

Questions and answers

1. **What are the challenges facing the regulation of financial transaction within the digital economy in the national, regional, continental and international levels?**

Despite the fact that the rapid development of digital economy greatly contributes to global economy and well-being it also poses new challenges for regulatory government agencies. Some countries responding to the challenges of the digital economy and trying to ensure fair taxation of the income of large IT companies took unilateral steps aimed at taxation of the income of these companies deriving from their countries.

However, the challenges arising from the cross-border character of digital economy require internationally agreed approaches to this issue. The Organization for Economic Cooperation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS) initiative seeks to close gaps in international taxation for companies that allegedly avoid taxation or reduce tax burden in their home country by engaging in tax inversions (moving operations) or by migrating intangibles to lower tax jurisdictions. The OECD has issued 15 Action Items to address the main areas where they feel companies have been most aggressively accomplishing this shifting of profit. BEPS Action 1 addresses the tax challenges raised by digitalization. This work has delivered several important outputs including Two-Pillar Solution.

On the other hand, it is very difficult to separate the digital economy from other industries for tax purposes since many sectors of the global economy are digitalized.

Digital economy is constantly developing so it is crucial to regularly study the latest achievements in this field and assess their possible impact on the tax system.

2. **What is the nature, scope and purpose of an international consensus on taxation of the digital economy that supports human rights?**

There is a general consensus that large MNE's including digital companies despite their large profits do not make fair contribution to the economies of countries where these profits are generated. Progress in the implementation of the approaches aimed at more effective taxation of large IT companies will ensure fair distribution of income between developed and developing countries.

3. **What are the advantages/disadvantages of regulating the financial elements of the digital economy and of regulating digital systems that support transactions for least developing countries?**

As it was mentioned above, fair distribution of income derived from the taxation of digital companies can make a significant contribution to the economy of both developed and developing countries. However, despite new approaches aimed at more efficient and fair taxation of the digital economy have long been discussed, their

implementation should be carried out very carefully avoiding any artificial obstacles towards further development of digital economy.

It shall also be taken into account that the introduction of new tax regulation measures regarding digital companies carries the risks of double taxation and the introduction of countermeasures by other countries.

4. What measures and mechanisms should be put in place to ensure that a global digital tax incorporates human principles both in the way it is levied and how tax revenue generated is used?

Two-Pillar Solution elaborated in the framework of BEPS initiative provides some recommendations to reform international taxation rules to ensure that multinational enterprises pay a fair share of tax wherever they operate. This solution proposes re-allocation of some taxing rights over multinational enterprises from their home countries to the markets where they have business activities and make profits, regardless of whether they have physical presence there. Two-Pillar solution also provides the introduction of a global minimum corporate income tax with a minimum rate of 15%.

The implementation of the proposed measures will contribute to fair distribution of MNE's profits between countries.

5. Are there practices, legislation or policies at national or regional levels that could serve as good examples? Are there case studies that could be considered for this report, with specific reference where possible to remittances, cryptocurrencies and e-commerce marketplaces as well as taxation of businesses involved in digital systems?

Azerbaijan is implementing some projects aimed at more efficient taxation of the digital economy. One of such projects is "virtual permanent establishments" of non-resident digital companies. This project provides creation of electronic platform enabling online registration for tax purposes. Using this platform digital companies will be registered thus creating "virtual permanent establishments" in Azerbaijan.