

Exploring China's Tax Path Setting in the Context of Digital Economy

Wei.zhou¹,Jiixin Zhang²,Xiaonan Deng³,Lin Deng⁴

¹Wei Zhou,Ningbo University

²Jiixin Zhang,Quanzhou economic and trade vocational and technical

³Xiaonan Deng,Shanghai Rongzheng Enterprise Consulting Service (Group)

⁴Lin Deng,Jiangxi Ganbo Taxation Firm

Abstract:- With the development of the economy, the digital economy is no longer unfamiliar to modern people. Whether it's the convenience of mobile payments around you, or Tiktok live shopping thousands of miles away, the digital economy has become an integral part of modern life. The digital economy has been described by some economists as a "new industrial revolution". However, digital taxes for the digital economy have not kept pace with the needs of society. What is a digital tax? Is it necessary to collect it? What is the basis for taxing? Which international countries have already started to collect it? These are the problems we are facing now. As an emerging country, China's digital economy is developing rapidly, and multinational business giants such as Alibaba, Tencent and Baidu have been born based on the digital economy. The creation for the digital tax is due to the law

The national government has fought for the rule-making power of the digital tax in order to solve the challenge of reorganizing the global tax system in the course of the development of the digital economy, as well as to increase revenue and restore tax justice. ¹Then how should China's digital tax be set up? This paper describes the establishment path that China's digital tax can adopt from the theoretical basis, value creation, profit distribution and tax distribution of digital economy, international status quo, and domestic status quo.

Keywords:- Digital Economy; Digital Taxes; Tax Reforms.

I. INTRODUCTION

Digital tax is a special tax system for the digital economy, aiming at reasonable tax allocation for value creation and profit distribution in the digital economy, so as to promote the fair, transparent and sustainable development of the digital economy. The proposal and implementation of digital tax is a challenge and innovation to the traditional tax system, as well as a standardization and guidance for the digital economy, which has important theoretical and practical significance.

¹: "Analysis of the background and impact of the introduction of the French digital services tax bill", in *International Taxation*, Vol. 1, No. 1, 2020, p. 53.

Digital economy refers to a new type of economic form based on digital technology, with data as the core resource, network as the main carrier, innovation as the driving force, efficiency and optimization as the goal, user-centeredness, sharing and collaboration as the characteristics, and value creation and social welfare as the orientation. The development of digital economy provides new impetus and opportunities for economic growth and social progress, and also brings new challenges and problems for tax collection and management. The connotation of digital economy also includes more emerging digital technologies and their roles. For example, in a report released by the Department of Broadband Communications and Digital Economy of Australia in 2013, the connotation of digital economy was added to the emerging mobile Internet, which is defined as "economic and social activities empowered by digital technologies such as the Internet and mobile networks. 2Some scholars believe that the tax-related matters of digital economy are characterized by high mobility, data dependency, intangibility of transactions, and business ambiguity.3 The characteristics of digital economy make it difficult to apply traditional tax principles and rules, such as entity existence, permanence, source/resident, related parties, transfer price, and attribution of profits to the tax administration of digital economy, which leads to tax base erosion and profit shifting in digital economy, as well as inequitable distribution of tax in digital economy. as well as unfair and unreasonable tax distribution in the digital economy. Digital products themselves are characterized by network externality, and traditional pricing methods cannot be used; non-linear pricing methods such as product differentiation and differential pricing, free strategy should be explored, while new pricing methods will gradually increase.4

Internationally, the discussion and attempts of digital

²Department of Broadband, Communications and the Digital Economy. *Advancing Australia as a digital economy: anup date to the national digital economy strategy [EB/OL]. (2013-06-12)[2022-10-20].http://gfgga7e641d4b32f54d98s9w69pnwoebvu69ou.fhaz.libproxy.ruc.edu.co.uk/no de/34523.*

³"Research on the Challenges and Countermeasures of Digital Economy on Tax Collection and Administration," *Southern Finance*, Vol. 3, No. 3, 2022, pp. 29-31.

⁴Cao Ping and Zhang Jian, "Reasons for the Failure of Traditional Economics Methods and Pricing Strategies in Digital Product Pricing", *Economy and Management*, No. 10, 2008.

tax have already had a certain history and process, which are mainly divided into two major categories: one category is based on the existing international tax framework, and adapts to the development of the digital economy by modifying and improving the relevant tax principles and rules, such as the OECD's Plan of Action on Taxation Challenges (BEPS) and Plan of Action on Taxation Challenges of the Digital Economy (DEPS), the and the EU's Digital Service Tax (DST), etc. The other category is based on new tax concepts and models, and additional taxation on digital economy by setting up special digital taxes, such as the Digital Service Tax (DST), Digital Advertisement Tax (DAT), and Equalization Levy (EL) in France, the United Kingdom, India, Italy, Spain and other countries. Each of these programs has its own advantages, disadvantages and applicability, and also reflects the different positions and demands of countries on the issue of digital tax, such as developed and developing countries, source and resident countries, and strong and weak countries in the digital economy. At present, international coordination and cooperation on digital taxes is still under way, and a unified and widely accepted digital tax scheme has yet to be formed.

