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Challenges and Solutions to Global Digital Firms' Exploitation of Small Economies

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Abstract. The objective of this study was to assess the exploitation of small economies by global digital firms through tax evasion. It explored the obstacles and suggests how small economies can address these challenges posed by global digital firms that leverage the nature of their service and technology to evade tax. Qualitative research methods were applied with the use of key informant interviews and secondary data collection from relevant literature and reports. Five key informants purposefully selected from Zimbabwe Revenue Authority (ZIMRA) were interviewed. The paper also classifies the nature of services provided by different digital economies. It highlights the challenges being faced by small economies such as the shift in the global business models, tax concept and evasion, international tax regulations, and lack of capacities thereof. The findings indicate how small economies are being taken advantage of by digital giant firms through operating in their jurisdictions, capitalizing on profits, and circumventing tax payments due to non legally binding instruments that compel global firms to comply. Tax evasion by these firms leads to the shrinking of the small economies' tax base. A possible solution to this tax deceitfulness is the adoption of the Organisation for Economic Cooperation and Development (OECD) Pillar One proposal to address and overhaul the current international tax regulations.

Keywords. Digital Services, Digital Economy, Digital Tax, Tax Law, Jurisdiction, Business

Introduction

Global digital firms often generate astronomical amounts of revenue in subsidiaries based in tax havens or low-tax jurisdictions instead of places where actual and verified sales occur (Ting & Gray, 2019). The anomaly is that profit is taken out in the form of royalties payable to a tax jurisdiction with lower tax rates, as a result lowering withholding tax at source (Beer, Klemm & Matheson, 2018). This tax evasion strategy is disadvantaging small economies and global digital firms are capitalizing on this (Chen, Kumara & Sivakumar, 2021).

The impalpable nature of digital services distributed on global digital platforms currently has a more omnipresent, expeditious, and profound tax impact in comparison to business models with tangible goods and distribution systems (Drmola, 2015). For instance, a WhatsApp call is technically characterized as an Over-The-Top (OTT) service because the call is made bereft of the mobile operator's control or billing. The subscriber however ought to have data (Sugata, Sohag, Tanu, Chintan, Shubham & Sumit, 2015). The writers also say OTT alludes to the distribution of digital goods and services over the internet in the absence of

telecoms or broadcast operators. Since digital advertising engages three parties, the advertiser, a publisher like Google, and a consumer, advertising revenue is therefore generated when the consumer acts to generate a sale after being influenced by the advert (Sugata, Sohag, Tanu, Chintan, Shubham & Sumit, 2015).

Taxing digital services such as e-commerce, video streaming, cloud services, Twitter and Google advertising is a complicated and global dilemma (Chaffey, Edmundson-Bird & Hemphill, 2019). Developing countries, especially in Africa, which are beneficiaries but not owners of global digital platforms, are currently facing challenges in crafting effective tax policies that can plug existing loopholes. Global digital companies are capitalizing on these loopholes to leverage the essence of their services and technology to evade or lessen payable tax (Scardovi, 2017). Digital companies such as Netflix, Twitter, Facebook, and Google use local telecommunications firms' infrastructure to provide services to their customers, as such, they avoid physical presence in those countries to evade or minimize tax liability. Sometimes the firms use skeleton or satellite sales offices to administer sales outside the country to evade paying tax at the expense of developing countries. Some OTT operators have virtually zero presence outside their headquarters. Locally based digital firms honor their tax obligations but they still have to compete with global digital players offering services with economies of scale and enjoying a tax advantage (Huws, 2014).

Developing countries and small economies largely depend on taxes to generate money to fund essential social services such as healthcare and others (Besley & Persson, 2014). Denying these countries tax due to them will shrink their economies further. The main purpose of this paper is to examine the exploitation of small economies' by these digital firms. The study explores the challenges and determine how small economies by global can address these challenges posed by global digital firms.

This study is of great importance because its findings will possibly help small economies (Prasad, 2004) in developing and crafting effective tax policies that will make them broaden their tax revenue base. Although the telecommunication industry is a social-economic growth foundation, its taxation burden is greater than other sectors. Digital global platforms (Nicholson, Nielsen & Saebo, 2021) have a deep impact on both internet adoption and digital economy growth. They are considered generators that galvanize economic growth and enable access to the global markets for economies of scale (Nakatani, 2023).

