INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed

www.ijlra.com

ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

HOW FUTURE TAXATION WILL ADDRESS CROSS BORDER DIGITAL TRANSACTIONS

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ABSTRACT

Fast-expanding digital services have reshaped the economies of the world and posed new challenges to tax authorities in ensuring fair distribution, transparency, and tax compliance. Cross-border digital transactions are difficult for traditional tax systems to manage, leading to profit shifting, tax evasion, and consequent losses to the government. Globally, policymakers are working towards the creation of a regulatory framework for the Digital Services Taxation (DST) to ensure that multinational corporations pay their due share. These challenges require creative blockchain technology and artificial intelligence solutions to enhance compliance, automate reporting, and make the tax administration more efficient.

This paper evaluates new approaches to handle such issues with a focus on the OECD's "Pillar One and Pillar Two" framework, the application of unilateral Digital Services Taxes, and the "significant economic presence" principle. It outlines the tension between national policies and international agreement and then discusses the implications for developing nations that also want to protect their tax base.These techniques reflect a more significant shift in international taxation away from a regime where companies have their profits taxed based on the location of their incorporation or head office and toward one where their profits are taxed based on where value is created within the digital market.

Conclusions: The future of digital taxation rests on international cooperation and balancing national interests in revenues. It also argues, with the aid of global minimum tax regimes, that taxes will eventually shift from location- based regimes to nexus standards hinged on users and the market. Digital taxation's future is hinged on a balance between international coordination and national revenue interests. Unilateral taxes without agreement may raise the prospect of trade disputes and double taxation.

Keywords: digital taxation, cross border transactions, pillar one, pillar two, digital services tax, international tax reform.

ISSN: 2582-6433

INTRODUCTION

This rapid development of the digital economy has caused a fundamental disconnect between where traditional tax regimes allocate taxing rights and where value creation takes place under modern economic conditions. Whereas traditional enterprises typically require a significant physical presence to establish a business, digital businesses can achieve significant revenues in multiple markets with limited physical presence, leveraging what researchers have termed "scale without mass." This behaviour has raised equity concerns, particularly in developing nations, and deprived governments of significant revenue streams. The challenges are multifaceted: recalibration becomes necessary in terms of jurisdictional linkages, profit allocation, avoidance of double taxes, and enforcement procedures. Recognizing these complexities, the OECD introduced its BEPS program in 2015, which grew into the comprehensive Two-Pillar Solution unveiled in October 2021. More than 140 countries have joined the OECD/G20 Inclusive Framework simultaneously with their efforts to harmonize responses regarding digital taxation.

This paper summarizes the current and new approaches to taxing cross-border digital transactions.Whereas traditional enterprises usually require a substantial physical presence to establish a business, digital businesses can achieve substantial revenues in multiple markets with limited physical presence, leveraging what researchers have termed "scale without mass." This behaviour has raised equity concerns, in particular in developing nations, and deprived governments of important sources of revenue. It considers the diverse systems developed by the developing economies, the OECD global framework, and the technology advances enabling real-time tax administration. Policymakers, tax experts, and multinational corporations need to make sense of these processes if they are to carry on their businesses successfully in an increasingly complex and coordinated international tax environment.

LITERATURE REVIEW

The literature on taxing cross-border digital transactions stresses how digitization has turned traditional tax structures upside down, especially those tax structures based on the physical presence of enterprises. Academics and institutional assessments continually note that the current PE and transfer pricing regulations, developed during the industrial period, are ill-equipped to regulate today's borderless high-tech business. Recently, research shows that even while unilateral digital services taxes can close the short-term disparities, they may raise the

ISSN: 2582-6433

prospect of double taxation and trade friction. In addition to the administrative innovations like VAT regime changes, platform compliance measures, and the use of digital user value as nexus triggers, policymakers and academic contributors make reference to coordinated multilateral solutions such as the OECD's Pillar One and Pillar Two. There is consensus in the literature that reform needs to go beyond physical presence, enhance international cooperation, and close gaps in enforcement, leveraging technology for real-time compliance. Themes arising from diverse case studies developed within the EU, Asia, and Africa reveal continuous legal adaptation, increased openness of data, and alignment of national frameworks with international best practices as vital ingredients for equitable and truly effective digital taxes.

