

## TAX-BUDGET POLICY DURING DIGITALIZATION OF THE ECONOMY

**Mirza Qilichbayevich Sabirov, Inomjon Turaevich Jumaniyazov**

Associate professor of the Institute, “International School of Finance Technology and Science” LLC

### ARTICLE INFO.

**Keywords:** International, Tax, Taxation, Digital, Economy, Digital Services Tax, DST, BEPS, Facebook, Google, Apple, Amazon, Technology, OECD.

### Abstract

This Article analyzes the tax challenges of digitalization and the potential solutions to address them. This Article argues in favor of a multilateral approach and proposes applying a new tax nexus based on market thresholds subject to a global de minimis amount. As more companies conduct business online, current international tax law and its principles have failed to adapt to global commercial practices. Digital-tech giants such as Facebook, Google and Amazon have been able to exploit the international tax framework by avoiding a physical presence in the jurisdiction of their consumers. As a result, profits of highly digitalized enterprises can be shifted to low tax countries and left untaxed in markets where substantial economic activity occurs.

<http://www.gospodarkainnowacje.pl/> © 2024 LWAB.

### Introduction

Digitalization has transformed everyday life. Routine functions are performed by using assorted digital applications and the online consumer is at the center of modern business models. Many of the world’s largest companies are highly digitalized, including Google, Amazon, Facebook, Apple, and Microsoft. The digital economy offers great benefits to society, yet its unique attributes have produced considerable tax challenges. This is primarily because highly digitalized business models often do not conform with traditional international tax characterizations. Most notably, highly digitalized businesses can earn profits in foreign economies without creating physical permanent establishments that give rise to taxing rights. As a result, significant profits remain untaxed by market jurisdictions despite the sustained involvement of highly digitalized enterprises in those market jurisdictions. International efforts are underway to address the tax challenges arising from digitalization. The OECD is working through an inclusive framework comprised of 137 countries, large and small, to achieve a long-term consensus-based solution on new taxing rights and profit allocation norms. 1 Meanwhile, as of January 2021 approximately 38 jurisdictions have announced, proposed, or already adopted unilateral measures to tax revenues from digital services provided within their jurisdictions.

### Result and discussion

A robust alignment between tax-budget policies and the imperatives of economic digitization, encompassing aspects such as digital governance and financial oversight, is imperative for successful implementation. Numerous countries have embarked on comprehensive reforms to fortify tax-budget policies in tandem with the digital transformation. Neglecting this alignment poses significant risks to fiscal governance and economic stability.

This thesis advocates for methodological approaches, including empirical analyses or survey methodologies, to substantiate its arguments. Methodological frameworks aim to dissect effective strategies for implementing tax-budget policies amidst economic digitization, elucidating their impact on digital economy dynamics and governance mechanisms.

Analysis reveals that effective strategies in tax-budget policy implementation are pivotal for optimizing the benefits of economic digitization. These strategies are geared towards enhancing the efficiency of digitization-driven governance reforms and fostering sustainable economic growth.

The advent of economic digitization has revolutionized the landscape of policymaking, necessitating a recalibration of tax-budget policies to harness its full potential. This introduction sets the stage for a discourse on the criticality of identifying and adopting effective strategies in tax-budget policy implementation within the realm of digitization.

The rapid advancement of technology and the pervasive integration of digital systems into economic activities have necessitated a fundamental reevaluation of fiscal policies worldwide. Tax-budget policies, as foundational elements of fiscal governance, are not exempt from this transformation. In fact, they stand at the forefront of the evolving landscape, where traditional modes of revenue collection and expenditure allocation are being reshaped by digital innovations.

Historically, tax-budget policies have primarily relied on conventional mechanisms for revenue generation and budget allocation. However, the digital era presents new opportunities and challenges. On one hand, digitalization offers avenues for enhanced revenue collection through improved tax compliance measures and innovative taxation models. On the other hand, it introduces complexities in tracking and regulating digital transactions, necessitating agile policy responses.

Despite the potential benefits, implementing tax-budget policies in the digital age is fraught with challenges. The proliferation of online platforms and digital transactions complicates the task of tax enforcement and necessitates the development of sophisticated monitoring mechanisms. Additionally, ensuring fairness and equity in taxation amidst the digital divide poses ethical and regulatory dilemmas for policymakers.

