

Era of Digitalization and Corporate Taxation

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Abstract

The process of digitalization has brought about economic changes which have modified how businesses manage their tax obligations. Digital technologies such as cloud computing and e-commerce platforms and artificial intelligence and data-driven business models have developed to the point where companies can now conduct international business operations without needing to establish extensive physical facilities throughout different nations. The new economic environment requires governments to develop tax systems which address digital business activities because existing taxation frameworks depend on physical location-based economic models. Governments and international bodies work together to reshape their tax regulations which will achieve proper tax assessment for online businesses. Multinational companies use digitalization to obtain high revenue from multiple countries while committing tax evasion through profit movement to nations with lower taxes. The practice of Base Erosion and Profit Shifting (BEPS) together with tax avoidance practices has raised concerns which prompted policymakers to develop new digital taxation control systems. International organizations have initiated global initiatives which advocate for both a worldwide minimum corporate tax and a system that enables countries to collect taxes based on their digital service consumption. These initiatives aim to create a more equitable tax system and prevent revenue losses for governments. The Indian government has established multiple policies which address digital economy tax problems through the implementation of Equalization Levy and Significant Economic Presence (SEP) tax regulations. These reforms attempt to ensure that foreign digital companies contributing to the Indian The research investigates how digitalization affects corporate tax systems while studying the development of worldwide and national tax system responses. The study demonstrates that tax systems require an equitable structure which enables technological progress and digital economic development while ensuring societal equity and transparent government financing.

Keywords: Digitalization, Corporate Taxation, Digital Economy, Base Erosion and Profit Shifting (BEPS), Equalization Levy, Global Minimum Tax.

Introduction

The fast growth of digital technology has changed the global economy in a big way. This is what is known as the "era of digitalisation." Digitalisation means using digital technologies in business, communication, and economic activities. This makes things more efficient, encourages new ideas, and connects people all over the world. In the last twenty years, the internet, mobile technology, cloud computing, artificial intelligence, and digital platforms have all grown. This has changed how

organisations work and how they engage with customers. Businesses can now sell goods and services to people in other countries without having to have a big physical presence in the market where their clients are.

Governments, legislators, and tax authorities have had to deal with both good and bad things that have come from this change. One of the most important problems that digitalisation has caused is how it affects business tax systems. Traditional corporation tax systems were developed at a time when firms needed to have a physical presence, like an office, factory, or store, in order to do business in a certain country. Digital enterprises can make a lot of money in a country through online services, digital platforms, and data-driven operations, even if they don't have a permanent office there. Because of this, current tax rules sometimes have trouble figuring out how much money digital enterprises make.

The rise of big global internet companies has made the tax situation even more convoluted. Many of these businesses work all over the world and can choose where to put their profits in places with lower tax rates. This behaviour raises worries about tax dodging, base erosion, and profit shifting, all of which can lower the tax revenues of many countries. Because of this, governments all over the world are looking for innovative ways to make their tax systems work better with the digital economy. To deal with these problems, international organisations and national governments have begun to put in place new tax rules that are made just for digital firms. These are things like digital services taxes, equalisation levies, and global efforts to set minimum standards for corporate taxation. These kinds of laws are meant to make sure that digital corporations pay their fair share of taxes in the places where they make money. So, it's more crucial than ever to grasp how digitalisation and corporate taxes are related. This study looks at how the digital economy affects corporate tax structures, the problems that tax authorities face, and the changing policy solutions that are meant to make the tax system fairer and more sustainable in the digital age.

Background of Digitalization

Digitalisation is the process of using digital technologies in different areas of business, society, and organisations. In the last few decades, new technologies have sped up the digital transformation of enterprises and economies all around the world. The late 20th century saw the rise of the internet, which made it possible to send information quickly across borders. This technology revolution laid the groundwork for today's digital economies.

The rise of information and communication technology (ICT) has been a key factor in the spread of digitalisation. Cloud computing, big data analytics, artificial intelligence, blockchain, and mobile communication are just a few of the technologies that have helped organisations work more efficiently and come up with new ideas quickly. Digital platforms have become strong business concepts that let manufacturers and consumers talk to each other directly through internet networks. These technologies have let companies like e-commerce platforms, digital payment systems, and online service providers reach a lot more people.