RESEARCH OBJECTIVE AND QUESTIONS

This research paper pursues four primary objectives:

1. Synthesize Current Frameworks: In-depth analysis of various multilateral and unilateral approaches regarding digital transaction taxation
2. Evaluate Implementation Status: Assess the effectiveness and challenges faced in implementation in various jurisdictions.
3. Identify Technological Solutions: Explore technological innovations that make effective digital tax administration possible.
4. Suggest Future Directions: Propose an integrated framework by combining multilateral coordination and technology enablement.

This investigation seeks to answer the following questions:

- How well do "scale without mass" issues get addressed by OECD Pillar One and Pillar Two?
- What are the implementation barriers to reaching an agreement on multilateral rules for digital taxation?
- How can developing countries meaningfully participate in digital taxes without incurring undue compliance costs?
- What kind of technology infrastructure is required to perform cross-border, real- time digital tax administration?
- If multilateral agreement fails, may alternative frameworks-UN Article 12B, Significant Economic Presence-offer workable alternatives?

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THE DIGITAL ECONOMY'S TAX CHALLENGE

"Scale Without Mass": The Core Problem

Since the 1920s, traditional corporation taxes have used physical presence as an indicator of economic activity. Under this approach, a company's physical structure-offices, employees, production facilities, and inventory-underpins its presence that can be taxed in a given jurisdiction. This was a paradigm that the digital economy turned on its head completely. Technology companies, in particular platforms providing automated digital services (ADS), can cater to billions of customers worldwide based on minimal physical presence. A platform operating social media networks, online advertising, or cloud services does not need warehouses or an extensive local workforce to generate revenue in foreign markets. This detachment of economic activity from physical presence creates significant opportunities for tax arbitrage.

Consider the mechanics: a virtual MNE would be headquartered and hold its intellectual property in low-tax jurisdictions such as Luxembourg, Ireland, or Bermuda. These operational centres would then provide services to globally dispersed markets, with the revenues accumulating in the lowest-tax jurisdictions. Although being the source of economic value through the user data, advertising spend, and consumer interaction, market jurisdictions-for example, where a consumer accesses the platform-receive very limited tax receipts. Algorithms, user data, brand recognition, and network effects the intangible and hard-to-value key assets of digital platforms can't be valued using conventional methods. While users actively (by providing information and content) and passively (by browsing) contribute to the value created on platforms, existing tax laws lack a method to allocate taxing rights to those jurisdictions supplying this user base. This complexity arises in transfer pricing disputes, where complex economic studies are required to establish arm's length pricing of intercompany transactions of digital assets. Consensus building at the multilateral level and defensive unilateral taxation policies by individual countries have been driven by the conflict between where economic value is considered created.

User-Generated Value and Intangible Assets

Beyond issues with physical presence, the digital economy introduced conceptual concerns with respect to attribution of value. Algorithms, user data, brand recognition, and network effects the intangible and hard-to-value key assets of digital platforms can't be valued using conventional methods. While users actively (by providing information and content) and passively (by browsing) contribute to the value created on platforms, existing tax laws lack a

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THE OECD TWO-PILLAR SOLUTION (BEPS 2.0)

Pillar One: Amount A and Profit Reallocation

Pillar One represents the most ambitious attempt at multilateral coordination on digital taxation. Pillar One consists of Amount A and Amount B and was accepted by 137 out of 141 Inclusive Framework members in October 2021.[1]

Amount A: New Taxing Rights of Market Jurisdictions

Amount A does not rely on physical presence or arm's length principles but uses a revenue-sharing formula to give additional taxing rights to market jurisdictions. Specifically, the framework is designed to:

- Reallocation Mechanism: 25% of profits in excess of the 10% profitability threshold are allocated to market jurisdictions according to the revenue generated in each jurisdiction.
- In-Scope Enterprises: MNEs with global revenues above €20 billion and profitability in excess of 10% of revenues.
- Affected Sectors: Automated Digital Services (ADS) companies and Consumer-Facing Businesses that derive significant, sustained revenues from market engagement without necessarily having a physical presence.