Addressing these challenges requires a multifaceted approach that encompasses policy reforms, institutional capacity building, and international cooperation. Effective strategies may include:

Leveraging digital technologies such as big data analytics and artificial intelligence for tax compliance monitoring and enforcement can enhance the effectiveness and efficiency of tax administration.

Developing innovative tax policies tailored to the digital economy, such as digital services taxes or transaction levies, can capture revenue from digital transactions while minimizing distortions and ensuring fairness.

Collaborating with other countries and international organizations to develop common standards and frameworks for taxing digital transactions can prevent tax evasion and ensure a level playing field for businesses operating in the digital sphere.

Investing in the training and development of tax administrators and policymakers to understand and adapt to the complexities of the digital economy is essential for effective policy implementation.

One of the key objectives of tax-budget policies is to ensure adequate revenue generation to fund public expenditures. In the digital era, leveraging technology can significantly enhance tax compliance and revenue collection. For instance, digital platforms can be utilized to automate tax filing processes, provide real-time insights into taxpayer behavior, and detect instances of tax evasion more efficiently. Moreover, blockchain technology holds promise in ensuring transparency and traceability in financial transactions, thereby reducing opportunities for tax fraud and enhancing overall compliance.

A critical consideration in implementing tax-budget policies in the context of economic digitization is ensuring that the benefits of digital transformation are inclusive and reach all segments of society. This entails designing tax policies that promote equitable distribution of wealth and opportunities, particularly in addressing disparities exacerbated by the digital divide. Additionally, targeted investments in digital infrastructure and education can empower marginalized communities to participate more fully in the digital economy, thereby fostering inclusive growth.

As the digital economy evolves rapidly, regulatory frameworks governing taxation and budgetary policies must also evolve to keep pace with technological advancements. This requires policymakers to adopt a flexible and adaptive approach to regulation, capable of accommodating emerging digital business models and cross-border transactions. Moreover, international cooperation is essential to harmonize tax regulations and prevent tax base erosion and profit shifting in the digital sphere.

While embracing digitalization offers myriad opportunities for enhancing tax-budget policies, it also introduces new risks and uncertainties. Cybersecurity threats, data privacy concerns, and the potential for algorithmic biases are some of the challenges that policymakers must navigate in the digital landscape. Thus, effective implementation strategies should prioritize innovation while also incorporating robust risk mitigation measures and safeguards to protect taxpayer rights and ensure the integrity of fiscal systems.

In the digital age, data has emerged as a valuable asset for governments in formulating tax-budget policies. By leveraging data analytics and predictive modeling, policymakers can gain insights into economic trends, taxpayer behavior, and revenue projections. This data-driven approach enables more informed decision-making, allowing governments to tailor tax policies to specific economic conditions and optimize budget allocations for maximum impact. Additionally, open data initiatives can enhance transparency and accountability in fiscal governance by providing citizens with access to government financial information.

Tax-budget policies play a crucial role in creating an enabling environment for innovation and entrepreneurship, particularly in the digital economy. By implementing tax incentives and investment-friendly policies, governments can encourage research and development, attract venture capital, and stimulate the growth of startups and small businesses. Furthermore, tax policies that support digital infrastructure development, such as broadband expansion and digital skills training, can catalyze innovation ecosystems and drive economic diversification.

The digitalization of the economy has brought to the fore complex international tax challenges, such as profit shifting and tax avoidance by multinational corporations. To address these challenges, policymakers must collaborate at the international level to develop coordinated tax frameworks and mechanisms for ensuring fair taxation of digital transactions. Initiatives such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project are instrumental in fostering international cooperation and establishing common standards for taxing digital activities.

While implementing tax-budget policies to harness the benefits of economic digitization is essential, policymakers must also consider the long-term sustainability of fiscal measures. This entails striking a balance between short-term revenue generation and long-term fiscal stability, as well as accounting for potential disruptions and uncertainties in the digital economy. Moreover, fiscal policies should be designed with a focus on promoting environmental sustainability and social equity, aligning with broader development goals such as the United Nations Sustainable Development Goals (SDGs).

