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### THE ROLE OF THE TAX SYSTEM IN THE DEVELOPMENT OF THE DIGITAL ECONOMY

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In recent years, serious measures have been taken to digitize the national economy in all countries of the world after the spread of the COVID-19 pandemic. The role of tax services in the development of the digital economy in the post-soviet countries, including the Republic of Azerbaijan, is also increasing. The emergence of information and communication technologies and the expansion of their use have also increased the number of areas that will be affected by digitalization. The most famous of them is the development of e-commerce. In addition, there are also stores operating virtually, the use of online payment services, fast trading and products and services that are formed on social platforms [1].

Nowadays, corporate tax policy does not correspond to the business models of the world economy. With this in mind, general reforms of the tax structure are being carried out in European countries in order to ensure digital activity. The main purpose of these reforms is to ensure the taxation of income even without a physical presence in the enterprises of the member countries.

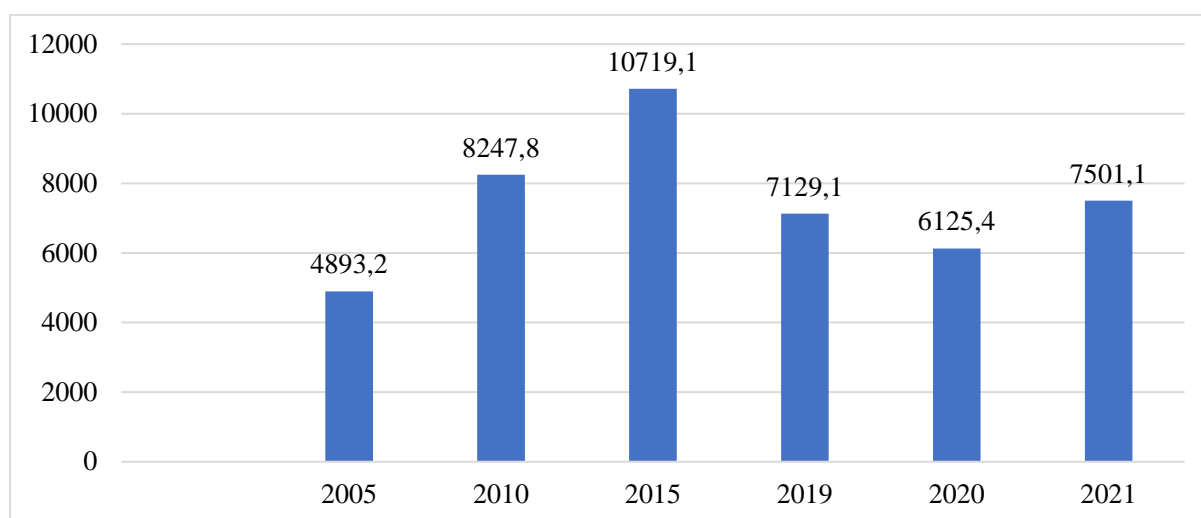
One of the factors that play a role in the tax system on a digital platform is the concept of value. So, in the digital sphere, especially in social networks, the sphere that the user likes creates an algorithm of value in itself. As a result, it is convenient to select goals for the corresponding advertising spaces. The taxable party, on the other hand, is the party that develops the advertising algorithm. That is, the profit received from the value generated by the company during taxation is not taken into account [2].

In general, the impact of digitization on the tax system in the countries of the world is manifested in two forms:

- since the tax information reflected on the digital platform does not interfere, the taxation process is carried out accurately and transparently;
- using the gap formed in digital data, individuals do not benefit from economic growth by avoiding taxes.

In recent years, the digital transformation of the structure of tax authorities in the post-Soviet countries, including Azerbaijan, has also changed the form of relations with taxpayers. So, in the reporting period, taxpayers, without contacting the tax authorities, submit declarations electronically by logging into their personal account. In the Republic of Azerbaijan, as in developed countries, serious measures are being taken to digitize tax services [5]. The second aspect mentioned is the negative manifestation of digitization. Thus, the sale of goods and services on various digital platforms, especially on social networks, is carried out without the participation of the state. As a result, the income received in exchange for online sales services is not taxed, as it is not reflected on the platform of the tax structure of the state. Since this process does not occur in the labor market in the form of «hidden unemployment», it is also not included in the GDP [3].

Corporate companies pay income tax on the territory of the country where production takes place, and not in the country which consumers, especially users of digital platforms, are located. This leads to the fact that taxes are not credited to the state budget in the country of customers who buy goods online [6].



**Figure 1. Dynamics of changes in foreign investments in the national economy of the Republic of Azerbaijan in recent years (million US Dollars)**

*Source: The State Statistical Committee of the Republic of Azerbaijan*  
<https://www.stat.gov.az/menu/6/statisticalyearbooks>

In recent years, serious changes have also been noted in the volume of foreign investments directed to the national economy of the Republic of Azerbaijan. For example, in 2005, the volume of foreign investments in the national economy of the Republic of Azerbaijan amounted to 4893.2 million US dollars. Then in 2019 this figure increased to

7129.1 million US dollars. The volume of foreign investments in the national economy in 2021 increased compared to previous years to 7501.1 million US dollars (Figure 1). As a result, the volume of exports of products and services by economic sectors has increased in the country.

The most common form of taxation of multinational corporations is called the digital services tax. This is a tax levied on the gross income of large digital companies. This form is typical for many European countries and the USA. The digital services tax applied on the digital platform differs significantly in its structure. For example, Hungary, they can receive tax revenue only from sales made online.

In addition to online advertising, countries such as Italy and France also receive legal costs from accessing digital interfaces and transmitting user information. As sales of digital services and products grow, so does the amount of consumption taxes. The purpose of the consumption tax is to withhold tax when making online sales. In general, increasing the level of income tax collection requires improving the use of existing taxation mechanisms. For example, it is necessary to expand the scope of the current income taxation rules, and sometimes create new local taxation rights [4].

The countries of the world are taking serious measures regarding the tax system on a digital platform. For example, in the Republic of Azerbaijan and other post-soviet countries, changes in legislation aimed at business areas should be implemented to expand the existing basic system of the tax authority.

In particular, the digitalization of the economy creates many difficulties in the process of paying indirect taxes. In the process of online sales, there are cases when companies evade paying VAT when delivering products to customers over long distances. That is why it is necessary to implement sustainable measures in this direction at the period level.

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