As a digital economy power in China, the establishment of digital tax is of great necessity and significance for China's economic development and tax reform. Network economy is the trend of economic and social development in today's world, and its level of development has become an important symbol for measuring a country's modernization and comprehensive national power. On the one hand, the scale and level of China's digital economy are leading in the world, and the digital economy has become an important part of China's economy and a growth engine. The establishment of the digital tax is conducive to protecting and incentivizing China's innovation and development of the digital economy, and improving the competitiveness and influence of China's digital economy. On the other hand, there are still some deficiencies and problems in China's tax system and collection and management capabilities, and the establishment of the digital tax is conducive to improving and optimizing China's tax system and collection and management levels, increasing China's tax revenues and public expenditures, and promoting China's tax fairness and social equity.

The establishment of China's digital tax should follow the following objectives and principles: first, it should be in line with international tax norms and trends, maintain communication and coordination with the international community, and avoid triggering international tax disputes and trade frictions; second, it should be adapted to the characteristics and needs of the development of the digital economy, reflecting the value creation and profit distribution of the digital economy, and avoiding duplicative taxation and excessive taxation of the digital economy; third, it should reflect China's national conditions and interests, and protect and support China's digital economy enterprises and

users, and avoid damaging China's sovereignty and security of the digital economy; and fourth, simplify and unify the collection methods and standards of digital taxes, reduce the cost and complexity of digital tax collection and management, and avoid increasing the burden and uncertainty of the digital economy.

The research content and methodology of this paper is to analyze the current situation and problems of China's digital tax establishment based on the theoretical foundation of digital tax and international experience, and to explore the paths and suggestions for the establishment of China's digital tax. The innovation and value of this paper is that based on comprehensive consideration of the development characteristics of digital economy, coordination and cooperation of international taxation, China's national conditions and interests and other factors, it puts forward a proposal for the establishment of China's digital tax that conforms to the international norms and adapts to the domestic needs, has both theoretical support and practical guidance, and has both a long-term goal and near-term steps, which provides a useful reference and reference for the research and implementation of China's digital tax. It provides a useful reference for the study and implementation of China's digital tax.

II. RATIONALE FOR DIGITAL TAXES

The theoretical foundations of digital taxes are mainly concerned with the issues of value creation, profit distribution and tax allocation in the digital economy, as well as the nature, characteristics and classification of digital taxes.

A. Value creation, profit sharing and tax allocation in the digital economy

Value creation in the digital economy refers to the process by which digital economic activities, through the use of digitized technologies and data resources, provide new products and services to meet users' needs and preferences and increase the total welfare and efficiency of society. The value creation of the digital economy is mainly reflected in the following aspects:

First, the digital economy can reduce transaction costs and information asymmetry, improve market transparency and competitiveness, and promote the optimal allocation and utilization of resources; second, the digital economy can expand the scale and scope of the market, increase the number of participants and diversity of the market, and promote the innovation and vitality of the market; third, the digital economy can improve the quality and efficiency of products and services, increase the added value and differentiation of products and services and promote the upgrading and transformation of products and services; fourth, the digital economy can enhance user participation and experience, increase user choice and control, and promote user satisfaction and loyalty; and fifth the digital economy can generate network effects and scale effects, increase the benefits and efficiency of digital economic activities, and promote the development and growth of the

⁵Wang Ye and Zhang Minghong, *Network Economics, Higher Education Press, 2013 edition, p. 131.*

digital economy. Some scholars believe that the biggest difference between the digital economy and the traditional economy is that it has a high degree of dependence on digital technology, and there is no phenomenon of diminishing marginal benefits in the process of development, because digital products in the Internet exist in a virtual form, with reproducibility, and the cost of reproduction is extremely low, almost zero. However, due to the network externalities of digital information products, the identification of tax sources in the formulation of tax laws has brought about considerable difficulties. The distribution of profits in the digital economy refers to the distribution of revenues and costs generated by digital economic activities, as well as the process of sharing the benefits and risks among the participants in the digital economy. ⁶The distribution of profits in the digital economy is affected by several factors:

Firstly the market structure and competitiveness of the digital economy determines the bargaining power and pricing strategies of the digital economy players, as well as the degree of oligopolization and monopolization of the market;

Second, the value chains and business models of the digital economy determine the roles and positions of the participants in the digital economy, as well as the distribution of value added and profitability of digital economic activities;

Once again, data ownership and access in the digital economy determines the way in which data are accessed and controlled by participants in the digital economy, as well as the way in which the value of the data is realized and shared;

At the same time, the innovation capacity and inputs and outputs of the digital economy determine the technological progress and competitive advantage of digital economy participants, as well as the ratio of costs and returns of innovation;

Finally, the legal, regulatory and policy environment of the digital economy determines the rights and obligations of the participants in the digital economy, as well as the strength of the protection and constraints of the laws and policies.

Tax allocation in the digital economy refers to the process of distributing the tax revenues and burdens generated by digital economic activities, as well as the sharing of tax rights and obligations among the countries and regions involved in the digital economy. The allocation of taxes in the digital economy involves the following main issues:

⁶Yang, Q., "The Impact and Countermeasures of the Digital Economy on the Transformation of Tax Governance - Based on the Analytical Perspectives of Political Economy and Governance Theory," *Taxation Research, Inc. Issue 10, 2020, pp. 56-58.*

First, the tax base and tax rates of the digital economy determine the tax burden and effect of digital economic activities, as well as the magnitude of the tax potential and contribution of the digital economy;

Second, the sources and taxes of the digital economy determine the attribution and distribution of taxes on digital economic activities and the extent to which taxes on the digital economy are fair and reasonable;

The principles and rules of taxation of the third digital economy determine the basis and criteria for the taxation of digital economic activities, as well as the level of tax adaptability and effectiveness of the digital economy;

Fourth, tax coordination and cooperation in the digital economy determines the consistency and stability of taxation of digital economic activities, as well as the potential for tax disputes and friction in the digital economy.