In conclusion, the effective implementation of tax-budget policies in the era of economic digitization requires proactive strategies that embrace innovation, collaboration, and capacity building. By addressing the challenges posed by digitalization and harnessing its potential, policymakers can ensure sustainable fiscal governance and support economic growth in the digital age.

Governments should prioritize investments in digital infrastructure, including broadband connectivity and digital skills training programs, to ensure widespread access to digital technologies. This will facilitate broader participation in the digital economy and enable more effective implementation of tax-budget policies.

Policymakers should foster collaboration and knowledge sharing among governments, international organizations, academia, and the private sector to address global tax challenges and develop best practices for implementing tax-budget policies in the digital age.

### Conclusions

Governments should invest in taxpayer education and engagement initiatives to improve understanding of tax obligations, foster voluntary compliance, and build trust in the tax system. This may include outreach programs, online resources, and interactive platforms for taxpayers to access information and seek assistance.

Policymakers must prioritize data privacy and security considerations in the implementation of tax-budget policies, particularly in the collection and use of taxpayer data. Robust safeguards and protocols should be put in place to protect sensitive information and mitigate the risk of data breaches or misuse.

Collaboration between government agencies, industry stakeholders, civil society organizations, and academic institutions is essential for developing holistic solutions to complex tax and budgetary challenges. Governments should foster an environment conducive to cross-sectoral collaboration, encouraging dialogue, partnerships, and joint initiatives to address shared objectives.

By implementing these recommendations and suggestions, policymakers can navigate the complexities of economic digitization and effectively implement tax-budget policies that promote sustainable fiscal governance and support inclusive economic growth in the digital age.

### References:

1. IMF. (2020). "Tax Policy in the Digital Age." International Monetary Fund.
2. World Bank. (2019). "Digital Dividends." World Bank Publications.
3. European Commission. (2020). "Taxation and the Digital Economy: Challenges and Proposals for Reform." European Commission.
4. Slemrod, J., & Weber, C. (2012). "The Economics of Taxation." MIT Press.
5. De Mooij, R. A., & Ederveen, S. (2008). "Corporate tax elasticities: A reader's guide to empirical findings." *Oxford Review of Economic Policy*, 24(4), 680-697.
6. OECD. (2021). "Tax Challenges Arising from Digitalisation – Interim Report 2021: Inclusive Framework on BEPS." OECD Publishing.
7. United Nations. (2015). "Transforming our World: The 2030 Agenda for Sustainable Development." United Nations.
8. Jumaniyazov, I. T. (2019). The impact of Uzbekistan Reconstruction and development fund's expenditure on GDP growth. *Science, research, development № 16. Monografiya pokonferencyjna.*
9. Jumaniyazov, I., & Xaydarov, A. (2023). The importance of social insurance in social protection. *Science and Education*, 4(1), 1033–1043. Retrieved from <https://openscience.uz/index.php/sciedu/article/view/4941>
10. Inomjon, J. (2023). GENDER BYUDJETLASHTIRISHDA DAVLAT MOLYAVIY NAZORATINING O'RNI. *Новости образования: исследование в XXI веке*, 1(6), 1187-1191.



