Reflections on Empowering the Enhancement of China's Digital Economy International Competitiveness through Tax System Reform (Postprint)

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Abstract

Currently, promoting the continuous enhancement of international competitiveness in the digital economy has become a "new arena" in which all countries are vigorously competing. The article contends that tax system reform in the digital economy era must be founded upon the accelerated evolution from industrial economic forms to digital economic forms, the increasingly extensive application scenarios of digital technologies, and the continuously expanding breadth and depth of digital infrastructure coverage. The article analyzes several issues arising during the current stage of digital economy development: the diminishing regulatory role of traditional taxation, efficiency losses in the digital economy resulting from the rigidification of tax system element design, inter-regional conflicts over "tax sources" and "tax authority" stemming from an imperfect tax revenue sharing mechanism, and the difficulty of reconciling international digital economy tax disputes in the short term. In response, the article argues for comprehensively deepening institutional supply-side structural reform with tax system reform as a key component, and for actively participating in and leading international digital economy governance. The article also delineates the principle requirements for tax system reform to empower the enhancement of China's digital economy international competitiveness.

Full Text

Preamble

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Reflections on Empowering China's Digital Economy to Enhance International Competitiveness Through Tax System Reform

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Abstract

Currently, promoting the continuous enhancement of international competitiveness in the digital economy has become a "new track" for countries to compete on. This article argues that tax reform in the digital economy era must be based on three foundational conditions: the accelerated evolution from an industrial economy to a digital economy, increasingly widespread application scenarios for digital technology, and continuous improvements in the breadth and depth of digital infrastructure coverage. The article analyzes several pressing issues in the current development of the digital economy: the declining regulatory effectiveness of traditional tax functions, efficiency losses in the digital economy caused by rigid tax system design, conflicts over "tax sources" and "tax rights" between regions stemming from imperfect tax-sharing mechanisms, and the difficulty of bridging international digital economy tax disputes in the short term. In response, the article contends that China should comprehensively deepen institutional supply-side structural reform with tax system reform as a key component, and actively participate in and lead international digital economy governance. The article also outlines the principles and requirements for tax reform to empower the enhancement of China's digital economy international competitiveness.

Keywords: tax reform, digital economy, international competitiveness, institutional supply-side structural reform

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The report of the 20th National Congress of the Communist Party of China explicitly states that we must accelerate the development of the digital economy, promote the deep integration of digital and real economies, and build internationally competitive digital industry clusters. As the "pacesetter" of high-quality economic development, the digital economy concerns the nation's future development direction and prospects. Science and technology constitute primary productive forces. The continuous development, innovation, and application of science and technology represented by digital technology have greatly

enriched the content and forms of labor tools, significantly advancing social productivity [1]. This evolution has profoundly transformed traditional production organization methods, objectively necessitating accelerated institutional supply-side structural reforms in taxation and other systems to provide the necessary production relations support for the full release of digital economy productivity.

Currently, as China continues to advance its digital development, the digital economy is in a critical period of transformation from mere "scale expansion" to "both quantity and quality improvement," which will comprehensively and profoundly change the basic form of national economic operation. Statistics show that from 2011 to 2022, China's digital economy scale increased from 9.5 trillion yuan to 50.2 trillion yuan, a 5.28-fold increase; its share of GDP rose from 19.42% to 41.48%, representing an overall increase of over 22 percentage points. The development of the digital economy has laid an important material foundation for tax revenue collection. Therefore, improving the current tax system, enhancing the digital economy's contribution to tax revenue, and avoiding unfair distribution of tax interests among stakeholders to better align the tax system with digital economy development are crucial for enhancing China's digital economy international competitiveness.

Research indicates that due to the diversified income forms characteristic of the digital economy, although tax authorities can urge enterprises to fulfill their tax obligations through legal and educational means, regulatory difficulties in reality lead to widespread tax evasion with huge amounts involved, causing serious tax revenue losses [2-4]. Fair Tax Mark, a UK-based third-party organization that certifies good tax practices, reported in 2019 that the difference between taxable and actual tax payments for Amazon, Google, Apple, Facebook, Microsoft, and Netflix from 2010-2019 reached $155.3 billion, with Amazon having the largest gap among the six companies [5]. Evidently, the rapid development of digital economy globalization, as an important manifestation of economic globalization, has not only brought about changes in technology development, application, factor endowments, and business models [6], but also placed higher demands on the existing tax system.

