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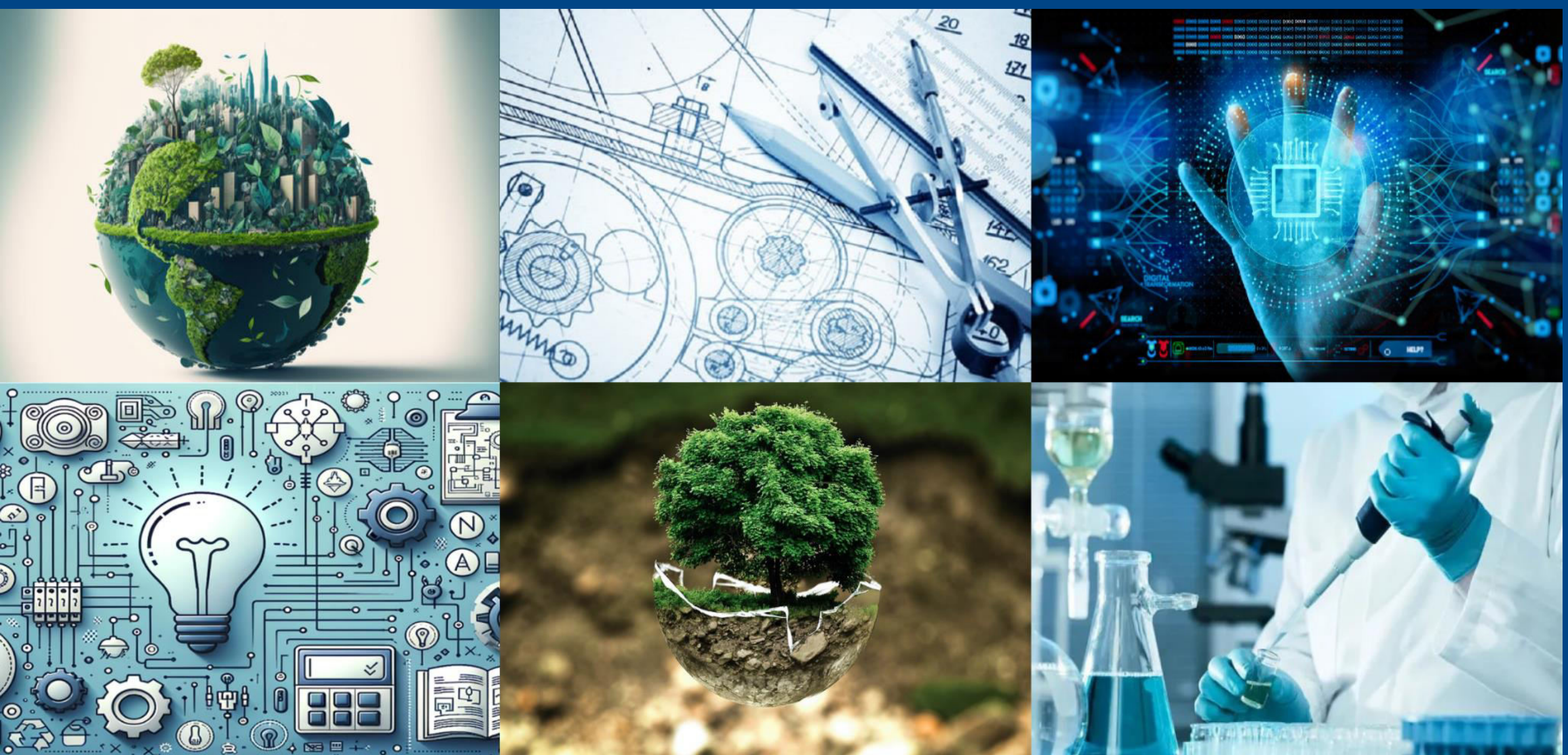

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The Future of Direct Taxation in the Digital Economy: An Indian Perspective

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ABSTRACT: India's direct tax system is changing to meet the challenges of increasing digital economy. Conventional tax systems find it difficult to raise revenue from digital transactions, so efforts are being made to introduce instruments such as the Equalisation Levy and Significant Economic Presence (SEP) rule to tax foreign digital companies. India is also joining efforts in global tax reforms, especially the OECD's Two-Pillar Solution, which aims to implement fair taxation of multinational enterprises, in addition to the global minimum corporate tax (15%).