Digitalisation has also changed how businesses are set up. Companies used to need physical infrastructure and a lot of workers in different places to do business throughout the world. Digital enterprises can now offer services all over the world through internet platforms without having to have offices or production units in every market. This change has helped businesses grow quickly while lowering their costs of doing business. Because of this, the digital economy is now one of the fastest-growing parts of the global economy. Another major part of digitalisation is how data is becoming more important as a valuable economic resource. Businesses gather and study a lot of user data to make services better, come up with targeted advertising plans, and make the customer experience better. As a result, data-driven business models have become quite important for digital businesses. Governments and policymakers know that digitalisation may help the economy expand, come up with new ideas, and create jobs. It also brings up new regulatory and policy problems at the same time. In the digital age, problems with data privacy, cybersecurity, digital monopolies, and taxes have become very important. Digitalisation has a big effect on tax systems. Traditional tax systems typically have a hard time figuring out where economic value is created and where taxes should be paid because digital enterprises can function across borders with very little physical presence. This problem has led to international discussions and changes to policies that try to make tax structures more in line with how the digital economy really works.

Concept of Corporate Taxation

Corporate taxation is the way that governments tax the money that businesses and firms make. It is one of the main ways the government gets money, and it is very important for paying for things like building roads, providing public services, healthcare, and education. Most of the time, corporate tax is based on a company's net income or profits for a certain financial term.

Traditionally, corporate taxes are founded on the idea that corporations should pay taxes in the country where they do business and make money. People typically connect this idea to the idea of a "permanent establishment," which means having a physical presence, like a factory, office, or branch, in a certain area. A corporation that sets up shop in another country has to follow that country's tax regulations.

Corporate tax systems are meant to do more than just bring in money; they are also meant to make the economy more stable and equitable for businesses. Governments can utilise tax policies to boost investment, help certain businesses, and keep an eye on economic activity.

But globalisation and digitalisation have made corporate tax systems a lot more complicated. Multinational firms frequently conduct business in several nations, complicating the determination of profit taxation jurisdictions. This complexity has led to more and more arguments over how fair taxes are and how international company tax rules need to be changed.

Digital Economy and Taxation Challenges

The rise of the digital economy has made things harder for traditional tax regimes. Digital companies often do business using online platforms and offer services in many countries without having a physical presence in those areas. Because of this, the current tax rules that are based on permanent establishment often don't take into account the economic value that digital companies create. Profit shifting is a big problem for multinational companies because they move their profits to countries with lower tax rates to minimise their overall tax bills. This technique, also called Base Erosion and Profit Shifting (BEPS), can greatly lower the tax revenues of countries where real economic activity takes place.

Finding out where digital value is made is another problem. A lot of digital company models make money by getting users to participate, collecting data, and interacting with each other online. These things are hard to evaluate using traditional tax rules. This makes it hard for tax authorities to figure out where to tax people. Digital enterprises also tend to have complicated corporate structures that include several subsidiaries in different countries. These arrangements make it even harder for the government to collect taxes and execute the law.

To solve these problems, a lot of states and international groups are looking into new tax systems, such as digital services taxes and global minimum corporation tax policies, to make sure that taxes are fair in the digital economy.

Importance of the Study

- It helps us understand how digitalisation and corporate taxes are related.
- Shows how hard it is for old tax structures to work in the digital economy.
- Gives information about new worldwide tax reforms and digital tax policies.
- Helps politicians come up with good tax systems for digital enterprises.
- Adds to scholarly studies on public finance and the digital economy.
- Helps people comprehend how international digital companies affect the amount of money that countries collect in taxes.
- Promotes the establishment of equitable and transparent tax systems in the digital age.

Objectives of the Study

- To analyse the notion and progression of digitalisation within the global economy.
- To look at how corporation taxes are set up and how important they are.
- To find out what makes it hard to tax digital enterprises.
- To look into how digitalisation affects corporate tax policies.
- To look into global and national efforts to tax digital goods and services.
- To offer ideas for how to make corporate taxes better in the digital age.

Review of Literature

Dr. Arpita Mukherjee and Dr. Subrata Nath (2021): Dr. Arpita Mukherjee and Dr. Subrata Nath analysed the difficulties of taxation in the digital economy, focusing specifically on India. Their research showed that digital multinational companies often make a lot of money in nations where they don't have a physical presence. The writers talked about how this circumstance makes people avoid paying taxes and lowers government income. They stressed how important it is to bring in digital taxes like the Equalisation Levy and the idea of Significant Economic Presence (SEP) to make sure that digital enterprises who do business in India pay their fair share of taxes.

Dr. R. Vasanthgopal (2020): Dr. R. Vasanthgopal looked at how India's tax rules have changed over time in response to the rise of digital commerce and online company models. His research looked at how globalisation and digitalisation have changed traditional tax systems. The analysis showed that digital enterprises regularly move profits to places with low taxes, which makes things hard for national tax authorities. The author said that these problems can only be solved efficiently through international cooperation and new tax systems.