1 Foundational Conditions for Tax Reform in the Digital Economy Era

Tax reform in the digital economy era is both an important field for theoretical innovation in taxation and a crucial component of national and global economic governance practice. As an important induced factor driving tax reform, digital economy development requires scientific and reasonable analysis and judgment of basic conditions such as whether, how much, and how to tax business activities in this emerging economic form. The foundational conditions for China's tax reform in the digital economy era mainly include the following three aspects.

1.1 Interactive Pattern of "Industrial Digitization" and "Digital Industrialization": Accelerated Evolution from Industrial to Digital Economy

As a new economic form emerging in recent years due to rapid information technology development, the digital economy has fundamentally changed the existence patterns and development paths of many traditional economic forms, providing necessary conditions for high-quality economic development [7]. As a powerful engine driving economic and social development, the digital environment, existing in a highly intensive technical information form, empowers traditional industrial transformation and upgrading through the cultivation of new industries, new business forms, and new models. It simultaneously promotes the development of both "digital industrialization" and "industrial digitization" through the mutual penetration of digital technology across different industries [8,9]. As an inevitable result of social productivity development and progress, fully releasing digital economy potential, leveraging digital economy dividends, and promoting high-quality digital economy development will help China form and consolidate long-term development advantages.

It should be noted that structural problems in digital economy development profoundly affect macroeconomic operation. Currently, compared with digital industrialization, industrial digitization remains the main engine driving digital economy growth. In 2022, China's digital industrialization and industrial digitization scales reached 9.2 trillion yuan and 41.0 trillion yuan respectively, accounting for 18.3% and 81.7% of the digital economy. Both have shown growth trends in recent years, but the latter's growth rate is significantly higher than the former's (Figure 1 [Figure 1: see original paper]). Meanwhile, the overall digital economy penetration rate in China's three major industries still has considerable room for improvement, with uneven penetration across different economic sectors. Data from the China Academy of Information and Communications Technology shows that in 2022, the tertiary industry (dominated by services) reached a digital economy penetration rate of 44.7%, while the secondary and primary industries achieved rates of 24.0% and 10.5% respectively. Furthermore, the mismatch between digital economy consumption and production ends has become a prominent issue constraining high-quality digital economy development [10], manifesting as strong performance in consumption areas but significant room for improvement in production-related fields such as industrial internet, high-end chips, intelligent manufacturing, and large-scale integrated circuits. This is closely related to China's "bottleneck" problems in key core technologies in advanced manufacturing and other fields.

1.2 Wider and More Universal Application Scenarios of Digital Technology: Continuous Emergence and Strengthening of New Economic Development Drivers

As an important achievement of the new scientific and technological revolution, digital technology is a typical General-Purpose Technology (GPTs) with wide

applications across all industries, generating new digital economy forms through a series of aggregation effects. As a key area in the new round of international competition, China must keenly capture the opportunity window brought by the digital economy revolution, attach great importance to digital economy development, and make advanced planning and layout. In recent years, China has made significant progress and achievements in digital technology innovation, digital infrastructure construction, digital industrialization development, and industrial digital transformation. Meanwhile, the basic form of national economic operation has undergone profound changes driven by the digital wave.

Currently, China ranks globally among the top in artificial intelligence technology development and application fields such as intelligent speech recognition, image and graphic understanding, knowledge mining, machine translation, and reasoning. AI technology has moved from the early technology exploration stage to industry-scale commercial application, driving rapid growth in related industries. Blockchain technology performance continues to improve, significantly enhancing interaction efficiency and compatibility in information and communication. In 2021, the average number of transactions confirmed on blockchain products per second reached 35,531, double that of 2012 [10]. The integration of blockchain and the Internet of Things continues to deepen, providing effective technical support for ensuring data security. The cloud computing market size continues to expand, reaching 322.9 billion yuan in 2021. Particularly, cloud-native technologies have formed a basically complete full-lifecycle technology chain, improving resource development and utilization rates and enhancing service interface friendliness. Driven by market demand, the 普惠化 (inclusive) and standardized levels of computing power services continue to improve, giving rise to richer and more diverse service scenarios. Digital technology innovation and development have also driven the rapid increase in data 要素 (data elements) generation, while big data ecosystem functions for data capture, storage, transmission, and analysis have become more powerful [11]. Leading domestic digital enterprises such as Alibaba Group, Tencent, and Huawei have joined the development and marketization of big data products, with an increasing number of big data products demonstrating diversified and complex characteristics in practical application scenarios.