11. Бахронов, Ж., & Жуманиязов, И. (2023). Партиципатор бюджетлаштириш ва уни Ўзбекистонда қўллаш долзарблиги. *Science and Education*, 4(2), 1486–1493. Retrieved from <https://openscience.uz/index.php/sciedu/article/view/5234>
12. Davlatboyeva, M. S. qizi, & Jumaniyazov, I. T. (2023). Yashil byudjetlashtirish va uni O'zbekistonda joriy etish istiqbollari. *Science and Education*, 4(2), 1509–1516. Retrieved from <https://openscience.uz/index.php/sciedu/article/view/5237>
13. Jumaniyazov, I. T. (2019). Evaluation criteria for the efficiency of sovereign funds. *Global science and innovations 2019: Central Asia*. In *International scientific conference.–Nur-Sultan (Kazakhstan)* (Vol. 340, pp. 226-229).
14. Jumaniyazov, I. T. The significance of Uzbekistan reconstruction and development fund's financial capital on economic growth of Uzbekistan. *International Journal of Economics, Commerce and Management United Kingdom* ISSN, 2348, 0386.
15. Jumaniyazov, I., & Mahmudov, M. (2022). Experience of foreign countries in attracting foreign investment. *Asian Journal of Research in Banking and Finance*, 12(5), 32-37.
16. Jumaniyozov, I. T., & Abdumannobov, A. M. (2020). MANAGING PUBLIC DEBT. In *Ключевые проблемы современной науки* (pp. 3-7).
17. Jumaniyozov, I. T., & Bakhodirkhujayev A.F. (2020). ISSUES AND CHALLENGES FOR THE IMPLEMENTATION OF MACROPRUDENTIAL POLICY IN UZBEKISTAN. In *Ключевые проблемы современной науки* (pp. 8-11).
18. T. Jumaniyazov, & A. Khaydarov. (2023). THE IMPACT OF UZBEKISTAN'S SOVEREIGN WEALTH FUNDS ON ECONOMIC GROWTH. *American Journal of Research in Humanities and Social Sciences*, 10, 1–7. Retrieved from <https://www.americanjournal.org/index.php/ajrhss/article/view/495>
19. Jumaniyazov, I. T. (2019). The impact of Uzbekistan Reconstruction and development fund's expenditure on GDP growth. *Science, research, development*, 16.
20. Jia, X., Cui, Y., Patro, R., Venkatachalam, S., Kanday, R. & Turayevich, J. (2023). Application of fractional-order nonlinear equations in coordinated control of multi-agent systems. *Nonlinear Engineering*, 12(1), 20220335. <https://doi.org/10.1515/nleng-2022-0335>
21. Abdullaev Aybek Nazarbaevich, Jumaniyazov Inomjon To'raevich, Sabirov Mirza Qilichbayevich, & Gulomov Ibrokhim Rustam ugli. (2024). Development Of China's Sovereign Wealth Funds. *Wire Insights: Journal of Innovation Insights*, 2(1), 1–8.
22. Sovereign wealth funds of the Republic of Uzbekistan in the post-pandemic period. (2023). *Pedagogical Cluster-Journal of Pedagogical Developments*, 1(2), 355-372. <https://euroasianjournals.org/index.php/pc/article/view/73>
23. Mirza Qilichbayevich Sabirov, Ibrokhim Rustam ugli Gulomov, Inomjon To'raevich Jumaniyazov, & Aybek Nazarbaevich Abdullaev. (2023). Relevance and Application of Compulsory Health Insurance in Republic of Uzbekistan. *Journal of Intellectual Property and Human Rights*, 2(11), 71–76. Retrieved from <http://journals.academiczone.net/index.php/jiphr/article/view/1477>
24. Aybek Nazarbaevich Abdullaev, Shavkat Bayramovich Babaev, Mirza Qilichbayevich Sabirov, & Inomjon To'raevich Jumaniyazov. (2024). TAX RELATIONS IN BUSINESS ENTITIES PROVIDING NON-STATE EDUCATIONAL SERVICES. *American Journal of Interdisciplinary Research and Development*, 25, 123–134. Retrieved from <http://www.ajird.journalspark.org/index.php/ajird/article/view/969>