B. Nature, characteristics and classification of digital taxes

The essence of the digital tax is a special tax system for the digital economy, aiming at a reasonable tax allocation for value creation and profit distribution in the digital economy, in order to promote the fair, transparent and sustainable development of the digital economy. The essence of digital tax is mainly reflected in - digital tax is a tax for digital economy, not a tax for digital technology, the object of digital tax is digital economic activities, not digital technology itself; digital tax is a tax to supplement and improve the existing tax system, not a tax to replace and substitute the existing tax system, the purpose of digital tax is to solve the challenges and problems of the digital economy on existing challenges and problems of the digital economy to the existing tax system, rather than to negate and abolish the existing tax system; digital tax is a tax that reflects the value creation and profit distribution of the digital economy, rather than an arbitrary and capricious tax, and digital tax is levied on the basis of the actual contributions and benefits of the digital economy, rather than the superficial phenomena and falsehoods of the digital economy; digital tax is a tax that promotes the fair and sustainable development of the digital economy, rather than a tax that inhibits and hinders the development of the digital economy; and the effect of the digital tax is to balance and harmonize the interests and responsibilities of the digital economy, not to weaken and destroy the competitiveness and innovation of the digital economy. Canadian tax jurist Arthur Cordell (1994) was the first to propose the addition of a bit tax as a new tax, and then Dutch tax jurist LueSoete refined the idea, which advocated that Internet traffic be used as the basis for taxation, and that the income from sales of digital goods and the provision of network services through the Internet by Internet enterprises be taxed, and that in addition to this, if the enterprises gain by exchanging the data they hold, they should also be taxed accordingly.⁷

The characteristics of digital tax refer to some unique

⁷See A.J. Cordell, L. Suet, "Multi-jurisdictional Taxation of Electronic Commerce", *Harvard Symposium. 1997, p98-105.*

and significant attributes and differences that digital tax has compared with traditional tax. The characteristics of digital taxes are mainly manifested in the following aspects: the object of collection of digital taxes is digital economic activities rather than real economic activities, and the standard of collection of digital taxes is the value creation and profit distribution of the digital economy rather than the output and consumption of the real economy;

The collection of digital taxes is data- and network-based rather than geographically and physically based, the collection methods of digital taxes are digitally and intelligently based rather than manually and paper-based; the scope of digital taxes is cross-border and multilateral rather than unitary and bilateral, and the coordination of digital taxes is internationally and multilaterally based rather than domestically and bilaterally based; and the collection effects of digital taxes are dynamic and changing rather than static and fixed, and the impact of digital tax collection is complex and multifaceted rather than simple and unitary. With the further development of the digital economy, the existing international tax rules have become more difficult to adapt to the business management mode of enterprises under the digital development.⁸

III. CURRENT STATUS OF RESEARCH AT THE INTERNATIONAL LEVEL

Currently, the global digital tax collection process is characterized by multilateral coordination and unilateral action. The Organization for Economic Co-operation and Development (OECD) is the main multilateral institution that promotes the negotiation of the global digital tax, and it has proposed a two-pillar framework system of "Revised Rules on Profit Sharing and Linkage" and "Global Anti-base Erosion Solution" with the aim of establishing a fair, sustainable and modernized international tax system. It has proposed a two-pillar framework system, namely the Revised Profit Sharing and Linkage Rules and the Global Anti-Base Erosion Solution, with the aim of establishing a fair, sustainable and modernized international tax system. However, due to divergent interests of countries and technical difficulties, OECD has not yet reached a consensus on the proposal, and the final report is expected to be released in mid-2021⁹. Against this background, some countries and regions have adopted unilateral digital tax measures to protect their tax rights and interests and market equity. According to statistics, 46 countries have introduced or proposed direct digital taxes, and 87 countries have imposed indirect taxes on the digital economy by modifying VAT and consumption tax¹⁰. These unilateral measures not

only increase the tax burden and compliance costs of multinational digital enterprises, but also trigger international trade frictions and disputes.

A. Successful experiences:

The principle of user participation in value creation should be used as a basis for establishing tax rules that are compatible with the characteristics of the digital economy. Some countries and regions believe that user data is the key to value creation in digital enterprises, and therefore taxes should be levied where users are located to reflect their contributions in the digital economy. For example, the European Union has proposed the concept of Significant Digital Presence, which takes the number of users, the number of contracts and the volume of data as the criteria for determining whether a digital enterprise constitutes a permanent establishment in a member state¹¹. The United Nations has also added a digital tax provision to its Model Agreement for the Avoidance of Double Taxation between Developed and Developing Countries, which allows source countries to tax digital services in the form of a withholding tax.¹²

A global solution to digital taxes is sought through multilateral consultation and cooperation. Multilateral institutions such as the OECD, the EU, and the IMF have played an important role in promoting digital tax harmonization, putting forward a series of recommendations and proposals that have facilitated communication and collaboration among countries. For example, the OECD's two-pillar framework system, supported by 137 member states, provides a comprehensive and coherent approach to addressing the tax challenges posed by digitalization¹³. The EU is also actively promoting the formation of an EU-wide harmonized digital tax scheme to avoid unilateral digital tax measures by member states that undermine the EU Digital Single Market¹⁴. The IMF, on the other hand, has proposed some principles and options for digital taxes from the perspective of global tax governance, which provide a reference to countries in formulating their digital tax policies¹⁵. The target of the digital services tax is identified as the portion of the consolidated earnings of large digital enterprises contributed by their digital business.