1.3 Continuous Improvement in Breadth and Depth of Digital Infrastructure Coverage: Providing Support for Digital Economy Development

Digital infrastructure is the hardware guarantee and important prerequisite for supporting the digital economy [12]. In recent years, China has increased investment in new infrastructure including digital infrastructure construction, with key indicators such as coverage breadth and technical performance ranking among the world's top. China has built the world's largest and most technologically advanced infrastructure network system. By the end of 2022, the total number of mobile communication base stations nationwide exceeded 10 million,

reaching 10.83 million, including 2.312 million 5G base stations accounting for 21.4% of the total, with 887,000 new 5G base stations built throughout the year. These digital infrastructures not only meet the needs of increasingly large market entities participating in the digital economy but also demonstrate extremely high efficiency advantages in responding to sudden public events such as the COVID-19 pandemic. For example, digital technology played an irreplaceable role in epidemiological investigations, particularly in confirming close contacts, online education, online medical diagnosis and treatment, and remote work across many aspects of production and life.

According to the "14th Five-Year Plan for Digital Economy Development," during the 14th Five-Year Plan period, the state will further intensify efforts in 6G technology development and application, strengthen relevant technical reserves, and actively participate in international cooperation on technical specifications and standard setting. Since 2012, China's fiber optic network access bandwidth has achieved an exponential leap from ten megabits to gigabits, with mobile network generational upgrades gradually accelerating and 5G base stations achieving full coverage in all prefecture-level cities and county seats. Various "soft" and "hard" new infrastructure constructions have provided necessary support for continuously expanding the scale of internet users and improving internet penetration rates. By the end of 2022, China's internet user population reached 1.067 billion, with an internet penetration rate of 75.57% (Figure 2 [Figure 2: see original paper]). According to the Global IPv6 Development Data Report, as of August 2022, the number of active users supporting IPv6 in China reached 713.7 million, accounting for 67.9% of all internet users, representing a year-on-year increase of 29.5%, higher than the global average.

Data centers are important hubs for data 要素 (data elements) to achieve information interaction. With the continuous expansion of 5G commercial coverage, accelerating the construction of integrated big data centers at the national level has become a major practical need. Reports indicate that by the end of July 2022, the total scale of data center racks in use in China had exceeded 5.9 million standard racks, with various server scales reaching 20 million units and total computing power exceeding 150 EFlops (exaflops per second). There were 497 super-large or large data centers in use nationwide and 20 intelligent computing centers built. In the June 2022 release of the global top 500 supercomputers, China had 175 supercomputers on the list, ranking first globally for the number of systems, with 15 Chinese systems among the top 200. Digital logistics is an important guarantee for supporting the smooth circulation of the national economy. Driven by sustained market demand and other favorable factors, China's comprehensive perception and ubiquitous connectivity capabilities for human-machine-object interactions have significantly improved. Economic operation data from the communications industry show that by the end of June 2023, the three major operators' cellular IoT terminal users had exceeded 2.102 billion, accounting for 55.4% of mobile network terminal connections. Based on digital economy development trends, China has made advanced deployments for a batch of major new infrastructure projects represented by quantum communi-

cations, actively building a more forward-looking and leading digital economy development support system. In August 2016, China successfully launched the world's first quantum science experimental satellite "Micius," which for the first time achieved remote transmission of quantum state data information between two ground stations 1,200 kilometers apart on Earth, marking iconic progress in quantum information processing and quantum communication network construction.

2 Outstanding Manifestations of Current Tax System's Inadequacy for Enhancing Digital Economy International Competitiveness

Building internationally competitive digital economy industry clusters is an important strategic goal of digital economy development. Since the current tax system is primarily based on the development logic of the industrial economy era, it is incompatible with the inherent logic of digital economy development in terms of tax functions, tax elements, sharing mechanisms, and international digital economy tax order. Therefore, we should identify key areas where the current tax system is inadequate for enhancing digital economy international competitiveness and accelerate relevant policy reforms to optimize production relations in the digital era.