With the growth of cryptocurrencies and virtual digital assets (VDAs), the regulations have become tighter, such as a 30% tax and 1% TDS on transactions. Furthermore, development in artificial intelligence (AI) and big data is making tax compliance easier with faceless assessments and auto audits.

The growth of the gig economy, freelancers, and influencers can result in new taxation regulations or common deductions. Startups and SMEs in the digital economy, on the other hand, would gain from tax relief and reduced corporate tax rates in order to encourage innovation.

India's tax regime will keep evolving according to the digital economy through technology-based compliance, equitable taxation policies, and international alignment in order to facilitate sustainable revenue generation and economic growth.

KEYWORDS: Digital tax, taxation of online businesses, Equalisation Levy, crypto tax, gig economy tax, AI tax, startup tax incentives, worldwide tax regulations.

I. INTRODUCTION

The sudden growth of India's digital economy has revolutionized the way companies do business, creating problems in the area of taxation. Time-tested tax regulations, which were meant for traditional businesses, fail to account for revenues from digital transactions. With the increasing growth of online services, e-commerce, and digital platforms, the government is revising tax policies to fix equitable taxation and compliance.

To counter this change, India has implemented policies such as the Equalisation Levy and the Significant Economic Presence (SEP) rule, which assist in taxing foreign digital businesses that earn from Indian consumers. India is also joining the world in tax reforms, such as the OECD's Two-Pillar Solution, which seeks to establish an equitable tax regime for multinational enterprises.

With the emergence of digital assets and cryptocurrencies, there is increased tax discipline with a 30% tax and 1% TDS on transactions. Additionally, tax collection is also being revolutionized by AI and automation, thus enhancing compliance. The gig economy of freelancers and digital employees will also undergo new tax measures in line with their income behaviours.

With the growth of India's digital economy, the tax system has to adapt so that it remains fair, discourages tax evasion, and aids in economic growth while promoting innovation and entrepreneurship.

OBJECTIVES

1)To evaluate respondents' awareness of digital taxation policies.
2)To assess on whether new tax models are necessary for digital businesses.
3) To understand the fairness in the existing digital tax system.

II. RESEARCH METHODOLOGY

Using a primary data approach, this study employs a descriptive research design to comprehend perceptions of digital taxation.

Primary Data: A structured online survey with a sample size of 100 respondents was used to gather data from business owners, tax professionals, and digital entrepreneurs. The survey evaluates perceptions of tax fairness, difficulties in complying with tax laws, reform suggestions, and tax policy awareness (Equalization Levy, TDS on digital assets, and cryptocurrency taxation). Stratified random sampling is used to collect data, which is then disseminated via email, social media, and professional networks.
Data analysis: While qualitative responses are subjected to thematic analysis in order to uncover recurring themes and insights, quantitative responses are examined using descriptive statistics.
Limitations:
Not every industry sector may be adequately represented by a sample size of 100.
Long-term results may be impacted by the swift changes in digital tax laws.
Results from self-reported surveys may be skewed.
With an emphasis on awareness, compliance issues, and possible reforms, this study offers a methodical assessment of digital taxation.

III. REVIEW OF LITERATURE

1. Mpofu, F. Y. (2022).Mpofu emphasizes that digitalization has proceeded at an unprecedented speed to grow globalization and economic exchanges among advanced countries and developing countries, resulting in a massive boom of digital transactions. This revolution has intensified the depth and secrecy of economic activities so much that it has become increasingly challenging for tax authorities to track and regulate border-crossing transactions. With the traditional business being increasingly swept away by the digital economy, international tax statutes have not kept up with the latter's widespread growth and transforming complexities, bringing about considerable and increasing taxation dilemmas.