Literature Review

Digital Taxation

Becker (2021) asserts the digital economy embodies platform-supported services such as Uber, Facebook, Google, and Amazon, trading electronic services like films, video games, e-books as well as online delivery of software and mobile-enabled technologies and applications. Ismail (2020) and Ndulu et al. (2021), notes the capability for e-commerce giants to run business in areas where they have no physical presence is the nucleus diagnostic of digitization. Rukundo (2020) reckons according to the prevailing international tax law, Multi National Enterprises (MNEs) are obligated to pay taxes in the country where production happened in contrast with the country where customers are resident. To a greater degree nations are appealing for corporation taxes to levy consumers of digital services in jurisdictions where they are located (Mpofu, 2022). Globally there is a ubiquitous lobbying by small economies for compelling taxation on digital commerce as a mechanism to augment earnings.

The designation of digital taxes (Mason & Parada, 2020) has also precipitated bewilderment and discourse. Scholars confer an array of tax definitions, and the form and

framework of taxes shift subject to the national context. Popova (2020) defines digital services tax (DSTs) as direct taxes imposed on non-residents who do not have a physical presence but simply serve as clients and users. Megersa (2020) and Bunn et al.(2020) reckon countries have different digital taxes in accordance with classification and reach. Several governments have applied contrasting approaches to classify companies that would be obligated by law to pay corporation taxes (Devereux & Loretz, 2011) in their countries in relation to the consumers using digital services inside the borders of those countries. Castro (2020) believes the fundamental economic presence benchmarks were the rationale for India's proffered tax on digital businesses, notwithstanding the definitions and levels remain obscure. Indonesia opted to tax digital transactions predicated on domestic market activity utilising digital channels (Mpofu, 2022). The tax code concentrates on decreasing gross income from online sales. Resembling Indonesian taxes, Kenya's digital tax (Ndung'u,2019) is levied on earnings acquired from online marketplaces and is geared towards the aggregate revenue generated by digital firms. Nigeria, nonetheless, charges taxes on internet company revenues to the degree that such gains are inseparably affiliated to the country's economy (Castro, 2020). Olbert and Spengel (2019) firmly believe policies that candidly earmark companies that deliver goods or services over digital channels may be cited as digital taxes and may have an exceptional tax grade or tax base. Value-added tax (VAT) on digital services, corporate tax on digital transactions, withholding taxes, and income taxes on digital transactions are among these digital taxes (Terada-Hagiwara, Gonzales & Wang (2019).

Bunn et al. (2020) reckons digital services taxes are aggregate revenue levies that are premised on a country's population of digital users or on earnings from a distinct cluster of digital goods or services. The bulk of rules highlight vague and undeveloped sections that may be spelt out and revised to shed light on disagreements and misunderstandings.

Global Context; Digital Taxation

Shome (2021) assert that new tax legislation has been targeted at platforms and companies that were previously exempt from paying taxes, such as social media MNEs like Facebook, Google, and Amazon, web-based services, and other e-commerce marketplaces, in order to include new players in the tax system or broaden the tax base. For example, in countries such as Zimbabwe and South Africa, VAT regulations have been altered to account for the surge in online sales of products and services, even when a company does not have a physical presence in the country where the service is provided to clients.

To incorporate digital services into the tax system, changes have been made to corporate tax rules. (Bunn et al. 2020). According to Mpofu (2022), there needs to be worldwide agreement on the structure, execution, and implications of digital tax policy. Without a global accord, there would be discrepancies and overlaps in the national tax laws of many countries, leading to double-dipping or excessive taxation.

Due to concerns about the sufficiency and suitability of commonly applied tax legislation for bringing the digital economy into the tax net, both developed and emerging countries have voiced concern about the necessity of bringing digital transactions under the purview of tax laws. Based on the conclusions and suggestions of consultations with more than 130 countries, the Organisation for Economic Cooperation and Development(OECD) is creating guidelines to address issues with the digital economy and taxation. (OECD, 2020). The group is considering pioneering business models (Meier & Massberg, 2004) and strategies for allocating taxation rights (Daurer & Krever, 2014) in a manner that also aids countries that use digital services in locating consensus-driven answers to the issues associated with taxing the

digital economy (Cockfield, 2014). Jimenez (2018), on the other hand, claims that taxing digital transactions was a concern for OECD Action 1 on Base Erosion and Profit Shifting (BEPS). This was done in anticipation of the possibility that BEPS risks could develop significantly as a result of the digital economy.