2.1 Declining Regulatory Role of Traditional Tax Functions in Digital Economy Development

As the industrial economy era tax system mainly relies on physical business models, the digital era tends to underestimate the value creation capacity of data 要素 (data elements), leading to weakened or even ineffective tax regulation functions, reduced matching connectivity between digital economy development and corresponding taxation, and disorderly digital economy development. Meanwhile, due to ambiguous boundaries in defining data assets and data services under the current tax system, tax absence may be exacerbated. For example, using digital technology to upgrade existing digital products for secondary development and supplementing with internet dissemination to increase product added value lacks standardized pricing foundations and clear property rights attribution in this process, increasing the difficulty of defining the tax base [13,14] and significantly affecting the normal functioning of tax functions. Although digital economy development has formed its own material flows, capital flows, and talent flows, its low coordination with the current tax system weakens the function of taxation in participating in national income redistribution. This may not only lead to excessive and difficult-to-bridge social income gaps but also prevent governments from obtaining the "tax dividends" brought by digital economy development, potentially even triggering serious "digital bubbles."

2.2 Rigid Tax System Element Design Causing Digital Economy Efficiency Losses

Currently, China's major tax types still generally follow the industrial economy era governance logic in their tax items and rate settings, which reduces adaptability between traditional tax elements and digital economy development. Digital technology leads to continuous integration of products and services, even directly giving rise to new operational models such as "manufacturing as a service." Under this new production organization structure, if there are significant differences in turnover tax rates applicable to products and services, it may incentivize more producers to use artificial adjustment of final product value structures for tax avoidance. In the digital economy era, the deep integration of physical products and intangible software services has expanded the scale of cross-border and online transactions, further increasing the flexibility requirements for the current tax system. The digital economy has broken through temporal and spatial constraints, creating many flexible employment opportunities and even gradually becoming an important factor affecting the national income pattern. In this context, unclear delineation of practitioners' income makes it uncertain whether it should be classified as "labor remuneration" or "business income"; digital economy participants such as internet platforms and brokerage companies lack standardized withholding business practices; particularly, the lack of necessary coordination in income tax between digital economy participants and non-digital economy participants engaged in similar businesses can easily cause unnecessary digital economy efficiency losses due to unfair tax burdens. Additionally, the digital economy has not only broken the boundary between products and services but also blurred the relationship between producers and consumers. For example, private cars providing ride-hailing services give family vehicles, originally private consumer goods, the function of providing commercial services, making the tax subject unclear in such cases.

2.3 Imperfect Tax Sharing Mechanism Triggering Regional Conflicts Over Digital Economy "Tax Sources" and "Tax Rights"

The significant separation of production and sales spaces in the digital economy makes spatial allocation of tax interests difficult. This leads to unclear tax division of the digital economy by local governments under the current tax-sharing mechanism, significantly eroding government tax revenue and easily causing regional "local protection" behaviors in the digital economy. Value-added tax paid by e-commerce platforms is mainly handed over to the registration location, VAT on goods and services value-added is mainly handed over to the enterprise location, while the consumption location has no tax rights over business activity value-added. If only the production location taxation principle is adopted, it may cause problems such as widening financial gaps between regions. For example, in digital transactions that break through spatial constraints on tax jurisdiction and cross-regional flow restrictions of production factors, simply following the principle of determining tax jurisdiction based on enterprise le-

gal registration location and product production location may exacerbate tax distribution imbalances between regions. Having production and consumption locations jointly share "tax sources" and "tax rights," or making overall arrangements after increasing the central government's VAT sharing ratio, are important contents for promoting tax-sharing mechanism reform. However, how to scientifically and reasonably determine its specific implementation forms still requires weighing based on the specific types and characteristics of the digital economy.

2.4 International Digital Economy Tax Order Disputes Difficult to Bridge in the Short Term

Whether tax objects for domestic and cross-border digital economy activities can be accurately determined directly relates to the effectiveness and independence of national tax jurisdiction implementation. On the one hand, countries compete fiercely to obtain more tax resources from digital economy development. In practice, countries that implement unilateral "first-mover advantage" policies often dominate international digital economy tax policy and coordination processes, making international digital economy governance practices more complex. On the other hand, an increasing number of multilateral international organizations and non-governmental institutions, including the OECD, EU, UN, IMF, and G20, have actively participated in formulating international digital economy tax rules and conducted extensive and in-depth discussions. However, a universally accepted and operational digital economy tax normative system has yet to emerge, making it difficult to influence the formulation and implementation of digital economy tax rules in various countries. Additionally, there is intense tax gaming between multinational digital giants and governments in the international digital economy market.