This scheme breaks completely with past approaches by creating taxation rights divorced from permanent establishment and introduces what the OECD referred to as "market engagement allocation." In addressing the "scale without mass" problem, the framework identifies value being created in digital business where users and consumers are located, not necessarily where corporate headquarters may be situated.

Safeguards for Implementation: Amount A includes elaborate provisions that avoid double taxation. The rules address one serious concern caused by unilateral measures, by incorporating a Tax Certainty Framework that ensures double taxation issues are resolved through the process

[1] https://www.bdo.global/en-gb/services/tax/taxation-of-the-digital-economy

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of binding dispute resolution.

Simplified Transfer Pricing (Amount B): Amount B is designed to simplify transfer pricing for routine marketing and distribution activities in developing and lower-capacity countries. Amount B was released in February 2024 as a safe harbor method that would allow jurisdictions to apply standardized returns on sales for marketing and distribution functions without complex economic analysis. This component will particularly benefit lower-income countries with limited experience in transfer pricing.

Pillar Two: Global Minimum Tax

Pillar Two introduces GLoBE- Global Anti-Base Erosion, which provides a minimum effective tax rate of 15% for MNEs whose aggregated annual revenues exceed €750 million. The underlying framework operates based on two complementary mechanisms:

- Income Inclusion Rule (IIR): The IIR states that if an in-scope MNE subsidiary operates in a country whose ETR is below 15%, the jurisdiction of the ultimate parent entity imposes a top-up tax. The top-up tax is the difference between 15% and the real ETR multiplied by the profits of that jurisdiction.
- UTPR, or the Undertaxed Profits Rule: The UTPR allows the jurisdiction of constituent companies to impose top-up taxation on undertaxed profits in cases where the IIR does not apply, which is normally because the parent is resident in a non-implementing jurisdiction.

For most countries, the IIR came into force on January 1, 2024, whereas the UTPR started on January 1, 2025. To counteract profit shifting, the regime contains a tax floor for all MNE income regardless of the company style.[2]

Challenges and Implementation Status

Notwithstanding this, significant hurdles to implementation remain in place. A number of key jurisdictions have taken divergent approaches to the implementation of Pillar One, including China, India, and the United States. The recent shift in US policy creates uncertainty on the likelihood of agreement on Amount A, possibly allowing unilateral digital services taxes to remain in place. In addition, the commitment to removal in Pillar One-to eliminate unilateral digital services taxes-is opposed by governments that regard those measures as an important source of revenue. The promise thus becomes nonbinding in the absence of Pillar One

[2] https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules- pillar-two.html

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execution, which further complicates the effectiveness of the multilateral framework.[3]

NATIONAL DIGITAL SERVICES TAXES: UNILATERAL RESPONSES

Evolution and Global Spread

Before the OECD framework, countries unilaterally imposed DSTs to raise revenue from global digital companies. First among them was France, in January 2019, which imposed a 3% tax on specific revenues of digital services. This unilateral move by France prompted similar actions across Europe and other parts of the world.

By 2025, matters had become extremely complex: over 25 countries had implemented broad or narrow DSTs, and about 60 countries had imposed VAT on digital services. Some of the notable examples include:

- Austria: 5% DST on digital advertising from January 2020;
- Italy: 3% DST on advertising, digital interface, and data on users from January 2020;
- Spain: 3% DST levied on advertising and data of users from January 2021;
- United Kingdom: 2% DST levied on marketplaces, social media, and search engines since April 2020; and
- Turkey:7.5% DST on advertising, content, and social media in March 2020.

For example, the UK raised £678 million yearly in 2024, France collected €680 million in 2023, and Austria received €103 million in 2023, an increase of 7.4 percent compared to 2022. These numbers show that DSTs are now an important source of income for the countries that have implemented them.[4]

Geographic Variations and Scope

The scope, criteria, and rates vary significantly among these DST implementations. While some are broadly applied to a range of digital services, others target specific categories: for example, Poland's 1.5 percent tax imposed on streaming media. Compliance is complicated by multiple revenue limits ranging from zero to €750 million worldwide for multinational suppliers.

