottom. (5) The absence of deductions discourages investments that could produce high returns in the long-term (deductions such as interests (cost of capital) as well as capital allowances or allowances on capital expenditure and research and development often encourage investments. (6) The taxes could administratively be difficult in relation to long-term contracts. (7) DSTs could drive MNEs and their governments to engage in retaliatory behavior or trade wars. (8) The taxes could possibly lead to double taxation.

The implications are better articulated by [Kofler \(2021, p. 51\)](#) who asserts:

"While those turnovers based on specific taxes are heavily criticized as 'bad policy' from an economic perspective (regarding e.g., double burdens, impact on investment, innovation, welfare and growth, distortion of consumer choices and business decisions, benefits the older over digital technology, etc.), recent scholarship has found some potential sympathy for DSTs as a potentially appropriate taxation of location-specific rents".

[Etim et al. \(2020\)](#) submit that the taxation of the digital economy will not only negatively affect the expansion of the digital economy and employment creation in African countries. The researchers argue that youths have been exploiting the digital space for employment in countries such as Nigeria, Kenya, Nigeria, and Zimbabwe with high unemployment. Taxation of these digital services, marketplaces, and e-commerce services might affect employment creation and perpetuate inequality and frustrate poverty reduction efforts. In Gabon, [Katz \(2015\)](#) raises the affordability implications of taxing the digital economy and in Nigeria, [Isiandinsio and Omoju \(2019\)](#) raise concerns on employment generation, sustainable economic development, and welfare loss. [Beebeejaun \(2020\)](#), [Kirsten \(2019\)](#) and [Ngeno \(2020\)](#) also raise the unfavorable effect of taxing the digital economy in African countries.

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