3 Comprehensively Deepening Institutional Supply-Side Structural Reform with Tax System Reform as Key Content, Actively Participating in and Leading International Digital Economy Governance

3.1 Pay Attention to International Digital Tax Reform Trends, and Advance Digital Economy Tax Pilots in Free Trade Zones First

From a domestic perspective, free trade zones have more preferential institutional support than WTO regulations in terms of trade and investment. China has established 21 free trade pilot zones and the Hainan Free Trade Port, which can utilize existing favorable policies to conduct digital economy tax pilots. Considering the lack of necessary prior experience accumulation in digital economy taxation, pilots can be launched first in regions with faster digital economy development or specific sub-sectors to summarize experience in practice. It should be noted that in improving digital economy taxation, we should not only pay attention to institutional normative spillover effects and demonstration roles

but also prudently learn from European and American rules and practices for promoting digital economy development to enhance the strategic nature and guidance of tax reform.

3.2 Expand Types of Digital Products or Services Not Fully Covered by Current Tax System, and Promote Application of Tax Incentive Policies Such as R&D Expense Super-Deduction in Digital Economy Field

Currently, digital economy-related taxes have been consolidated into main tax types such as VAT and income tax. Therefore, we should actively build VAT and income tax sharing mechanisms closely related to the digital economy. Considering the light-asset operation characteristics of the digital economy, especially the reality of spatial inconsistency between consumption and production locations, we should strengthen consumption location's authority in participating in VAT income distribution to solve problems such as tax unfairness and disorderly competition for tax sources caused by over-emphasizing the production location principle. From U.S. practice, on June 21, 2018, in *South Dakota v. Wayfair*, the U.S. Supreme Court overturned the physical presence rule established in previous *Quill* and *Bellas Hess* cases by a 5-4 vote, ending the long history of e-commerce not needing to collect and remit sales tax without physical presence. For China, we should fully consider digital enterprises' value creation functions and spatial distribution characteristics to determine tax allocation implementation rules, avoiding cross-regional tax source transfers due to tax avoidance motivations. We should also combine actual local digital economy development conditions, increase national-level adjustment of digital economy taxation, improve tax adjustment methods, coordinate digital economy tax reform practices, avoid unnecessary digital economy efficiency reduction caused by "one-size-fits-all" policies, and strengthen the dynamic supporting role of the digital economy in promoting high-quality economic development.

3.3 Improve Digital Economy Tax Dividend Sharing Mechanism to Enhance Tax Macro-Regulation Effects on Digital Economy Development

Combining digital economy development realities, we should enrich the connotations of "labor services" and "intangible assets" and gradually expand the types of digital economy products or services not fully covered by the current tax system. For example, expand the scope of VAT taxpayers to include domestic suppliers operating imported digital products or services and overseas suppliers providing digital products or services to Chinese consumers as Chinese VAT taxpayers. We should continuously optimize specific taxation methods, introduce the "destination principle" for cross-border imported services, and formulate and implement more targeted tax rules considering B2B and B2C transaction characteristics. By expanding the scope of comprehensive income tax collection, we should gradually incorporate income obtained through internet

platforms into income tax collection scope in an orderly manner, while accelerating the simplification of VAT rates, building a fairer and more reasonable standard rate, and optimizing the rate structure. We should further optimize tax administration registration systems, comprehensively incorporate new business forms such as individually-operated online stores, WeChat businesses, and live-streaming e-commerce into the tax management system scope. Simultaneously, we should continuously strengthen social credit system construction and prudently promote data sharing between government and internet platforms. To adapt to the new situation of digital technology's rapid diffusion and wide radiation, we should gradually expand the industry scope of R&D expense super-deduction policies, guide increased investment in new infrastructure, and expand the coverage of relevant field tax preference catalogs, focusing on including new-generation information technology, industrial internet, IoT, artificial intelligence, blockchain, metaverse, and other new infrastructure projects closely related to digital economy development into the corporate income tax public infrastructure preference catalog.

3.4 Actively Participate in International Digital Economy Tax System Design, and Provide More Original Chinese Solutions to Global Digital Economy Governance Practice

Currently, the global coordination mechanism for digital economy taxation is still in the exploration stage. Due to BEPS issues, many developing countries face widespread tax losses, making it significant to establish a fairer and more reasonable international digital economy tax order. According to OECD estimates, countries suffer annual tax revenue losses of $100-240 billion due to international tax avoidance, accounting for 4%-10% of corporate income tax revenue. After long-term development, China has transformed from a net capital importer to a net capital exporter, playing an unprecedentedly important role in the evolution of the international economic pattern and being deeply embedded in global industrial and supply chains. In this context, China should transform from an acceptor of existing digital economy tax governance order to a leader of new international digital economy governance order. Therefore, we should actively participate in international negotiations such as the "Two-Pillar" solution, DEPA, and CPTPP, safeguarding the legitimate digital economy tax rights and interests of China and other developing countries. We should also orderly carry out international cooperation in new digital technology R&D and application, data information security, and data 要素 (data elements) marketization, providing Chinese solutions and contributing Chinese wisdom for better and faster global digital economy development.