DST implementation has advanced in Africa and Asia between 2020 and 2023, digital taxation measures were adopted in Kenya, Nigeria, Tanzania, Zimbabwe, Tunisia, Sierra Leone, and

[3] https://oecdpillars.com/pillar-tab/pillar-two-implementation/
[4] https://www.bdo.global/en-gb/services/tax/taxation-of-the-digital-economy

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Uganda. The apparent necessity of acquiring digital economy profits is reflected in this global rise, especially among underdeveloped countries where BEPS is eroding.

Trade Tensions and Withdrawal Pressures

Unilateral action on DST has provoked trade disputes and retaliatory pressures. The US threatened tariffs, in response to a perception that France's DST was discriminatory against American digital businesses. Similar conflicts have arisen with the UK, Germany, and other countries which have implemented DST.

These pressures have caused reversals: Canada, in an effort to simplify US trade negotiations, declared its exit from DST in 2025 after its implementation in 2024. Changes in politics also called for reevaluation of the DST ideas in Brazil, Pakistan, and New Zealand. This volatility underlines how precarious and temporary unilateral approaches are in contrast with needed international cooperation.

TECHNOLOGICAL TRANSFORMATION IN FUTURE TAXATION

Technology Trends Shaping the Future of Tax

The tax industry is embracing modern technologies on a wide scale, which is mainly for increasing and improving operational efficiency. Using dynamic accounting tools, tax experts are paving the way for a more collaborative approach. Where earlier digital transformation or technology was seen as a solution for concerns like scarcity of resources, scalability, remote work, and teamwork, it is now at the front. The EY 2022 Global Tax Technology and Transformation Survey Report says 84% of organizations want to invest crores in tax technology, with an average investment of Rs 30 crores over the next three years. Sixty-one percent of companies are changing their tax strategy toward investment in data. In other words, data, cloud computing, and digital security are the foundation for every impactful development in the field of taxes. Let's discuss the seven trends that will shape its course.

TAX PREPARATION ON THE CLOUD

Cloud computing is no longer a fad that companies are waiting to adopt; rather, it is a revolutionary technology that companies can no longer afford to ignore. If your company is still hesitant in utilizing cloud technology for taxes, then it's fighting a losing battle. The potential of cloud computing goes beyond its usefulness by providing access to real-time data to the consumers. Cloud-based tax preparation involves hosting all your tax applications on the

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cloud servers to simplify various tax planning processes. Businesses can transform tax preparation and acquire the best tax software solutions for accountants by switching to cloud-based tax programs. Scalability is one of the prime characteristics that makes cloud-hosted solutions perfect for companies of all scales due to the capability to increase or reduce resources as needed. The strong security features of the cloud protect you and your client's sensitive financial information. Cloud-hosted tax software enhances your business's overall efficiency by automating the processes for tax preparation and minimizing the number of manual tasks involved.

1. **BLOCKCHAIN TECHNOLOGY**

   Blockchain is a type of distributed ledger technology applied to securely log transactions. Blockchain can enhance tax transparency by creating an imperishable record of financial transactions, making audit processes easier to conduct, and reducing tax evasion.

   Blockchain-based smart contracts reduce the possibility of errors by completing transactions without the intervention of any intermediaries whenever pre-programmed conditions are met. This makes the process of tax payment and computation automated. It can enable firms operating internationally by making cross-border payments simpler and eliminating the complexity of multiple nations' tax rules. Blockchain technology is used to improve the security and accuracy of, and reduce administrative issues associated with, tax filing methods. In turn, this allows tax professionals to focus on providing their clients with tactical support.

2. **ROBOTIC PROCESS AUTOMATION (RPA)**

   RPA, using software robots-sometimes called bots-automates tax filing so employees can focus on more strategic objectives. RPA categorizes the data that has been collected, such as receipt of invoices, to auto-arrange that information for tax filing and produce accurate tax returns that are in conformance with tax laws.

   Apart from the fact that the timely and exact documentation is guaranteed, other tasks such as payment reminders are completed once the tax return is submitted automatically by professionals.

3. **ARTIFICIAL INTELLIGENCE**

   Taxes have long required business to remain in compliance with laws and regulations.

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The focus in recent years on risk and compliance management has brought change to the tax industry. Artificial intelligence technology, or AI, stands out as a strong tax research tool that provides qualitative and quantitative comprehension of sophisticated subjects.