As a result of BEPS Action 1, improved legislation on transfer pricing practises, permanent establishments, and controlled foreign company operations are now necessary to prevent the chance of new risks forming or current risks becoming more widespread. The OECD's two-pillar framework approach to BEPS is significant for the digital economy. The OECD/G20 Inclusive Framework on BEPS addresses the major challenges of taxation rights distribution and economic digitisation.

According to Apriliasari (2022), the two-pillar OECD framework aims to avoid or eliminate double taxation caused by uneven digital tax legislation in different countries, as well as to minimise conflicts. It also attempts to improve tax compliance and make digital taxes easier to understand. Nations agreeing on the law, vowing to put it into practise, and reaching an agreement on the formation of a fair and effective dispute resolution mechanism would result in standardisation of digital tax administration and enforcement (Motaung, 2020).

The first pillar of the Inclusive Framework deals with distributing income more fairly. The pillar focuses on MNEs with global turnover above \$20 billion and profit before tax above 10% that are involved in areas other than extractive and financial services. The pillar also demands that the market regions where the goods or services were consumed receive a residual profit of between 20 and 30 percent of the profit over 10 percent of revenue (Panomareva, 2022). To protect national tax bases and minimise adverse international tax competition, Pillar 2 should enact a 15% global minimum company tax (Panomareva, 2022).

Smith (2022) contends that numerous issues must still be tackled regardless of the two-pillar model's criteria. The OECD, for example, should uphold the principle of simplicity, but the sale of tangible goods via digital platforms (lack of digital presence in the country where the goods are delivered), variations in digital tax thresholds, and the complexity that comes with digital taxes all undermine this principle (Megersa 2020).

According to Tambunan (2020), as the digital economy grew, MNEs generated profits in ways that challenged governments' desire to collect tax revenues from this industry by depending on old international tax standards. The shortcomings of traditional international tax rules highlighted the need for new and relevant tax legislation, with a focus on the digital economy (Turina, 2018; 2020).

Due to the delays and lack of agreement in implementing the multilateral OECD-driven DSTs framework, both wealthy and poor countries have introduced unilateral or nation-specific DSTs (Reda, 2015). These taxes may give a variety of opportunities, difficulties, and consequences in both developed and poor countries. Different political and economic settings, power imbalances in both, tax administration capability, technical advancements, and the availability of financial resources are all potential explanations for the disparities (Reda, 2015). DSTs are revenue-based, similar to the unorganised sector's turnover tax (TOT) (Arbex, Mattos & Regatieri, 2022).

African Countries' Digital Taxation

Odoom, Anning-Dorson, and Acheampong (2017) claim that as a result, internet usage in Africa has greatly increased, especially on digital services, social media platforms, and cloud computing. According to Mpofu (2022), the number of people who are online increased from 4.5 million to 526 million between 2000 and 2019 (representing 39.3% connectivity and 11.5%

of the world's population online), demonstrating the growth of the information, communication, and technology infrastructure as well as internet usage. The proposed strategy was unveiled in September 2020 by the African Tax Administration Forum (ATAF 2020), which forecasts significant economic growth in the digital industry as well as an untapped tax base.

Some Sub-Saharan African countries are included in the OECD inclusive framework (Mosquera Valderama, 2018). These countries include South Africa, Angola, Kenya, Benin, Namibia, Mauritius, Nigeria, Togo, Sierra Leone, and Senegal. The ATAF has questioned the appropriateness and contextual application of the OECD two-pillar strategy to African nations (Mawape, 2022). The Forum provides little or no advantage in terms of applying the framework to the African continent and the potential that the regulations will not be effective there. The organisation is particularly concerned about the plans' complexity, pointing out that the framework would result in minimal earnings being moved to smaller market jurisdictions, including the majority of African countries (Becker 2021; Bunn et al. 2020).