4 Principles and Requirements for Tax Reform to Empower Enhancement of China's Digital Economy International Competitiveness

4.1 Adhere to the Basic Principle of Production Relations Adapting to Productive Forces

According to the basic principles of Marxist political economy, tax reform belongs to the category of production relations adjustment. From practical needs, the development level of digital economy productive forces determines whether tax reform is needed and how to promote it. The digital economy, as a new economic form unprecedented in human history, represents a qualitative leap based on the industrial economy form. The fundamental driving force for this transition lies in digital technology development and application. As an important symbol of human productivity development entering a new stage, digital technology has profoundly changed the underlying logic of economic development in production processes and organization. Therefore, through deepening tax reform and adjusting and optimizing digital economy production relations to adapt them to digital economy productive forces, we can better improve and develop digital economy productive forces, thereby enhancing China's digital economy international competitiveness. Additionally, tax reform must consider the reasonable interest demands of both production and consumption locations based on digital economy characteristics, avoid tax source battles, and establish a fairer, more reasonable, and orderly tax interest sharing mechanism from an institutional design perspective. We could also attempt to treat digital economy tax as central government tax revenue under the tax-sharing framework, with redistribution through transfer payments, though this institutional adjustment should also be advanced gradually in practice to avoid excessive resistance from overly aggressive short-term adjustments.

4.2 Fully Balance Development Efficiency and Fairness

We should adhere to the principle of combining effective markets with proactive governments, fully balancing development efficiency and fairness. According to the tax neutrality principle, we should minimize or eliminate institutional obstacles in taxation during industrial digitization and digital industrialization processes, allowing markets to play a decisive role in resource allocation. We should uphold non-discriminatory tax policies between digital and non-digital economies, where the same type or nature of business income should bear the same tax burden level. We should also fully leverage digital technology's strengths and apply them to digital economy tax practice, actively responding to challenges posed by the virtual and instantaneous characteristics of the digital economy to tax management, better regulating digital economy development order, and avoiding disruption of normal enterprise operation order due to government policy biases. By applying digital technology, we should actively fill regulatory and collection gaps caused by lowered participation thresholds, the

gig economy, and the sharing economy. Currently, natural persons and other micro individuals face low constraints for participating in the digital economy, with more decentralized and miniaturized tax sources, further increasing the difficulty of taxation, collection, and supervision. Therefore, we must increase the application of digital technology in digital economy tax practice, strengthen institutional and tool innovations in digital economy tax collection and supervision, fundamentally transform traditional tax collection and supervision models, and promote the upgrade from "invoice-based tax management" to "data-based tax governance."

4.3 Follow the Basic Path of Gradual Reform and Continuous Development in Practice

The process of the digital economy becoming the main form of human economic activity is a historical evolution built upon and gradually developed from the industrial economy form. In this process, the digital economy has brought comprehensive and systematic profound changes to human economic activities from point to surface and from shallow to deep. Considering that the contradiction between people's growing needs for a better life and unbalanced and inadequate development is the main social contradiction, and objective imbalances and inadequacies exist in digital economy development between regions, urban and rural areas, and industrial categories, traditional tax systems and their reforms should also follow the requirements of adapting measures to time, location, and circumstances, adhering to the basic path of gradual reform and continuous improvement in practice through policy pilots. We should continuously deepen reforms of major taxes such as VAT and income tax, reasonably regulate and guide digital economy development. Product and service transaction activities under digital economy conditions mainly fall within the scope of VAT taxation. We should improve relevant legal provisions according to digital economy activity characteristics to ensure new business models and new business forms under the digital economy are included in the VAT scope. Although the digital economy is still in the "nurturing stage" and has not explicitly levied a "digital tax," it is not a "tax-exempt" economy. Taking the global response to digital economy BEPS issues as an opportunity, and combining the purposes, practices, and experiences of international digital economy governance such as the "Two-Pillar" solution, we should reasonably divide domestic cross-regional digital economy tax interests and promote better alignment of China's income tax system reform with international standards.

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Note: Figure translations are in progress. See original paper for figures.