To ensure that tax liability is accurately calculated, AI-powered accounting software for tax professionals may be utilized. Such a program identifies potential deductions and credits that might have been overlooked by the taxpayers themselves, thereby reducing the overall amount of their tax liability. AI also supports the automation of mundane tasks to free up more time for tax practitioners to concentrate on complex issues in taxation that require human judgment.

4. IMPROVED CYBERSECURITY

Cybersecurity technologies encrypt sensitive tax information when it is both in transit and at rest, to protect it against unauthorized access. Further services provided by the managed cybersecurity solutions include real-time monitoring, incident identification, incident response, multi-factor authentication, data encryption, and secure file transfers.

To support tax bodies with their cybersecurity needs, Managed Security Solutions adheres to industry best practices. They offer a secure forum for clients to share their tax documents in order to protect personal data during transmission.

They also trust their clients due to the increased cyber security measures in the tax profession, which secure personal data as well. It is an essential element in ensuring the validity of the tax filing.

5. E-FILING AND DIGITAL SIGNATURES

E-filing and digital signatures come with immense benefits as related to tax professionals and their clients. They streamline the process to be more effective and eco-friendly, as it does not involve paper-based filing; instead, digital signatures are mandatory. Hence, digital signatures make this process very secure since every signer possesses a unique identification, and only qualified professionals may view documents.

Additionally, digital signatures are less prone to errors such as missed or incomplete signatures that can cause filing doubts. Businesses can reduce signature errors by 80% if a document is electronically signed.

Tax filing has become more efficient, secure, and ecologically friendly due to the

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popularity of e-filing, not to mention digital signatures, making the process seamless.

6. DATA ANALYTICS AND BIG DATA

Skilled data collection, analysis, and interpretation on a wide scale enable the developing sectors of big data technologies and data analytics. Technologies are analyzing large data sets to identify irregularities in tax returns and offer predictive insights for proactive tax preparation.

Big data enables tax experts to conduct strategic optimization and manage all compliance-related issues in real time. With data-driven insights supporting compliance, tax experts can afford to give suitable tax treatments to their clients. Big data platforms reduce manual data input through automated integration and compilation of data.[5]

TAX COMPLIANCE AND TECHNOLOGY : LEVERAGING INNOVATION

Tax agencies are increasingly using technology to enhance enforcement and compliance efforts against the problems produced by the digital economy. With blockchain, data analysis, and AI, technology nowadays plays a more important role in tax management than what it used to be. Blockchain technology could potentially change how taxes are complied with due to its distributed and tamper-proof nature. Its intrinsic ability to produce unambiguous, auditable transaction records helps reduce the opportunity for fraud. Smart contracts on blockchain platforms have the potential to automate tax calculation and payment, hence making compliance easier to perform [5].

Data analytics is another powerful tool in the hands of tax officials. Huge data helps tax authorities spot patterns and anomalies in financial transactions, by which one can identify possible tax evasion more easily. Machine learning approaches help tax agencies update their risk assessment models continuously to keep ahead with evolving methods of evasion.[6]

[5] https://ankpal.com/blogs/future-of-tax
[6] https://taxguru.in/income-tax/digital-taxation-tax-compliance-challenges-embracing-technology.html#:~:text=This%20article%20explores%20the%20legal%20and%20policy%20challenges,can%20streamline%20tax%20compliance%20in%20the%20modern%20era

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DEVELOPING ECONOMIES AND FUTURE TAX INCLUSIVITY

Inclusive International Tax Cooperation and Its Role in Sustainable Development and Green Transition

The United Nations Economic and Social Council emphasized at the 2023 Special Meeting on International Cooperation in Tax Matters that there is an urgent need for more fair and inclusive international tax systems so as to enable developing countries to perfect their fiscal policies and accelerate the green transition. The UN Deputy Secretary-General, Amina Mohammed, made remarks on how tax avoidance and illicit financial flows siphon off important resources, underlining that the world is not at a resource crisis, but an equitable distribution one. Among the speakers was Nigeria's Finance Minister Zainab Ahmed, who expressed frustration over the exclusion of developing nations from major tax decision- making organizations and called upon the UN to establish a binding international tax agreement that would ensure fair representation and dispute settlement. According to experts like Yariv Brauner and Tove Ryding, existing global tax systems are outdated, biased, and insufficiently inclusive; hence, they called for changes toward a fair division of tax rights and fostered openness.