HuffPost.<https://www.huxiu.com/article/418598.html>.

¹¹OECD Summarizes Countries' Experiences in Digital Transformation of Tax Administration Beijing Municipal Tax Bureau of the State Administration of Taxation <http://beijing.chinatax.gov.cn/bjswj/c104271/c104280/c106511/c106516/202111/0be8cd52a8b949289abd69a57826f51a.shtml>.

¹²Digital Tax Exploration WTO/FTA Consulting Network. <http://chinawto.mofcom.gov.cn/article/ap/p/202212/20221203374054.shtml>.

¹³How is Asia taxed in the digital age? *imf*. <https://www.imf.org/zh/Blogs/Articles/2021/09/14/blog-how-to-tax-in-asias-digital-age>.

¹⁴Digital services tax: consensus and differences among countries. http://www.ctaxnews.com.cn/2023-11/08/content_1032509.html.

¹⁵OECD work on new international tax rules enters next phase KPMG China KPMG. <https://kpmg.com/cn/zh/home/insights/2020/02/china-tax-alert-10.html>.

⁸Pascal SA. *The Economy Has Changes, so Must the Tax* [EB/OL]. <https://www.businessandindustry.co.uk/tax/the-economy-has-changes-so-must-the-tax/#>.

⁹*The Latest Process, Development Characteristics and Trends of Global Digital Taxation and China's Position International Economy China Center for International Economic Exchanges*. <https://www.cciee.org.cn/Detail.aspx?newsId=19313&TId=683>

¹⁰46 countries around the world have introduced digital taxes, what will be the impact?

¹⁶Technological innovations and regulatory reforms are used to improve the efficiency and convenience of digital tax collection and administration. Some countries and regions have made use of advanced technologies such as big data, artificial intelligence and blockchain to monitor and analyze digital economic activities, so as to achieve accurate collection and risk prevention and control of digital taxes. For example, Singapore has streamlined the registration and declaration process for non-resident digital service providers and improved the efficiency of digital tax collection and management by establishing an electronic service registration portal¹⁷. India, on the other hand, has effectively prevented the evasion and circumvention of digital tax by establishing a digital information security reporting center to collect and analyze the transaction data of digital services in real time.

B. Lessons learned:

Unilateral digital tax measures may trigger international trade frictions and disputes and affect the development of the global digital economy. The digital tax measures of some countries and regions are considered to be discriminatory taxes on multinational digital enterprises, violating international tax and trade rules and triggering dissatisfaction and countermeasures in other economies. For example, the digital services tax imposed by France and other European countries, which mainly targets American technology giants, has led to the dissatisfaction of the United States Government, which has initiated a "301 investigation" against France and other countries and imposed retaliatory tariffs on French goods. India's equalization tax was also protested by the U.S., with the Office of the U.S. Trade Representative arguing that India's equalization tax is an unreasonable, unfair and discriminatory tax on U.S. exports of digital services. Asen argued that the EU's creation of the Digital Services Tax is a levy on the revenues from digital services of large online companies. In fact, the formation of such a tax is not an accident, but a product of the birth of national governments in response to the rapid growth of the digital economy, with the aim of ensuring tax fairness and realizing the principle of taxing within one's means.¹⁸

The imposition of digital taxes may increase the tax burden and compliance costs of multinational digital enterprises and affect their overseas operations and development. As there are great differences in digital tax measures among countries and regions, such as the scope of taxation, tax thresholds, tax collection methods and tax rates, multinational digital enterprises need to declare and pay according to different tax rules, which increases the complexity and difficulty of their tax management. In addition, as countries have not yet reached a consensus on

the rules of digital tax credit, multinational digital enterprises also face the risk of double taxation, which leads to an increase in their overall tax burden, a decrease in profits and a reduction in competitiveness.

The collection of digital taxes may jeopardize the data security and privacy of users and businesses, raising social and legal issues. In order to realize the precise collection of digital tax, some countries and regions may need to collect data of users and companies, such as IP addresses, browsing visits, purchasing preferences, transaction records, etc., which may be used for other purposes, such as business competition, political intervention, cyber attacks, etc., bringing huge losses to users and companies. Some scholars believe that under the environment of rapid development of digital economy, they take the EU reform as the object of inquiry, and through analyzing several major VAT reforms of the EU, they conclude that its reforms have important reference significance for China's VAT reforms.¹⁹ Christian Amand takes the EU's VAT reform system as the object of research, and through analyzing the system of distinguishing between digital goods and services formulated by it Christian Amand takes the EU VAT reform system as the object of his study and analyzes its rules for distinguishing between digital goods and services, explains that the practical feasibility of the rules is lacking, and finally puts forward his own viewpoint that the use of VAT for unified regulation can weaken the importance of the distinction between the two.²⁰

IV. CURRENT STATUS AND PROBLEMS OF DIGITAL TAX ESTABLISHMENT IN CHINA

A. Scale and characteristics of the development of China's digital economy

The digital economy refers to an economic form based on digitization, with the network as the platform, data as the resource, innovation as the driving force, intelligence as the characteristic, sharing as the concept, efficiency and optimization as the goal, and the enhancement of social well-being as the value orientation. The digital economy is a new stage of economic and social development, a new driving force for economic growth, a new optimization of economic structure, a new model of economic governance and a new form of economic civilization.