The ATAF proposes that earnings be re-distributed using a part of an MNE's overall profit rather than the MNE's residual profit (Onuoha & Gillwald, 2022). One could argue that doing so would simplify things and more equally divide earnings. The ATAF recommends that when residual profit is retained, the market jurisdiction receive at least 35% of the residual profit (Kurian, 2022). According to the administration forum, which voiced concern about the projected 15% tax rate (Kurian, 2022), a 20% tax rate would be more beneficial to the African continent. The tax rate would be helpful by protecting African nations' tax bases and reducing unlawful finance flows out of Africa (Becker 2021; OECD 2021).

In market jurisdictions, the ATAF recommends a direct DST rate of 1% to 3% on the gross annual revenue from digital transactions. Becker (2020) asserts that the ATAF exhorts countries to take the initiative and create digital taxation systems rather than merely depending on OECD-driven solutions because these solutions might take longer to come to an agreement and be made accessible. Delays could be costly because the digital economy may still have enormous untapped revenue sources, which would affect African nations that are already struggling economically (Deloitte 2020; Becker 2020).

Even though it encourages initiative, the ATAF (2020) stresses in its suggested course of action that members must carefully consider whether they are willing to repeal their national digital taxation systems in accordance with the guidelines of the OECD international framework and the consensus-driven digital taxation solutions. According to the framework, all members who would have otherwise implemented their own national digital taxes must do so in place of those that the OECD recommends (ATAF, 2020).

According to Levin (2022), one of the best ways to ensure domestic finance for long-term inclusive growth is through a stable, comprehensive, and fair tax structure. African governments struggle to generate enough domestic revenue because of MNEs' sophisticated tax planning, tax avoidance, and tax evasion, which is made possible by the inadequacies in transfer pricing legislation (Mashiri, 2018). Only a few African countries, as was previously said, have enacted tax legislation that is intended to directly tax digital services offered to non-resident customers or consumers who do not actually reside in the taxing country. Indirect taxes like VAT have been extended to cover e-commerce in a number of African countries (Simbarashe, 2020; Kabwe and van Zyl, 2021; Mpofo, 2022).

As Egypt hinted (While, 2019) that it would create regulations governing a digital tax on social media and other ad platforms, the exact implementation dates as well as the nature and structure of the envisioned digital tax regulations have not yet been determined (Radu, 2019). Although there are no current plans to introduce direct DSTs in South Africa, the country

has focused on indirectly taxing digital transactions through the use of VAT (Ndajiwo, 2020). According to Buthe and Milner (2008), African countries still need to strike a compromise between the need to attract foreign direct investment to spur economic growth and the requirements to collect taxes on online transactions. This is true even though digital taxation laws have been adopted in many countries.

According to Yapar, Bayrakdar, and Yapar (2015), care must be taken to ensure that nations maintain their competitiveness in the global market environment in order to avoid double taxation or double non-taxation of money earned from the sale of digital products and services. The legislation governing digital taxes in each country must take into account the country's distinctive political and economic circumstances, as well as any potential risks (Ndou, 2004). According to Christians (2009), countries must exercise caution when establishing one-of-a-kind tax regulations that are unfair or contradict the fundamentals of a solid tax system.

Methodology

A qualitative research technique was used in the study, which included document analysis and key informant interviews with Zimbabwe Revenue Authority (ZIMRA) staff. According to Spencer, Pryce, and Walsh (2014), qualitative research is anchored in a phenomenological paradigm that posits that reality is socially produced through individual or communal descriptions of the situation. ZIMRA key informants were chosen using purposive and convenient selection approaches, and secondary data was gathered from relevant reports. This study included the participation of five ZIMRA officials. As a result, a qualitative technique using in-depth interviews was able to acquire information from important informants on the issues that small economies confront as a result of multinational digital enterprises. The identity of the participants are not revealed in this study, although their viewpoints are regarded vital for analysis. Anonymity and confidentiality ensure that the identities of the participants are not divulged. Thematic analysis of participant viewpoints was used in the study.