2. Aslam, A., & Shah, A. (2021). Aslam and Shah point out that technology is being widely used to transform conventional business models and develop novel means for buyers and sellers to come together on both local and international levels. This almost instantaneous change has given rise to the meteoric trajectory of a few hegemonic firms—often referred to as tech giants—who leverage first-mover advantage and network externality to significantly raise their profitability, aggressively deepen their market share, and solidify themselves as the world's most influential and valuable companies.

3. Nanu, F. G. (2023): Nanu investigates corporate income taxation under the changing regime of the digital economy. The research endeavors to examine the complications and ramifications of taxing digital economic activities, which have widened much as a result of quick digitalization. Such a shift has impacted virtually every area of life, especially economic activities undertaken by taxpayers. While the digital economy keeps expanding not just within countries but throughout Europe and internationally, it triggers fundamental issues regarding tax authority. In particular, the research discusses who should have jurisdiction to tax the revenues yielded by digital companies, looking at the fact that digital transactions are without borders and take place in a world of complex cross-border taxation.

4. Sullivan. K& Gray. R. (2020). This research analyzes how global tax reforms are adapting to the challenges of the digital economy by looking at the development of the digital services tax (DST) and its implementation across different jurisdictions. The research outlines the international policy reactions, including the BEPS Action Plan of the OECD, and evaluates how effective they are in tackling digital businesses.

5. Greskovits B. (2020). This research gives a detailed analysis of the implications of Base Erosion and Profit Shifting (BEPS) on multinational digital companies, highlighting how these organizations manage international tax rules to pay less tax. It also delves into the possible effect of introducing global minimum tax rates as a means to limit tax evasion and ensure digital businesses pay their fair share in the economies they operate within. Moreover, the paper focuses on the fast-changing profile of tax fairness and tax justice in the digital economy, underlining the necessity for stronger international tax systems to counter the threats of digitalization and cross-border transactions.

6. Liu P & Zhang T. (2020). This paper gives an in-depth examination of the difficulties of taxing cryptocurrencies and blockchain transactions, outlining the intricacies these digital currencies bring to the conventional taxation system. It delves into how different jurisdictions worldwide are developing and enacting digital taxation laws to overcome these challenges. Further, the research analyzes the effectiveness of such regulatory tools in governing and regulating new types of digital assets, their effect on tax enforcement, compliance, and financial transparency in the fast-changing digital economy.

7. Agarwal P. & Jain S. (2019). This paper examines the explosive growth of decentralized finance (DeFi) and the substantial taxation issues it poses in the global economic system. It discusses the peculiar features of DeFi, including its boundary-less existence, absence of intermediaries, and intricate transactional forms, that pose challenges to traditional tax systems to regulate and enforce compliance efficiently. The report calls for urgent global tax cooperation to meet these challenges, calling for the need to establish standardised regulatory measures. It further examines the regulatory uncertainty of DeFi, discussing gaps and inconsistencies in current taxation policy and how it affects governments, financial institutions, and private investors in the changing digital economy.

8. Nunes A. & Barbosa J. (2020). This study provides a detailed examination of the OECD's recommendations for reforming international tax laws in response to the rapid growth of the digital economy. The researchers analyze the proposed changes, focusing on their potential impact on global investment flows, cross-border trade, and the ability of nations to protect and sustain their tax bases. By assessing how these recommendations aim to address tax challenges posed by digital businesses operating across multiple jurisdictions, the study highlights the broader economic and financial implications of these reforms. Furthermore, it explores the possible consequences for multinational corporations, national economies, and the overall fairness and efficiency of the international tax system in an increasingly digitalized world.

9. Rosen P. & Goldstein M. (2020). This paper evaluates the OECD’s digital tax reform recommendations, questioning their effectiveness in achieving global tax equity. The authors analyse challenges in taxing digital businesses across jurisdictions and examine the broader implications for international tax fairness and economic growth. To address these issues, they propose alternative frameworks that may better tackle taxation challenges in the digital economy, emphasizing fairness, transparency, and compliance.

