

Legal Regulation of International Tax Competition in the Digital Economy Era

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Abstract: There is no consensus on the concept of international tax law internationally, and there is even controversy over whether international tax law actually exists. In the process of transferring social resources from taxpayers to government departments, tax laws are bound to have an impact on the economy. If this impact is limited to the amount of taxation itself, it is a normal burden of tax laws; If, in addition to this normal burden, economic activities are disrupted and hindered, and social interests are weakened as a result, an additional burden of taxation arises. This article attempts to analyze the legal regulations of international tax competition in the era of digital economy. Under different paths and types of market economy systems, different sovereign countries have different demands for tax rules. China needs to enhance its discourse power as a representative of developing countries, effectively suppressing the monopoly situation formed by developed countries in the construction of discourse power in the international tax competition legal regulation system. Carry out moderate competition and maintain necessary cooperation and coordination, regulate harmful tax competition, especially in the digital economy, where demand is the same while reserving differences, and jointly pursue the goal of fair tax competition.

1. Introduction

With the deepening of economic globalization, the international economic environment faced by sovereign countries has undergone profound changes. In the process of managing economy with macro policies, governments of all countries must face the changing social, technical and economic constraints. There is no consensus on the concept of international tax law in the world, and even there is controversy about whether the international tax law exists. Because the tax law is directly related to the financial foundation of sovereign countries, and then affects the political stability, every sovereign country tries to safeguard its financial sovereignty and expand its tax jurisdiction to increase its fiscal revenue [1]. Every sovereign country has its own unique tax laws and regulations, so the internationalization process of tax law is very slow compared with other legal departments. At present, the trend of economic digitalization based on digital economy has an important impact on the world economy and taxation. The erosion of the tax base and the transfer of profits, which originated from the digital economy, have posed a severe challenge to the international tax rules. The international tax rules for cross-border enterprise income tax, which have been in operation for a hundred years, have been unable to adapt to the new way of value creation under the digital economy [2]. This paper further analyzes the legal regulation of international tax competition in the era of digital economy. In fact, the national tax jurisdiction is very extensive, and there is no international tax legal system that has risen to the legal level in the world. It can be said that there is no substance between taxable property in countries and individuals and transactions as tax subjects. In the case of good faith connection, any compulsory measures are equivalent to expropriation in international law, not the right to levy taxes under the legal framework [3-4]. In the international tax competition, the economic behaviors with the mobile economic elements as the object all aim at maximizing profits and are highly sensitive to tax policies. For example, American economists have recently summarized two quantitative analysis reports on overseas direct investment in the United States and two quantitative analysis reports on foreign direct investment in the United States, and concluded that although taxation is not the only factor that determines the investment location, in most cases, from different angles, although all other economic and political factors are obviously very important, taxation has a very important impact on the regulation and status of overseas direct

investment [5]. Under the background of the current global economic slowdown, increasing economic uncertainty, and the sharp increase of government expenditure pressure, it is of great theoretical and practical significance to study the traditional path of legal regulation of international tax competition and clarify the value orientation and China choice of legal regulation of international tax competition in the digital economy era [6].

2. The Traditional Legal Regulation Path of International Tax Competition

2.1. Legal Regulations on Harmful Tax Competition

In the process of international tax competition, countries can influence the financing and investment decisions of residents of other countries through tax policies. Multinational enterprises make investment decisions and business location choices based on the comparison of tax systems in different countries. The overall effect is that the production factors such as capital and technology with high liquidity are transferred from high tax bearing countries to low tax bearing countries, and the overall tax burden is reduced. But if countries compete at the bottom on tax reduction issues without restrictions, the more liquid economic activities are, the less likely they are to serve as a tax base, which will lead to the weakening or even loss of national tax sovereignty[7]. Under the impact of tax competition, countries have implemented a series of reforms to expand tax bases and lower tax rates, which to some extent weakens the distorting effect of taxation on economic activities, including labor, savings, and investment[8]. If we view the world as a common market from a global perspective, the reduction in global tax burden brought about by the reduction of tax rates will reduce the additional burden of taxation overall, thereby optimizing resource allocation globally and improving international economic efficiency; The weakening of the distorting effect also stems from the expansion of the tax base. Each country or region often determines the priority of tax system reform and the application of tax policies based on their main participation in the stage of economic globalization.

The international tax competition only began after World War II, and some developing countries implemented low tax policies in order to attract foreign investment. This can be said to be the first wave of tax reduction initiated by the United States in the early and middle stages, marking a new stage of tax competition. In 1984, the United States unilaterally abolished the withholding tax on foreign residents' income from interest on securities from the United States. "Interest on securities" includes U.S. government bonds, bonds issued by U.S. companies, and savings interest from U.S. banks [9]. The liquidity tax base such as cross-border capital is the main production factor that developing countries or regions compete for in tax competition. Therefore, in the process of participating in international tax competition, the main tax system reforms and tax preferential policies of developing countries or regions serve to attract foreign investment; Developed countries have a high degree of participation in financial internationalization, and their tax arrangements related to finance often lead the world. The goal of tax competition mainly serves the development of financial deepening processes, and they pay more attention to issues such as tax system design in finance and capital markets.