Results and Discussion

Table 1 gives a full taxonomy of tax-disruptive digital business models that contribute to multinational digital enterprises' exploitation of local economies.

Table 1; Categorization of Tax-disruptive Business Models

Type of Tax Disruptive Model	Digital Transactions to Monetise a Business Idea and Get User Input
Content Related	
1. Sale of nonuser digital content (Kindle Store, Apple iTunes Store)	1.1. Online sale of digital content digitally automated and digitally distributed for a price
2. Licensing of nonuser digital content (Microsoft, IBM, Cisco, Oracle)	2.1. Online licensing to use digital content (software end user license) for a license fee
3. Subscription to nonuser digital content (Netflix, Spotify, Amazon Prime)	3.1. Online subscription to access digital content and other benefits for a subscription fee
Regulated Activities	
4. Virtual banking (First Direct, ING Direct, Revolut)	4.1. Internet-only bank offering retail banking services remotely via digital channels

5. Virtual insurance	5.1. Internet-only insurance company offering retail insurance services via digital channels
6. Online gambling (Bet365, Bwin, Betfair, 888)	6.1. Online gambling and betting activities directly between the user and the website
Multisided Platforms 7. Online e-commerce marketplace (Amazon, Uber, Airbnb, Booking, eBay, Alibaba, Tencent, Expedia, crowdfunding platforms, online poker)	7.1. Free online access to multisided platforms 7.2. Digital platform operator acting as a broker and charging a transactional fee for each trade executed between users of the digital platform
User Related 8. Sale of user-related data and user-contributed digital content (Facebook, Instagram, Twitter)	8.1. Online access to digital content in exchange for legal rights to sell user data and content 8.2. Sale of user-related data and digital content
9. Online user-targeted advertising (Google Ads, Amazon, LinkedIn, Alibaba, YouTube, Facebook, Reddit)	9.1. Online access to digital content in exchange for legal rights to exploit user data and content 9.2. Sale of online user-targeted advertising
10. Sale of user-related goodwill as part of the sale of a digital business (exit business strategy) (Instagram, LinkedIn, WhatsApp, Skype, Waze, YouTube, Fitbit)	10.1. Online access to digital content in exchange for legal rights to benefit from the user base, user-related data, and user-created digital content 10.2. Sale of digital business (exit) whose value is enhanced by user-related goodwill

(Source; Lucas-Mas and Junquera-Varela, 2021)

A variety of similar replies were elicited in response to the study's core topic on the issues encountered by small economies as a result of multinational digital enterprises. Key informants from ZIMRA and secondary data sources revealed four significant themes. These were some examples:

Global Business Model Transformation

The participants emphasised that digitization is causing a significant change in the old business paradigm to the digital economy. As seen in Table 1, the majority of businesses are migrating from conducting business physically to doing business digitally, which is not limited by time or geography. The table above provides a detailed classification of the various services that have emerged as a result of digitization. These are categorized into content-related, regulated activities, multisided platforms and user related services.

Lucas-Mas and Junquera-Varelas (2021) claim that these digital services use a tax-disruptive business model to impart automated digital content, enable online access to automated digital content, or establish multi-sided digital platforms that connect online users in exchange for payment. According to Lucas-Mas and Junquera-Varelas (2021), tax-disruptive digital business models may employ an assortment of structures subject to the volume of transactions, groups involved, the nature of financial compensation received, the mode of digital

content being used, the monetization method being used, the geographic spectrum of operations, the digital distribution technology being used, as well as the resources, roles, and risks that various parties to the transactions have. In order to develop their products and marketing tactics, they are encouraged to conduct business internationally and to leverage client data from all over the world.

The respondents also noted that, despite the fact that the digital economy is booming, it is not being taxed, particularly in the nations that are source jurisdictions, where MNEs make significant sales from small economies that depend on taxes to survive. Small and medium-sized businesses in developing nations frequently import goods for resale from China through online marketplaces like Alibaba, AliExpress, e-bay, and Amazon, where payments are made online, orders are shipped to the country of purchase, and profits are not subject to taxes. This is a typical example in the African context. Instead, the buyer gets taxed, but the producing corporation avoids paying taxes and reaps the rewards of these underutilised economies, particularly those in Africa.