World Bank and World Resources Institute panelists in the taxation and energy transition session underlined carbon taxation, among other taxes and fiscal instruments, as an essential tool for reducing emissions while simultaneously improving air quality and building fiscal space for sustainable development. While they acknowledged the difficulties for small economies when cooperation from the world is nil, they advocated a balanced mix of tax tools, investments, and incentives that further climate objectives. Underlining that this is a critical juncture to design a truly just, inclusive, and functioning global system of taxation for all countries, UN Assistant Secretary-General Navid Hanif closed the meeting by calling for more multilateral cooperation.[7]

ADVANCING FAIR AND INCLUSIVE TAX COOPERATION FOR SUSTAINABLE DEVELOPMENT

Tax strategy is at the heart of long-term growth. A fair and efficient tax system is an absolute necessity to make the world economy just and resilient, where vital public services are provided, and inequality is reduced.

Tax transparency, taxation of extractive industries, taxation of the digital economy,

[7] https://press.un.org/en/2023/ecosoc7116.doc.htm

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environmental taxation, among other pressing worldwide issues, over the last twenty years, the UN Committee of Experts on International Cooperation in Tax Matters has been critical in setting standards and providing practical solutions.

These recommendations assist countries in maximizing their local resources and ensuring fairness in tax laws for all, especially developing nations. The Thirtieth Session of the Committee will be held from March 24–27, 2025. The ECOSOC Special Meeting on International Cooperation in Tax Matters will be conducted immediately after the Committee, on March 28, 2025, at a critical juncture in the global tax debate. The conference coincides with negotiations on a UN Framework Convention on International Tax Cooperation and preparations for the Fourth International Conference on Financing for Development, taking place in Spain in July.

The session will focus on two major topics:
We foster inclusive and effective international cooperation in taxation, ensuring fairness, clarity, and adaptability of tax systems in light of current global challenges.
Research on how tax policies can contribute to reducing gender inequality and fostering more equitable economic opportunities should help in both designing and implementing tax policy that encourages gender inclusivity.
With an estimated annual shortfall of US$4 trillion in funding for the SDGs, it is increasingly urgent to enhance inclusive, evidence-based tax cooperation. The 2025 Special Meeting provides an important opportunity for progress toward a fair, inclusive, and efficient global tax system by promoting policies conducive to sustainable, gender-inclusive development.[8]

CONCLUSION

The expansion of worldwide taxation in the digital age clearly points from conventional, location-based ideas to value-based, tech-driven, collaborative models. As cross-border digital transactions have grown to comprise most of international commerce, the flaws of standard tax rules, particularly their failure to explain value creation in the absence of a physical presence, have become clear. By offering a multilateral strategy to solve profit reallocation and worldwide tax equity, the OECD's Two-Pillar Solution marks a major advance in this change using mechanisms like market-based taxing rights under Pillar One and a global minimum tax

[8] https://www.un.org/en/desa/advancing-fair-and-inclusive-tax-cooperation-sustainable-development

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floor under Pillar Two.

Still, implementation is hampered by problems, notwithstanding the progress made: divergent national interests, geopolitical tensions, and unequal administrative capacity continue to break up the global agreement. The continuing debates on unilateral Digital Services Taxes and the related trade issues underline the importance of ongoing international cooperation and a shared view on what constitutes fairness in digital taxation. Not only to augment revenue but for fiscal autonomy, sustainable development, and digital equity, inclusion in international tax legislation remains decidedly vital for developing economies.

Technologies will continue to dramatically alter compliance, transparency, and efficiency in years to come. The application of blockchain, artificial intelligence, data analytics, and cloud-based fiscal systems will revolutionize methods of enforcement, reporting, and international cooperation. These will enable real-time tax administration and cut compliance costs.

In a nutshell, it was based on three main pillars: multilateral cooperation, technical innovation, and inclusiveness. The future of digital taxation stands on harmonizing these elements, so the international community may establish a fair and future-proof tax structure, safeguard national income, catch value where it's actually produced, and address global objectives of sustainability and equity in an increasingly digital world.

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