Dr. Ashish Kumar and Dr. Shilpa Jain (2019): Dr. Ashish Kumar and Dr. Shilpa Jain looked into how digital platforms and e-commerce affect business taxes in India. Their study showed how digital business models like online marketplaces and digital advertising platforms have made it harder for traditional tax systems to work. The authors stressed that new tax laws are needed to deal with problems like profit shifting, tax avoidance, and the fact that digital enterprises don't have a fixed place to do business.

Dr. K. Venkataraman and Dr. P. Srinivasan (2018): Dr. K. Venkataraman and Dr. P. Srinivasan looked into the idea of digital taxes and what it could mean for emerging countries like India. Their research showed that digital services and online transactions that cross borders are growing quickly. The authors said that current corporation tax systems weren't intended to handle digital economic operations. To make sure that global digital businesses pay their fair share of taxes, they suggested changes to tax laws and more cooperation between countries.

Dr. Nidhi Agarwal and Dr. Sushil Kumar (2017): Dr. Sushil Kumar and Dr. Nidhi Agarwal looked into the new problems that come up with company taxes in the digital age. Their research looked at how hard it is for tax authorities to figure out where digital value is created. The writers talked about how important policy changes are, including digital service taxes and better regulatory frameworks, to make sure that multinational firms pay their fair share of taxes in the nations where they make money.

Research Methodology

- **Research Design**

The current study employs a descriptive and analytical research design. The study seeks to examine the effects of digitalisation on corporate taxation systems and to delineate the issues encountered by governments and firms within the digital economy. A descriptive methodology elucidates the correlation between digital business operations and taxation regulations, whereas an analytical methodology assesses perceptions concerning digital taxation reforms. The report examines the impact of digital transformation on company tax structures and regulatory frameworks.

- **Sample Size**

For this study, a sample of 100 respondents was chosen. The people who answered the survey are finance professionals, tax consultants, business managers, and academics who know a lot about how digital businesses work and how corporate taxes work. The sample was chosen using a convenience sampling method since it was easy to reach and get responses from the people who were chosen.

- **Data Collection Method**

The research utilises both primary and secondary data.

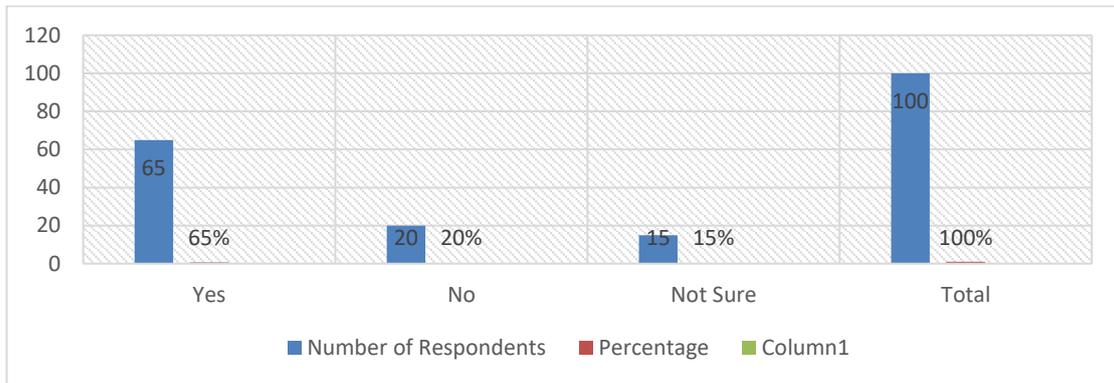
- **Primary Data:** We got primary data by giving respondents a structured questionnaire. The questionnaire had questions about digitalisation, problems with business taxes, and changes to policies.

- **Secondary Data:** Secondary data was gathered from research publications, government reports, journals, books, and online academic databases pertaining to the digital economy and corporate taxation.

Data Analysis

Table 1: Thoughts on Whether Digitalisation has Made Business Taxes Harder to Deal with

Response	Number of Respondents	Percentage
Yes	65	65%
No	20	20%
Not Sure	15	15%
Total	100	100%