Online markets and advertising have once more gained momentum. These promote low-cost commercial operations that may be carried out anywhere and at any time, primarily due to data rates from internet service providers. Because fewer small businesses in tiny economies are required to set up physical offices in order to operate, the income tax base of those economies is diminished or eliminated. According to Becker (2021), discussions about a number of internet markets are similar. Amazon Marketplace is a prime example, accounting for \$17 (\$23) billion of Amazon's net profits in 2016.

There are no fees for purchasers on the Amazon Marketplace. Only sellers pay commissions for each transaction (plus subscription costs for professional sellers). It is plausible to assume that a large fraction of third-party sellers' commercial operations are virtually the same as they would be in the absence of their participation in online sales (i.e., these sellers perform the same production tasks both online and offline). The indirect network effect on the internet provides a significant increase in demand for Amazon Marketplace. Such an impact is a result of both customer activity on Amazon and Amazon's own technology and business model, with significant cross-overs between its various business lines.

Taxation And Evasion

Also according to the respondents, the tax notion is typically focused on a company's physical presence, which excludes all multinational digital corporations that don't have real operations in that particular jurisdiction. The fundamental reason why no original definition of a permanent establishment has been developed over the course of the past century, according to Bunn, Ekse, and Cristina (2020), is that nations initially adopted the incorrect strategy and attempted to describe it rather than define it. Conflicting national interests had an impact on the formulation of the taxation standard and those who would be affected by its implementation, according to Mpfu (2022). The traditional concept and definitions of a permanent establishment were directly influenced by the historical, geographic, and economic background of the countries that participated in the development of international tax law in the early 20th century. The author went on to say that even though the current economic and geopolitical climates are very different, the people in command of the legislative process mostly stay the same and have the same interests to uphold (Mpfu 2022).

The respondents also indicated that most governments tax their businesses because they anticipate that money coming from outside will be taxed in other countries. The

conclusions are in line with those of Rukundo (2022), who claimed that when income taxes were first introduced, countries looked for alternatives to unilateral relief from double taxation and chose bilateral tax agreements that divided taxing authority over income earned by non-residents between the country of source and the country of residency. In these early accords, the idea of a permanent establishment—which denotes an established location of business for a non-resident in the source jurisdiction—was already there (Rukundo 2022).

According to Panomareva (2022), the source nation would consent in treaties that embraced this concept to refrain from taxing the non-resident's commercial earnings as long as the non-resident operated using a permanent establishment in the jurisdiction. As a result, the small economies' tax bases are reduced since they stand to lose money from the foreign business activities taking place within their market jurisdiction. These restrictions that linked corporation tax to a company's location are no longer relevant given the state of digitalization and the internet of things.

International commerce involves large-scale purchases and sales, and significant manufacturers export their goods at any time and anywhere in order to maximise earnings. Since many enterprises no longer require a physical presence in a nation in order to conduct business there, it is only fair for these MNEs to pay their income tax to the nations in which they operate.

Rules for International Taxes

Krever (2010) argued that treaties fended for some immunities to the rule, enabling source jurisdictions to maintain taxing entitlements, sometimes restricted to capped levels, over specific kinds of income attained by non-residents even when they did not have a permanent establishment in the jurisdiction. These types of income included dividends, royalties, interest, and some capital gains. Giving away all taxation control over company earnings may also seem to be a rule that is heavily biased in favour of residence nations that export money, subject to the aforementioned restrictions. Brooks and Krever (2015) noted that MNEs benefit from the majority of international tax policies since they are created and approved by large nations for huge businesses. The laws safeguard the power states' commercial interests. Again, Daurer and Krever (2014) noted that international initiatives, such as those of the European Union, United Nations (UN), and OECD, typically advantage developed countries over developing ones, which depend on a larger tax base to survive.

The UN Model Article 12B, among other characteristics of the necessary statutory instruments, isolates and prohibits the taxation of highly digitalized enterprises by solely covering Automated Digital Services (ADS). The playing field is thus unjustified. The respondents also emphasized the fact that minor economies are powerless to resist these major nations' demands that they obediently accept their terms and conditions of operation. As a result, the larger economies continue to grow and make more money by freely and legally utilizing the resources of the smaller economies, supported by the current legal framework. As a result, there is an imbalance in the distribution of tax rights, with small economies benefiting from citizen taxes more than MNEs operating in their nation.