10. Guitierrez. J & Martinez M. (2020). This paper offers a comprehensive discussion of the notion of substantial economic presence in the digital economy and its shifting definition and implications for cross-border taxation. It discusses how nations are redefining this concept to keep pace with the transforming nature of digital business models, especially those used by cross-border technology multinationals. The research explores the issues surrounding the taxation of corporations that earn a large amount of revenue in a country with no physical presence, with an analysis of the policy and regulatory solutions employed by various jurisdictions. It also evaluates the overall effect of these reinterpretations on global tax equity, economic sovereignty, and the capacity of countries to protect their tax bases in a digitalized world.

11. Thompson, R., & Williams, P. (2019). This paper provides an in-depth examination of the concept of significant economic presence in the digital economy, exploring its evolving definition and implications for international taxation. It analyzes how countries are redefining this idea to adapt to the changing nature of digital business models, particularly those employed by multinational technology corporations. The study examines the challenges associated with taxing companies that generate substantial revenue in a country without a physical presence, highlighting the regulatory and policy responses adopted by different jurisdictions. Furthermore, it

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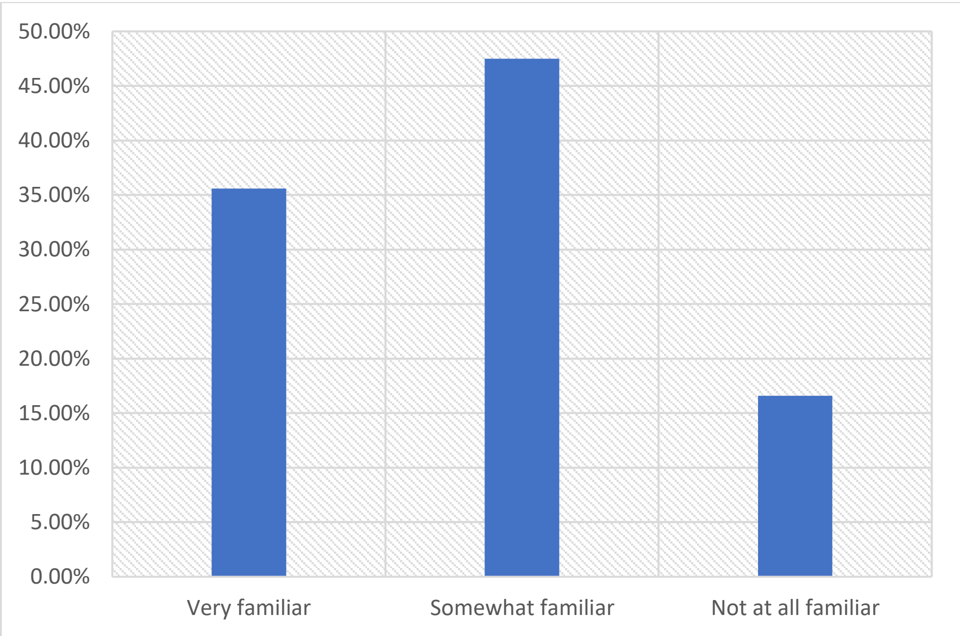
assesses the broader impact of these reinterpretations on global tax fairness, economic sovereignty, and the ability of nations to safeguard their tax bases in an increasingly digitalized world

12. Vishnevsky V.P, Goncharenko L.I, Dementiev V. V. & Gurnak A. V. (2022). This article looks at taxation principles in the context of the economy's digital shift. Digitalization and the fourth industrial revolution are increasingly broadening the tax base, as digital transactions, virtual assets, and technology-based business models expand further. The development of new taxable subjects and borderless digital activities threatens traditional tax structures, and therefore conventional strategies are becoming less effective. Governments need to change their tax regimes to capture tax from the fast-changing digital economy while maintaining equity and efficiency. The complexity of cross-border transactions also makes enforcement of taxes even more difficult, necessitating creative regulatory frameworks.