According to the White Paper on China's Digital Economy Development and Employment (2023) released by the China Academy of Information and Communications Technology, China's digital economy will reach 45.8 trillion yuan in 2023, accounting for 38.6% of GDP, an increase of 6.2 percentage points compared with that of 2019, and become an important engine to drive the high-quality development of China's economy. The main features of China's digital economy are as follows:

¹⁶ElkeAsen: *What European OECD Countries Are Doing about Digital Services Taxes*, Tax Foundation, March 25, 2021.

¹⁷BEPS 2.0 *New Rules for International Taxation - Tax Challenges Beyond the Digitalization of the Economy*. <https://kpmg.com/cn/zh/home/insights/2020/10/china-tax-alert-33.html>.

¹⁸Asen, E. "Digital Services Taxes in Europe" [EB/O L]. 202003

¹⁹Yang Dong, "A first look at the new VAT policy for e-commerce in the EU," *International Taxation*, Vol. 2, No. 2, 2018, pp. 17-20.

²⁰Amand C. *Intra-EU trade and VAT: will the distinction between goods and services still be relevant after 2020*. In: *International VAT Monitor*. 2020(31):196-204.

High degree of digitization. The degree of digitization of China's digital economy, i.e., the proportion of the size of the digital economy to GDP, is higher than the global average (22.5%), and higher than that of the United States (33.2%), the European Union (28.7%) and other developed economies, showing the strong momentum and potential of China's digital economy. China should make preparations to deal with the impact of a unilateral digital tax system, urgently study the taxation policy for the development of the digital economy that suits China's national conditions, accelerate the digital transformation of tax governance, and overall promote the balanced development of the digital economy and tax governance.²¹

Structural optimization. The structure of China's digital economy continues to be optimized, with the proportion of the size of digital industries centered on the information technology industry decreasing from 55.1% in 2019 to 51.2% in 2023, while the proportion of the size of digital-driven industries mainly characterized by digital transformation increasing from 44.9% in 2019 to 48.8% in 2023, showing the shift of the digital economy from the supply side to the demand side, and the widespread application and penetration of digital technologies in various industries.

Innovation-driven. The innovation capacity of China's digital economy is constantly improving, and innovation indicators such as R&D investment in digital technology, patent applications, and paper publications have all shown rapid growth, and innovative achievements in digital technology are also emerging, such as 5G, artificial intelligence, blockchain, cloud computing, big data, Internet of Things and other cutting-edge technologies have achieved world-leading status and accomplishments in China, which have provided strong technological support and power for the development of digital economy.

Shared Inclusion. The sharing and inclusive effects of China's digital economy are increasingly visible, with the popularization and application of digital technologies providing society with more public services and conveniences, such as digital government, digital education, digital health care, digital culture, digital finance and so on, which have improved the efficiency and convenience of society, enhanced people's well-being and satisfaction, and promoted social harmony and progress.

B. Adaptability and Effectiveness of China's Current Tax System for the Digital Economy

The development of the digital economy has put forward new challenges and requirements to the traditional tax collection and management system, mainly in the following aspects:

Cross-border. The digital economy is characterized by the absence of borders, boundaries and centers, and digital products and services can be traded and transmitted globally

²¹Song Liying and Wei Jiawen, "The Impact of Digital Service Tax on Enterprises and China's Response", *Taxation Research*, No. 3, 2021

through the network without being subject to geographical location and national sovereignty, which makes the division of tax jurisdiction and the determination of the attribution of the source of tax difficult, and leads to the problem of tax base erosion and profit shifting in some countries.

Virtualization. The digital economy is characterized by virtualization, digitization and informatization, and the essence of digital products and services is data and information, which do not have a physical form or physical attributes, which makes the definition of tax objects and the determination of tax standards difficult, and also leads to the problems of tax classification and tax preferences in some countries.

Innovative. The digital economy is characterized by innovation-driven, change and disruption, rapid iteration, constant updating and changes in the types and modes of digital products and services, and the constant emergence of new business forms and phenomena, such as the sharing economy, the platform economy, e-commerce, social media, and digital currencies, which pose challenges to the adaptability of the tax system and the timeliness of the tax policy, and have led to the problems of tax loopholes and tax disputes in some countries .

➤ Policy Measures and Practical Explorations for the Establishment of Digital Tax in China

In response to the characteristics of the development of the digital economy and the challenges of tax collection and management, China has adopted a series of policy measures and practical explorations in the establishment of digital taxes, which mainly include the following aspects:

Participation in international cooperation. China actively participates in international discussions and consultations on digital tax issues, supports the search for fair, reasonable and feasible global solutions under a multilateral framework, opposes any unilateral or discriminatory digital tax measures, and upholds the international tax order and the spirit of multilateralism. As an important member of the Group of Twenty (G20) and the Organization for Economic Cooperation and Development (OECD), China has actively participated in the formulation and implementation of the Action Plan to Combat Base Erosion and Profit Shifting (BEPS), as well as the negotiation and conclusion of the Harmonized Approach (PillarOne) and Global Minimum Tax (PillarTwo), and has made its contribution to the reform and improvement of international tax rules. It has contributed to the reform and improvement of international tax rules.