2.2. International cooperation framework of legal regulation of tax competition

With the development of economic globalization, the pursuit of maximizing national interests cannot simply focus on national conditions, but should be considered from a global perspective, taking into account national interests and international common interests. Countries have long recognized that "race to the bottom" will eventually lead to the reduction of the applicable tax rate for certain sources of income in all countries to zero, and cracking down on harmful tax practices can safeguard the common interests of all countries. Because of the common interests of all countries, international cooperation becomes necessary in the legal regulation of international tax competition. The process of economic globalization is essentially a deepening process of the international flow of goods and factors, a large-scale global activity of economic activities such as production, trade, investment and finance, and the global allocation and reorganization of

production factors[10]. These elements are the object of international tax competition, and their liquidity has also been greatly improved. In the early days, tax competition was centered around tariff competition. Due to the lack of coordination institutions, countries did not reach an agreement on the reduction of tariff rates of various products and the agreement on product catalogues, and harmful tax competition occurred at the expense of the decline of national tariff revenue, which caused great losses to tax revenues of various countries. The tariff concessions aimed at attracting resource inflows did not achieve the purpose of introducing resources and expanding the tax base. The process of economic globalization will inevitably lead to international tax competition, and the intensification of international tax competition will eventually destroy the achievements of economic globalization and hinder its in-depth development. From the perspective of conforming to the trend of the times and historical development, it is bound to require the standardization of international tax competition. Through this superficial phenomenon, we can explore its inherent rationality. The problem is represented by a diagram, and the positive triangular relationship is shown in Figure 1.

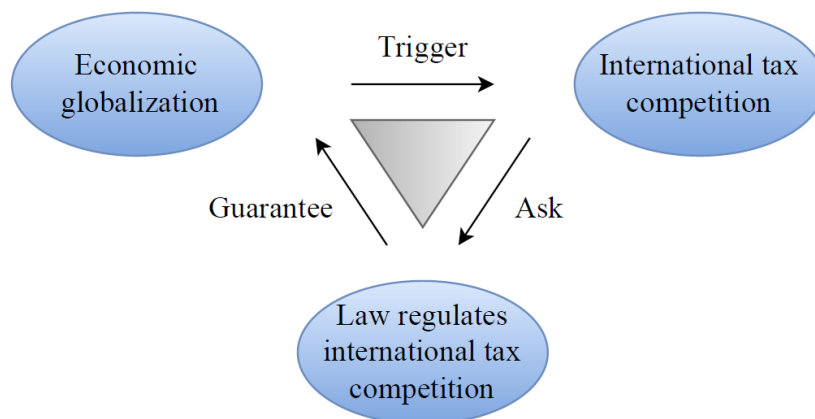


Figure 1 Positive Triangular Relationship

Economic globalization triggers international tax competition, which requires legal regulation, and the result of regulating it ensures the smooth progress of economic globalization. The inverse triangular relationship is shown in Figure 2.

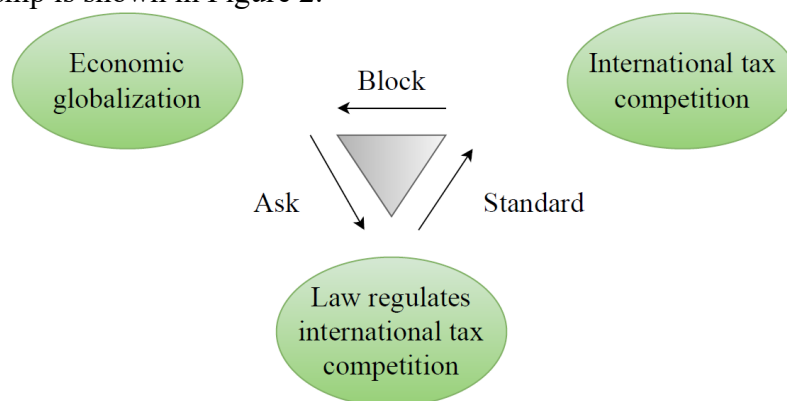


Figure 2 Reverse Triangular Relationship

International tax competition hinders economic globalization and inevitably requires legal regulation of international tax competition. The result of regulation is to suppress international tax competition. Both positive and reverse triangular relationships bring about the result of ensuring or controlling positive or negative base points, thereby putting them in an expected state, and the relationship between the three parties is also strengthened. Since the mid-20th century, countries have generally recognized that completely disordered tax competition cannot truly improve the welfare level of each country, and harmful tax competition can have adverse effects on economic development and public product supply. From the perspective of economic development, the direct manifestation and result of international tax competition is a reduction in tax rates and tax burdens,

which optimizes a country's tax environment, reduces investment costs for enterprises, and minimizes relative efficiency losses. This inevitably strengthens its advantageous position in attracting international business activities, thereby promoting the growth of its own economy. The World Bank's data analysis also indicates that low tax rates are often accompanied by rapid economic growth. From the above, it can be seen that economic globalization will inevitably lead to international tax competition, and the intensification of international tax competition will ultimately hinder the process of economic globalization. To overcome the dilemma of economic globalization, it is necessary to suppress international tax competition.