IV. DATA VISUALIZATION AND INTERPRETATION

HOW FAMILIAR ARE YOU WITH DIGITAL TAXATION POLICY

OPTION	RESPONSES	PERCENTAGE
Very familiar	36	35.6%
Somewhat familiar	48	47.5%
Not at all familiar	17	16.8%



The results indicate that most of the respondents, 47.5%, are "Somewhat familiar" with the topic, representing general knowledge but no thoroughness. On the other hand, 35.6% of respondents report themselves "Very familiar," reflecting a significant number with detailed knowledge of the issue. Then again, 16.8% of the respondents are "Not at all familiar," meaning that there is a considerable minority without any knowledge. This distribution suggests that although the majority of participants possess at least some degree of awareness, there remains a knowledge gap that may be filled through education or focused information efforts.

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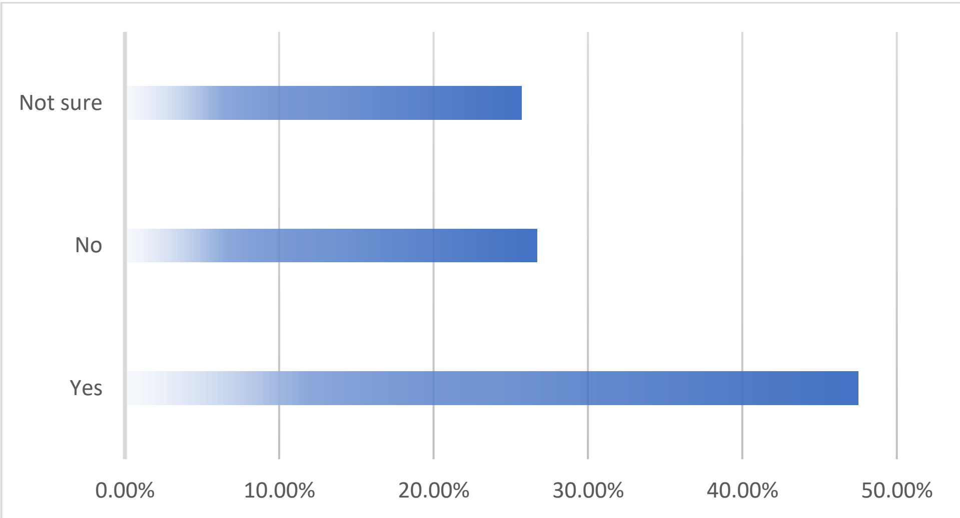
DO YOU BELIEVE THAT CURRENT TAX SYSTEM IS FAIR TO DIGITAL BUSINESSES?

OPTION	RESPONSES	PERCENTAGE
Yes	48	47.5%
No	27	26.7%
Not sure	26	25.7%



The results show that 47.5% of the respondents said "Yes," implying that almost half of the respondents support or agree with the subject provided. At the same time, 26.7% said "No," indicating that approximately a quarter of the respondents disagree or oppose. Also, 25.7% said "Not sure," indicating a large number of people who are undecided or lack enough information to make a position. Such distribution would imply that despite a plurality in support, the total percentage of those who are uncertain or against the issue (52.4%) would mean that there is still a lack of adequate discussion, explanation, or knowledge on the subject.

Hypothesis testing

Do you think current direct tax systems effectively address digital business?

Hypothesis Formulation

- **Null Hypothesis (H_0):** Opinions regarding the efficacy of the current direct tax system for digital businesses do not differ significantly.
- **Alternative Hypothesis (H_1):** Opinions regarding the efficacy of the current direct tax system for digital businesses vary significantly.

Variables Used

- **Independent Variable (Categorical):** Opinions regarding the efficacy of the current direct tax system (Efficacy: Agree, Disagree, Neutral).
- **Dependent Variable (Categorical):** Efficacy in addressing digital business taxation challenges.