25. Aybek Nazarbaevich Abdullaev, Inomjon To'raevich Jumaniyazov, Shavkat Bayramovich Babaev, & Mirza Qilichbayevich Sabirov. (2024). PROSPECTS OF ORGANIZING RENTAL OPERATIONS IN NON-GOVERNMENT EDUCATIONAL ORGANIZATIONS ON THE BASIS OF INTERNATIONAL STANDARDS OF FINANCIAL REPORTING. *Galaxy International Interdisciplinary Research Journal*, 12(2), 104–114.
26. Shavkat Bayramovich Babaev, Aybek Nazarbaevich Abdullaev, Mirza Qilichbayevich Sabirov, & Inomjon To'raevich Jumaniyazov. (2024). SOME ISSUES OF THE DEVELOPMENT OF BANKING INNOVATIONS IN THE COMMERCIAL BANKS OF UZBEKISTAN. *Academia Repository*, 5(03), 31–37. Retrieved from <https://academiarepo.org/index.php/1/article/view/662>
27. Shavkat Bayramovich Babaev, Aybek Nazarbaevich Abdullaev, Mirza Qilichbayevich Sabirov, Inomjon To'raevich Jumaniyazov, & Inomjon To'raevich Jumaniyazov. (2024). CONCEPTUAL REFLECTION OF THE CHANGING ROLE OF THE STATE EXPORT POLICY IN THE DEVELOPMENT STRATEGY OF THE NEW UZBEKISTAN. *European Scholar Journal*, 5(3), 5–8.
28. Jumaniyazov Inomjon To'raevich, Abdullaev Aybek Nazarbaevich, Sabirov Mirza Qilichbayevich, & Shavkat Bayramovich Babaev. (2024). Importance of social principles of sovereign wealth funds. *Global Scientific Review*, 26, 46–54.
29. Jumaniyazov Inomjon To'rayevich. (2024). ESG IN SOVEREIGN WEALTH FUND INVESTMENTS. *ОБРАЗОВАНИЕ НАУКА И ИННОВАЦИОННЫЕ ИДЕИ В МИРЕ*, 41(2), 117–124.
30. ZM Shaikh, S Ramadass, B Prakash, JI Turayevich Data-Driven Decision Making in Stock Portfolio Management: LSTM and Monte Carlo Simulation in Action- Fluctuation and Noise Letters, 2023
31. To'raevich, J. I., Nazarbaevich, A. A., Qilichbayevich, S. M., & Babaev, S. B. (2024). Importance of social principles of sovereign wealth funds. *Global Scientific Review*, 26, 46-54.
32. Jumaniyazov, I. T. (2019). The impact of Uzbekistan Reconstruction and development fund's expenditure on GDP growth. *Science, research, development № 16. Monografiya pokonferencyjna.*
33. Oppog'ov, J. A., & Jumaniyazov, I. T. (2024). Moliya tizimida g'aznachilik faoliyatini rivojlanish istiqbollari. *Science and Education*, 5(5), 504–512.
34. Inomjon To'raevich Jumaniyazov, Aybek Nazarbaevich Abdullaev, Mirza Qilichbayevich Sabirov, & Shavkat Bayramovich Babaev. (2024). METHODOLOGICAL BASIS FOR FORECASTING THE TAX POTENTIAL OF THE RUSSIAN FEDERATION. *Spectrum Journal of Innovation, Reforms and Development*, 27, 100–107.
35. Abdullaev, A. N., Jumaniyazov, I. T. R., Sabirov, M. Q., & Babaev, S. B. (2024). DIRECTIONS FOR IMPROVING THE PROCESS OF PERSONAL INCOME TAX FORECASTING. *American Journal of Interdisciplinary Research and Development*, 28, 233-243.
36. ESG PRINCIPLES IN INVESTMENT PROJECTS FINANCED BY SOVEREIGN INVESTMENT FUNDS. (2024). *Ustozlar Uchun*, 1(4), 1096-1102.
37. THE SOCIAL IMPORTANCE OF SOVEREIGN WEALTH FUNDS. (2024). *Ustozlar Uchun*, 1(4), 1028-1034.
38. TARGETED PLANNING OF BUDGET EXPENDITURES AND IMPACT ON SOCIAL POLICY. (2024). *Ustozlar Uchun*, 1(4), 1442-1444.
39. IQTISODIYOTNI RIVOJLANTIRISHDA BYUDJET-SOLIQ SIYOSATINING AHAMIYATI. (2024). *Ustozlar Uchun*, 1(4), 1418-1422.

40. O‘ZBEKISTON RESPUBLIKASIDA DAVLAT XARIDINI TASHKIL ETISH VA UNI TAKOMILLASHTIRISH. (2024). Ustozlar Uchun, 1(4), 1428-1432.
41. Xamro o‘g‘li, Y. R., & Turayevich, J. I. (2024). ISHSIZLIK DARAJASI, UNING TURLARI VA UNI BARQARORLASHTIRISHNING YOLLARI. Ustozlar uchun, 1(4), 767-771.