Improving domestic regulations. China has continuously improved and adjusted its domestic tax regulations and normative documents in accordance with the development and changes in the digital economy and the needs of tax collection and management, so as to adapt to the characteristics and requirements of the digital economy. For example, China has amended the Value-added Tax Law of the People's Republic of China and the Consumption Tax Law of the People's Republic of China, clarifying the scope and mode of collection of value-added tax and consumption

tax on cross-border e-services, and expanding the tax coverage and administration of the digital economy; and China has issued the Circular on Improving the Taxation Policy on Cross-border E-commerce Retail Import, which standardizes the obligation to register for taxation and make declarations for cross-border e-commerce platforms and it has strengthened tax supervision and services for cross-border e-commerce; China issued the Circular on Improving the Administrative Measures for the Recognition of High-tech Enterprises, which optimizes the conditions and procedures for the recognition of high-tech enterprises, and supports the innovative development of the digital economy and tax incentives.

Exploring digital tax options. While actively participating in international cooperation, China is also exploring digital tax options that suit its own national conditions in order to address the tax challenges and issues of the digital economy. For example, China has examined the idea of a digital services surtax (DST) based on user participation to make up for the inadequacy of the current tax system for the digital economy, expand tax collection for the digital economy, and increase the country's tax revenues and fairness; China has piloted the idea of a data tax based on the value of data to reflect the important role of data in the digital economy, regulate the distribution and utilization of data, and promote the opening and sharing; China examined the idea of a digital regulation tax based on the degree of digitization to incentivize the development and innovation of the digital economy, guide the wide application and penetration of digital technology, and improve the quality and efficiency of the digital economy.

China's policy measures and practical explorations in the establishment of digital taxes have achieved certain results and experiences, which are mainly reflected in the following aspects:

The capacity and level of tax collection and administration have been enhanced. By improving domestic regulations, China has expanded the tax coverage and management of the digital economy, improved the efficiency and convenience of tax collection, and increased tax revenues and fairness for the country's financial and social development.

Promoted the development and innovation of the digital economy. By exploring digital tax options, China has reflected the characteristics and value of the digital economy, regulated the distribution and utilization of the digital economy, incentivized innovation and change in the digital economy, improved the quality and efficiency of the digital economy, and provided impetus and leadership for the high-quality development of the economy.

It has demonstrated its attitude and commitment to international cooperation. Through participation in international cooperation, China has supported the reform and improvement of international tax rules, opposed unilateral and discriminatory numerical tax measures, upheld the international tax order and the spirit of multilateralism, and demonstrated China's attitude and

commitment as a responsible big country.

C. Major Difficulties and Obstacles to the Establishment of Digital Tax in China

Although China has achieved certain results and experience in the establishment of digital tax, it also faces some difficulties and obstacles, mainly in the following aspects:

Complexity and uncertainty of international coordination. Digital tax is a global issue that involves the interests and rights of many countries and regions and requires coordination and consultation under a multilateral framework in order to reach a fair, reasonable and feasible global solution. However, the differences in the level of development of the digital economy and the tax systems of different countries and regions, as well as the divergent interests and positions of various parties, have led to a very complex and difficult process of international coordination, as well as great uncertainties and risks. For example, the United States, as a major participant and beneficiary of the digital economy, has expressed strong opposition and resistance to unilateral or discriminatory digital tax measures in some countries and regions, and has even threatened to take retaliatory trade measures, which has brought enormous pressure and challenges to international coordination.

Incomplete and unadapted domestic regulations. The development of the digital economy is a rapidly changing and innovation-driven process, with the types and modes of digital products and services constantly updating and changing, and the emergence of new business forms and phenomena, which brings new problems and challenges to tax collection and management. However, China's existing tax system and regulations are still based on and targeted at traditional economic forms and activities, and are not perfect and adaptable enough to the characteristics and requirements of the digital economy, and there are some deficiencies and shortcomings. For example, China's existing tax system and regulations are not clear and uniform enough in defining and classifying digital products and services, not reasonable and coordinated enough in tax standards and preferential policies for the digital economy, and not convenient and efficient enough in tax collection and management for the digital economy, thus bringing certain constraints and obstacles to the development and innovation of the digital economy.

Difficulties and risks in the design and implementation of digital tax programs. Digital tax is a comprehensive issue involving many aspects and dimensions, and requires scientific design and implementation based on full consideration of the characteristics and value of the digital economy, as well as changes in and the impact of international tax rules, in order to achieve both increased tax revenue and fairness and to promote the development of the digital economy

V. PATHS AND SUGGESTIONS FOR THE ESTABLISHMENT OF A DIGITAL TAX IN CHINA

A. *Already explored*

In response to the characteristics of the development of the digital economy and the challenges of tax collection and management, China has adopted a series of policy measures and practical explorations in the establishment of digital taxes, which mainly include the following aspects:

First, participation in international cooperation. China actively participates in international discussions and consultations on digital taxes, supports the search for fair, reasonable and feasible global solutions under a multilateral framework, opposes any unilateral or discriminatory digital tax measures, and upholds the international tax order and the spirit of multilateralism. As an important member of the Group of Twenty (G20) and the Organization for Economic Cooperation and Development (OECD), China has actively participated in the formulation and implementation of the Action Plan to Combat Base Erosion and Profit Shifting (BEPS), as well as the negotiation and conclusion of the Harmonized Approach (PillarOne) and Global Minimum Tax (PillarTwo), and has made its contribution to the reform and improvement of international tax rules. It has contributed to the reform and improvement of international tax rules.