3. Value Orientation of Legal Regulation of International Tax Competition and China's Position

3.1. Differentiated Development Goals and Pursuit of Fair Competition

In order to seek the competitive advantage in the process of economic globalization, strive for the maximization of their own economic interests and attract scarce factor resources, and at the same time cooperate to deal with harmful tax competition and BEPS, which are all manifestations of the country's exercise of tax jurisdiction or tax sovereignty. Although tax sovereignty will be subject to the international tax order, its exercise undoubtedly needs to be based on the reality of domestic economic development and tax system. The purpose of international tax competition, especially vicious tax competition, is to attract non-resident tax base and lead production factors and economic activities to China. Preferential tax measures will affect the investment decision-making and the choice of business location of multinational enterprises, so that the capital with liquidity will be transferred from countries with high tax burden to countries with low tax burden. With the increasing importance of digital economy, all countries are committed to seeking a place in the industrial chain of digital economy through tax competition, which further deepens the imbalance of interest distribution. On the one hand, only by redefining the tax jurisdiction and tax revenue rights of relevant countries can we realize the fair distribution of tax benefits by adjusting the structure and order of tax power. Tax payment expenses generally include the expenses for taxpayers to file a written declaration with the tax authorities and pay taxes on schedule when filing their own tax returns; Taxpayers shall register tax according to the requirements of the tax law and keep complete financial books; Taxpayers hire tax consultants, lawyers and prepare materials; Taxpayers need to organize manpower for tax planning while minimizing their tax obligations without violating the provisions of the tax law.

3.2. International participation and institutional reform

The tax incentives granted by the state to digital enterprises are an important means of developing the digital economy. While China utilizes tax incentives for international tax competition, it should also actively participate in the construction of the legal regulatory system for international tax competition and deeply participate in the formulation of international tax rules. Persisting in participating in international tax cooperation and maintaining moderate competition at the rule and institutional levels is a consistent strategy that China should adopt at present. For international tax avoidance, in terms of the behavior subject, it is caused by the actions of multinational taxpayers themselves; Subjectively, it is caused by the intentional and conscious actions of multinational taxpayers, that is, the motivation to evade certain tax laws that are not conducive to them; In terms of the object of avoidance, it is the tax law that should have been applied. As we know, tax law belongs to the category of mandatory law, and according to the traditional classification method of bourgeois law, it is public law. Tax power behavior is a part of sovereign behavior, not private law behavior. In the field of tax law, the "principle of private law autonomy" and "principle of will autonomy" are not applicable, and parties are not allowed to change the provisions of tax law through contract terms. The international tax reform under the impact of the digital economy has opened up a multilateral cooperation framework and mechanism for international taxation, and countries have engaged in extensive cooperation while maintaining

moderate competition. Government taxation should follow the principle that taxation must minimize the additional burden on society, and exchange the minimum external burden for maximum economic efficiency. The additional benefits of taxation can be adjusted through tax laws. Government taxation can not only generate public income and meet the needs of public expenditure, but also reflect the government's intentions in tax laws and policies to achieve the goal of stabilizing the economy.

4. Conclusions

With the development of economic globalization and digital economy, international tax competition and international tax cooperation are the themes of the construction of international tax order, and they are also factors that countries must comprehensively consider in their own economic development. There are still great differences on whether harmful tax competition exists in theory. In order to maintain the development of domestic economy, international tax competition will surely exist for a long time. This paper attempts to analyze the legal regulation of international tax competition in the era of digital economy. The degree of participation in international tax competition depends on the different stages of economic globalization, and the means and limits of legal regulation of international tax competition are also closely related to the different positions, positions and stage characteristics of a country or region or an international organization. The factors of digital economy have made the legal regulation of international tax competition form a new position and pattern. By means of taxation, the government aims to achieve the expected social and economic goals or specific goals in the field of international taxation, which is helpful to realize the vertical fairness of taxation and is the guiding principle for regulating international taxation competition. Focusing on the contradictory unity that tax interests will compete with each other and coordinate with each other, countries aim to embody both tax fairness and tax efficiency value; We should not only follow the tax neutrality, but also effectively control the excessive international tax competition to a reasonable extent and scope.

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