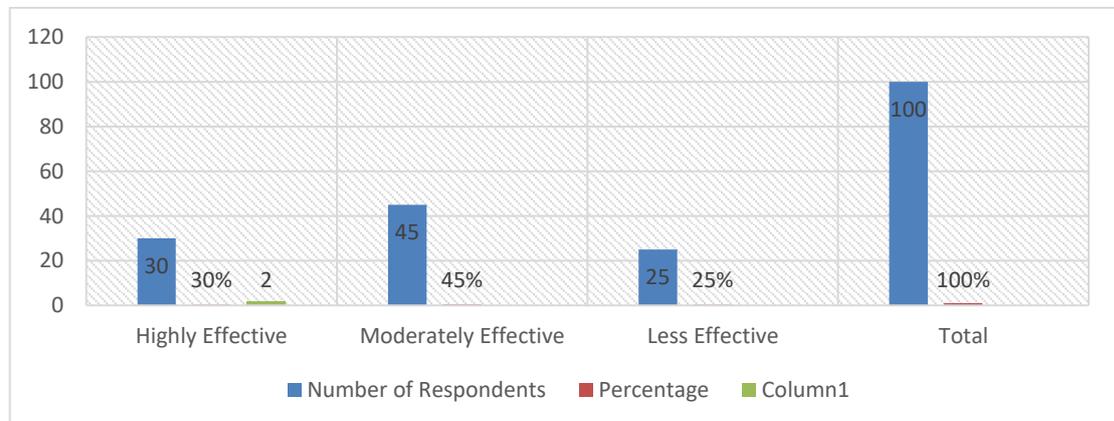


Interpretation

The table above reveals that 65% of people who answered think that digitalisation has made corporate taxes harder, while 20% disagree and 15% are not sure. This means that most of the people who answered the survey think that digital transformation is a big reason why it is hard to use old tax systems.

Table 2: Thoughts on how Well Countries' Digital Tax Strategies Work

Response	Number of Respondents	Percentage
Highly Effective	30	30%
Moderately Effective	45	45%
Less Effective	25	25%
Total	100	100%



Interpretation

The table shows that 45% of people who answered think digital taxation laws are somewhat effective, and 30% think they are very effective. But 25% think these rules don't work as well. This means that even while digital tax reforms are helping to solve problems, there is still room for improvement in tax laws.

Discussion

The study's results show that digitalisation has had a big effect on how corporate tax systems are set up and work. As digital technology and online business models grow quickly, organisations can do business across borders without having to be physically present in the nations where they make money. This change has made it harder for previous tax systems that were created to tax firms based on where they are located.

The data analysis shows that most of the people who answered the survey think that digitalisation has made business taxation more complicated. Digital enterprises generally use things like intellectual property, data, and digital platforms that can't be touched. This makes it hard for tax authorities to figure out where real economic value is created. Because of this, international companies may move their earnings to places with lower tax rates, which means that many countries will get less tax money.

The report also demonstrates that countries are starting to use different digital tax approaches to deal with these problems. Digital services taxes, equalisation levies, and ideas for a global minimum tax are all ways to make sure that multinational digital corporations pay their fair share of taxes in the countries where they do business. But the answers show that these policies aren't working very well right now.

The study also stresses the importance of countries working together to create digital tax systems. Because digital enterprises work all over the world, one-sided tax regulations could cause problems across countries, such as double taxation. So, policymakers need to focus on making tax laws that are fair, clear, and good for the economy while also taking into account the reality of the digital economy.

Conclusion

The digital age has changed the global economy in a big way, and it has also had a big effect on how businesses are taxed. The rise of digital technology, online platforms, and cross-border digital transactions has opened up new doors for businesses, but it has also made things much harder for traditional tax systems. Digital enterprises can do business and make money in many countries without having to set up permanent offices, unlike regular businesses that need to be physically present in each market. This makes it hard for tax officials to figure out where to tax profits.

This study's results show that digitalisation has made business taxation more complicated and caused problems with moving profits, avoiding taxes, and figuring out how to produce value. A lot of multinational companies utilise complicated company structures to move earnings to places with lower tax rates. This can make it harder for governments to collect taxes. Because of this, countries all around the world are looking into new policy options to deal with these problems.

Governments have started a number of programs, including international agreements on a global minimum business tax, equalisation levies, and digital services taxes. The goal of these steps is to make sure that digital businesses pay their fair share of taxes in the places where they make money. But the analysis demonstrates that these regulations aren't working as well as they could be and need to be improved.

In conclusion, the changes brought about by digitalisation necessitate a holistic and synchronised strategy for corporate taxation. Policymakers need to change tax structures to fit the needs of digital businesses while still encouraging economic growth and new ideas. In the digital age, fair and long-lasting tax rules will depend on international cooperation, clear tax laws, and ongoing changes to policies.

Suggestions

- Governments need to change tax laws so that they work better for digital businesses.
- To minimise double taxation and tax disputes, countries need to work together more.

- Digital tax policies should focus on finding out where economic value is made.
- Governments should use digital technologies and data analytics to make tax monitoring systems better.
- Policymakers need to make it clear what rules multinational digital companies must follow.
- Digital tax regulations need to be looked at all the time so they can keep up with advances in technology.
- Tax professionals and enterprises should be made aware of and trained on the requirements for digital taxes.

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