Second, improving domestic regulations. China has continuously improved and adjusted its domestic tax regulations and normative documents in accordance with the development and changes in the digital economy and the needs of tax collection and management, so as to adapt to the characteristics and requirements of the digital economy. For example, China has amended the Value-added Tax Law of the People's Republic of China and the Consumption Tax Law of the People's Republic of China, clarifying the scope and mode of collection of value-added tax and consumption tax on cross-border e-services, and expanding the tax coverage and administration of the digital economy; and China has issued the Circular on Improving the Taxation Policy on Cross-border E-commerce Retail Import, which standardizes the obligation to register for tax and file returns for cross-border e-commerce platforms and It has strengthened tax supervision and services for cross-border e-commerce; China issued the Circular on Improving the Administrative Measures for the Recognition of High-tech Enterprises, which optimizes the conditions and procedures for the recognition of high-tech enterprises, and supports the innovative development of the digital economy and tax incentives.

B. *Determine the objectives and scope of the establishment of China's digital tax, and clarify the targets and criteria for its collection*

While actively participating in international cooperation, China is also exploring digital tax options that suit its own national conditions in order to address the tax challenges and issues of the digital economy. For example, China has examined the idea of a digital services surtax (DST) based on user participation to make up for the

inadequacy of the current tax system for the digital economy, expand tax collection for the digital economy, and increase the country's tax revenues and fairness; China has piloted the idea of a data tax based on the value of data to reflect the important role of data in the digital economy, regulate the distribution and utilization of data, and promote the opening and sharing; and China examined the idea of a digital regulation tax based on the degree of digitization to incentivize the development and innovation of the digital economy, guide the wide application and penetration of digital technologies, and improve the quality and efficiency of the digital economy. The objectives and scope of the establishment of China's digital tax should be guided by the following principles:

First, it is in line with international tax norms and trends, and maintains communication and coordination with the international community to avoid triggering international tax disputes and trade frictions;

The second is to adapt to the development characteristics and needs of the digital economy, reflect the value creation and profit distribution of the digital economy, and avoid double taxation and excessive taxation of the digital economy;

Third, it reflects China's national conditions and interests, protects and supports Chinese digital economy enterprises and users, and avoids jeopardizing China's digital economy sovereignty and security;

Fourth, simplify and harmonize the collection methods and standards for digital taxes, reduce the cost and complexity of digital tax collection and management, and avoid increasing the burden and uncertainty of the digital economy.

Based on these principles, the objectives and scope of the establishment of China's digital tax can be determined as to promote the healthy development of China's digital economy, increase China's tax revenues and public expenditures, and enhance China's competitiveness and influence in the global digital economy through the distribution of reasonable, fair, effective, transparent and sustainable tax revenues for digital economic activities.

It should be characterized as a tax mainly on digital service activities that are cross-border, intangible, multilateral, highly centralized, low marginal cost, data-driven, platform-based and personalized, such as online advertising, social media, search engines, data analytics and cloud computing.

Based on these objectives and scope, the levy targets and criteria for the establishment of China's digital tax can be determined as follows:

First, enterprises providing cross-border digital services. This is the main taxing target of my proposal, which refers to enterprises that provide digital products or services to users in China through the Internet or other digital technologies, regardless of whether they have set up organizations or personnel in China, and regardless of

whether they generate revenue or profits in China. These enterprises include social media, search engines, online advertising, online platforms, online content, online games, cloud computing, big data and artificial intelligence. For example, Apple\Amazon, Netflix, Spotify, etc. are enterprises providing cross-border digital services.

Second, cross-border enterprise agents. This is the secondary target of taxation under my scheme, and refers to individuals or organizations that provide digital products or services to users in China on behalf of, or with the assistance of, an enterprise providing cross-border digital services, regardless of whether they have set up an organization or personnel in China, and regardless of whether they generate income or profits in China. These agents include agents, brokers, distributors, partners, affiliate sites, and so on. For example, Alibaba, Jingdong, and Pinduoduo are agents of companies that represent or assist in the provision of cross-border digital services.

Third, users within China. This is the scope of taxation under my proposal, which refers to individuals or organizations that use or consume digital products or services provided by enterprises providing cross-border digital services or their agents within China, regardless of whether they have set up establishments or personnel in China, and regardless of whether they generate income or profits in China. These users include individual consumers, corporate clients, government agencies, social organizations, etc. For example, individuals or organizations in China that use digital products or services provided by Apple\Amazon, Netflix, Spotify, etc. are users in China.

With regard to the expansion of the modalities of collection, the following perspectives have been pursued.

First, withholding at source. This is the main collection method of my proposal, which refers to the method of withholding and paying the digital service surtax from the service fee by the enterprise providing cross-border digital service or its agent when providing service to the user in China, without requiring the user to participate or bear any tax responsibility or obligation. The advantages of this approach are simplicity and efficiency, avoidance of tax evasion and loopholes, and reduction of the tax burden and hassle for users. The disadvantage of this approach is that it may increase the tax cost and risk of enterprises providing cross-border digital services or their agents, and may also affect their competitiveness and attractiveness in the Chinese market. However, some scholars still point out that there is an urgent need for China to change the traditional concept of "taxation at source" and strengthen the use of data and information in tax administration, so as to get rid of the intrinsic dilemma of dealing with digital tax in China.²²Therefore, we can also adopt self-declaration.