Inadequate Capacity

According to the respondents, many African nations are unable to impose taxes on the profits of MNEs since these companies are non-resident and are presumed to have paid taxes in their home nations. These include inadequate institutional, technological, and legal frameworks and resources. Rukundo (2020) argues it is essential to rely on an international specialists during the initial stages of design and implementation in order to create and collect digital taxes,

notably Digital Services Taxes (DSTs). However, it can be expensive and difficult to retain these professionals. Financial constraints make it difficult to participate in lengthy training programmes, pay highly competitive wages, or even send employees to countries with more sophisticated digital taxation (Rukundo 2020).

In relation to the application of transfer pricing legislation in African nations, similar capacity difficulties were raised (Mashiri, 2018; Sebele-Mpofu et al., 2021a; Kabala and Ndulo, 2018). The implementation of the national context regulation would greatly raise the cost of managing and enforcing taxes as well as other expenses for establishing the tax system, such as those connected with technical training, human resources, and technological resources (Becker, 2021). In other cases, the gains might not be enough to pay for the costs associated with setting up interim digital tax systems. In comparison to the money collected, the expenses would be considerable (Kelbesa, 2020).

The respondents added that tiny economies are compelled to comprehend that a business cannot be subjected to double taxation while generating significant profits in the source jurisdiction where the transactions are taking place. The ability of developing nations to oversee, audit, and monitor MNE operations so that they might profit from them is quite limited. Global digital companies, on the other hand, profit most from the administrative capacity problem in small economies and maximize operational earnings. Again, there are higher expenses associated with compliance because it would require extensive automation and technologically sophisticated monitoring of MNEs' operations.

The defined standards are unattainable in practise, especially for small economies, may be impossible to regulate for tax administration, and are overly complex. The respondents also emphasized that small economies frequently become the target of global digital oligopolies because they lack the sophisticated tools, resources, and know-how necessary to control and oversee all MNE activity domestically.

It takes a lot of time, money, and effort to develop, enact, manage, and enforce a tax policy, especially a new one, according to Kelbesa and Megersa (2020). Similar investments in time and money would be necessary to install interim DSTs in certain countries, especially those in Africa. Since taxes are notoriously difficult to abolish once they are in existence, it is unlikely that they will be. There is discussion over whether or not to eliminate the specific nation's digital tax legislation and enact an altogether new set of rules once an agreement is ultimately reached on the implementation of the consensus-driven OECD regulation DSTs (Becker, 2021).

The implementation of the OECD-agreed digital tax standards would result in new expenditures for administration, enforcement, resources, and procedures, as well as rising compliance costs.

Possible Solutions

The outdated international taxes law framework is the primary cause of many of the difficulties encountered in taxing the digital economy.

The requirements of the modern company model are no longer met by the existing tax regulations, particularly in small economies. It is imperative to modify and adapt the current legal framework to fit and apply to the present in light of the now-dominant digital economy. A legally binding document on international tax rules is being worked on by the OECD. The OECD put forth the OECD Pillar One and OECD Pillar Two models. Adopting OECD Pillar One, which encourages reallocating 20–30% of MNEs' leftover income to the nations where those companies have users and customers will be more advantageous for small economies.

Conclusion

The economic hierarchy in industrialised and emerging countries has undeniably shifted as a result of evolving society, cutting-edge technology, and digitalization. Emerging digital economy has a variety of implications on various nations. The global society has faced issues as a result of digitalization, with small economies being most negatively impacted. Global digital companies take advantage of their technology advantages to fully function in small economies and maximize revenues without paying any taxes to the originating jurisdiction, which leads to the exploitation of small economies. The current legal system does not impose any limitations on MNE operations abroad, and there are no enforceable rules governing the payment of taxes to non-resident nations. Small economies that depend on tax revenue to maintain their nation are harmed by such a system. All member nations must implement the OECD Pillar for small economies to properly benefit from the digital economy. One suggestion is for the gilding principle in international tax law to ensure that tax proceeds go to the governments with source jurisdiction.

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