Chi-Square Test Findings

Response	Observed Frequency (B)	Expected Frequency (C)	$(B - C)^2 / C$
Yes	45	33.67	11.61
No	35	33.67	6.15
Neutral	21	33.67	0.85
Total Chi-Square (χ^2)			18.61

- **Chi-Square Value (X^2):** 18.61

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Interpretation:

The results of the chi-square test show that opinions on the efficacy of the current direct tax system for digital businesses differ significantly. At two degrees of freedom and a standard significance level ($\alpha = 0.05$), the computed chi-square value ($\chi^2 = 18.61$) is greater than the critical value (5.991). Consequently, we reject the null hypothesis (H_0), indicating that there are differing views on the effectiveness of the tax system. This implies that different stakeholders have different opinions about the current framework, pointing to possible shortcomings in addressing the taxation issues facing digital businesses and the necessity of additional reforms.

V. FINDINGS AND RECOMMENDATIONS

Findings

1)Financial Performance Is Enhanced Through Digital Transformation
- Firms investing in digital transformation see a boost in revenues and profitability.
- Cost savings and productivity rise through automation and AI solutions**.**

2) Operational Efficiency and Innovation Rise
- Digital adoption simplifies business processes, making manual work burdens lighter.
- Big data analytics and AI improve decision-making and operational efficiency.

3)Digital Presence Provides Competitive Advantage
- Companies with a robust digital strategy grow in new markets more rapidly.
- Digital technologies improve customer acquisition and retention.

4)Customer Engagement and Satisfaction Increase
- Tailored digital services result in enhanced customer experiences.
- Digital platforms facilitate real-time interaction and feedback.

5)Long-Term Business Sustainability Is Enhanced
- Organizations that embrace digital solutions are able to adapt better to market evolution.
- Long-term sustainable digital models play a role in industry leadership.

6)challenges in Digital Adoption Persist
- Organizational resistance to change prevents transformation processes.
- Insufficient professional staff prevents effective implementation of digitization.

7)There Are Regulatory and Cybersecurity Obstacles
- Data protection policies and regulations make the process of embracing digitization more complicated.
- Digitally transformed businesses are exposed to severe cyber threats.

8) Process Efficiency Through Cost Minimization
- Automation lowers the cost of operations in repetitive processes.
- Cloud computing and digital solutions reduce infrastructure costs.

9)Organizations Have Greater Innovation Potential
- Digital transformation promotes a culture of continuous improvement
- Organizations with robust digital strategies innovate more rapidly.

Challenges of Digital Taxation

In order to combat tax evasion, India should create a comprehensive digital tax framework by enacting a digital services tax (DST) and strengthening international collaboration. In order to ensure that small businesses pay less in taxes and to hold tech giants responsible for making equitable contributions, it is imperative that taxes be differentiated between SMEs and large tech companies. Maintaining a balanced approach is necessary to advance tax equity without putting an undue burden on the economy. By bringing India's policies into line with international standards, we can strengthen international tax coordination, reduce loopholes, and improve compliance.

Recommendations

By enacting a Digital Services Tax (DST) and strengthening international collaboration, India should create a strong Digital Tax Framework to fight tax evasion. With reduced tax rates for SMEs and equitable contributions from tech giants, a differentiated taxation strategy is crucial. To preserve tax equity without placing undue burdens on taxpayers, a balanced approach is essential. Additionally, international tax coordination will be strengthened and loopholes will be reduced if India's tax policies are in line with international standards.

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VI. CONCLUSION

As India's digital economy continues to grow at a record rate, the need for a contemporary tax system becomes increasingly urgent. The controversy over DST and a Global Minimum Tax is all about ensuring that multinational corporations contribute their fair share, no matter where they are physically present.

Although general consensus exists that the tax system must be enforced more tightly and in a globally coordinated manner, apprehensions remain over the undesirable impact of over-taxed regimes on SMEs. Higher taxation would lead to increased prices, company relocations, or even imposition of sophisticated avoidance schemes.
To overcome these issues, India must possess a clear, technology-driven tax regime. Employing AI and analytics in tax compliance, enhanced global cooperation, and maintaining equality in digital taxation policies will be the key in building a sustainable and equitable tax system.

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