Second, self-declaration. This is the secondary collection method of my proposal, which refers to the way in which the enterprises providing cross-border digital services or their agents, in accordance with the prescribed period and format, declare and pay the digital service surtax to the Chinese tax authorities, without involving any tax responsibility or obligation of the users. The advantage of this approach is that it is flexible and fair, and the amount of digital service surtax payable by the enterprise providing cross-border digital services or its agent can be determined based on its actual situation and data, and its competitiveness and attractiveness in the Chinese market can be protected. The disadvantages of this approach are complexity and inefficiency, which may increase the tax burden and trouble for enterprises providing cross-border digital services or their agents, and may also lead to tax omissions and disputes. And with the spread of electronic. The tax office can register, authorize, collect, supervise and serve the tax on the enterprises or their agents providing cross-border digital services in a way that does not require the users to participate or assume any tax responsibility or obligation. The advantages of this approach are that it is convenient and modern, and can take advantage of digital technology to improve the efficiency and level of tax collection and management, as well as to enhance the transparency and credibility of tax collection and management. The disadvantage of this approach is that there may be technical and security risks and pitfalls, and it may also raise questions about the protection and utilization of the privacy and data of enterprises providing cross-border digital services or their agents.

C. Designing programs and models for the establishment of a digital tax in China

The program and model for the establishment of China's digital tax should refer to the existing or proposed digital tax programs in the international arena, and combine with China's own actual situation to make choices or adjustments. Some scholars in China have expended that blockchain, as a combination of emerging digital technologies, with its advantages of decentralization, traceability, automation and efficiency, security and transparency, can to a certain extent solve the abovementioned digital tax governance challenges.²³According to the international community there are mainly two types one is based on the existing international tax framework, through the modification and improvement of the relevant tax principles and rules to adapt to the development of the digital economy, and the other is based on the new tax concepts and models, through the establishment of a special digital tax, to carry out additional taxation on the digital economy.

A digital tax based on the existing international tax framework refers to the adjustment and improvement of the tax administration of the digital economy on the basis of existing international tax agreements and domestic tax laws,

²²Chen Daisong and Cai Linan, "China's Inherent Dilemma in Coping with Digital Service Tax and the Way to Crack It," in *Tax and Economy*, 2021, No. 2 Issue, p. 18

²³Xu Chenxin and Zhang Li, "Blockchain Enabling Digital Tax Governance: Difficulty Resolution and Institutional Innovation," in *Tax Economics Research* 2022 No. 5, p. 39

such as expanding the definition of permanent establishment, adjusting the criteria for profit-sharing, improving the rules on transfer pricing, and enhancing the mechanisms for information exchange and dispute settlement. The advantages of this type of digital tax are that it is more in line with international tax practices and consensus, maintains the existing tax order and stability, and is easier to implement and enforce. The disadvantages of this type of digital tax are that it is more conservative and gradual, and it is difficult to solve the fundamental and structural taxation problems of the digital economy and to meet the different positions and demands of countries on the issue of digital tax.

Digital taxes based on new tax concepts and models refer to innovations and breakthroughs in tax collection and management for the digital economy outside the existing international tax framework, such as the establishment of a specific digital services tax, the adoption of new tax criteria such as user participation or significant economic presence, the implementation of a single- or multi-level tax collection model, and the establishment of a new mechanism for international tax coordination and cooperation. The advantage of this kind of digital tax is that it is more forward-looking and innovative, can better adapt to the development characteristics and needs of the digital economy, and can more effectively realize the tax distribution and equity of the digital economy. The disadvantages of this type of digital tax are that it is more radical and risky, which may jeopardize the existing tax system and balance, and may be opposed and resisted by other countries.

According to the current situation of China's digital economy and the current tax system, the author believes that China should adopt a balanced and flexible strategy in the establishment of digital tax according to its own national conditions and the international situation, respecting and complying with the practice and consensus of international taxation, as well as positively and proactively participating in the reform and innovation of international taxation, improving and adjusting the current tax laws and regulations and system, and also exploring and experimenting with the new tax concepts and models, to safeguard and increase its own tax revenue and equity as well as to promote and support the development and innovation of the digital economy, and to maintain and defend its own interests and rights and interests as well as to respect and coordinate the interests and rights and interests of other countries, so as to realize a win-win and win-win situation in digital taxation.

VI. SUMMARIZE

This article mainly discusses the establishment path, necessity and significance, policy measures and practical exploration, expansion of collection methods and future outlook of China's digital tax. The article points out that the development of digital economy is crucial to modern life, and the establishment of digital tax is conducive to protecting and incentivizing the innovation and development of digital economy, as well as improving the competitiveness and influence of digital economy. As a

digital economy power in China, the establishment of digital tax is of great necessity and significance for China's economic development and tax reform. China's policy measures and practical explorations in the establishment of digital tax have achieved certain results and experiences, which are mainly reflected in the enhancement of the capacity and level of tax collection and management, the promotion of the development and innovation of the digital economy, and the demonstration of the attitude and commitment to international cooperation. Regarding the expansion of collection methods, it can be carried out in terms of withholding at source, value-added tax and consumption tax, and income tax. In the future, the establishment of China's digital tax needs to further improve domestic regulations, strengthen international cooperation, optimize collection methods, and improve tax collection and management capacity.

However, this paper lacks a discussion of more specific tax rates and tax settings, which the author will address in future research.

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