Economics & Business Management
ISSN Print: 3079-5214
ISSN Online: 3079-5222
https://doi.org/10.63313/EBM.9029

Research on the Impact of Digital Economy on Horizontal Tax Allocation between Regions: A Value Added Tax Perspective

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How to cite this paper: Tang, Y., Li, W., Han, J., & Li, X. (2025). Research on the Impact of Digital Economy on Horizontal Tax Allocation between Regions: A Value Added Tax Perspective. Economics & Business Management, 1(1), 322-327. ISSN Print: 3079-5214; ISSN Online: 3079-5222.
https://doi.org/10.63313/EBM.9029
Published: 2025-03-25

Abstract

The booming development of the digital economy has an increasingly significant impact on the horizontal tax distribution mechanism of value-added tax. In the context of the rapid development of information technology and the rise of the Internet economy, the digital economy has become a new engine to promote global economic growth. However, this emerging economic form has brought unprecedented challenges and changes to the traditional tax system, especially in terms of horizontal tax distribution between regions. As an important tax directly related to enterprise production and consumption activities, the distribution mechanism and effects of value-added tax in the context of the digital economy have become an urgent research topic. By exploring the impact of the digital economy on the horizontal distribution of value-added tax among different regions, this study provides theoretical support for improving the tax distribution system and achieving tax fairness in China, optimizing local fiscal structure, promoting balanced regional economic development, and proposing effective policy recommendations to address tax policy challenges in the digital economy era.

Keywords

Digital Economy; Value-Added Tax; Horizontal Tax Distribution; Tax System Optimization; Regional Economic Balance; Policy Recommendations

1. Introduction

With the rapid development of information technology and the continuous growth of the Internet economy, the digital economy has become a new power source of global economic development. In this process, the tax system, as an important component of national fiscal revenue, is facing unprecedented challenges, especially the key tax type of value-added tax. With the application and development of digital technology, the transaction methods of goods and services have undergone fundamental changes, making it difficult to effectively apply traditional location-based tax principles. This change has brought enormous challenges to tax management in various countries and regions, especially in the context of frequent cross regional transactions. How to allocate value-added tax revenue reasonably has become a complex and urgent issue.

In China, with the rapid development of the digital economy, there are significant differences in resource endowments, technological conditions, and other factors among different regions, resulting in uneven levels of development in the digital economy. This not only exacerbates the imbalance in regional economic development, but also makes the horizontal distribution of value-added tax between regions more complex. This article aims to explore the impact of the horizontal distribution mechanism of value-added tax in the digital economy era on the economic and social development of different regions in China, and propose corresponding policy recommendations, in order to provide theoretical support and practical guidance for building a more just and reasonable tax distribution system.

2. Current situation of horizontal distribution of value-added tax between regions

Through investigation, it was found that under the rapid development of the digital economy, the horizontal tax distribution system of value-added tax has faced unprecedented challenges, which are manifested in the following aspects:

2.1. Unequal horizontal distribution of taxes, widening regional financial and economic disparities, and constraints on local economic development.

The uneven horizontal distribution of tax revenue is mainly manifested in the uneven distribution of tax revenue among regions, especially in the distribution of major taxes such as value-added tax. The uneven horizontal distribution of value-added tax exacerbates the financial differences between regions. The eastern and western regions are mostly areas with net VAT inflows, while the central region is mostly an area with net VAT outflows, and this imbalance has been deepening year by year.

From the characteristics of value-added tax, it belongs to indirect tax and has the feature of easy tax burden transfer. It is an important tax type for studying the horizontal distribution balance of taxation.

From the perspective of tax collection and management rules, China's value-added tax adopts the principle of production location. Under the combined effect of market liquidity of goods and services and the transferability of value-added tax burden, there is a phenomenon of regional separation between production and consumption links. The regional distribution of value-added tax based on the principle of place of production has resulted in unfair tax distribution between regions, exacerbating tax competition, overinvestment, and redundant construction, which is not conducive to the transformation of economic development mode and the construction of a new development pattern. The reform of the tax system is also an important factor affecting the horizontal tax distribution of value-added tax, The rise of the digital economy has brought significant challenges to the traditional tax distribution system.

The digital economy, due to its virtuality, non intermediation, and new value creation models, has increasingly highlighted the problem of imbalanced regional tax distribution and widened the economic development gap between regions.

The virtuality of the digital economy enables business activities to break through the limitations of geographical space. The process of creating enterprise value and the process of user consumption are not in the same physical space, resulting in some regions with user consumption being unable to obtain corresponding taxes, which in turn leads to the widening gap in economic development between regions.

The non intermediation feature of the digital economy reduces the connection between consumers and producers, and the intermediate links of tax nodes under traditional tax mechanisms are reduced, resulting in uneven regional tax distribution.

The value creation model of the digital economy is usually based on data, algorithms, and user network effects. Under the traditional tax distribution system, it is difficult to measure where the value creation based on data and user network participation should be taxed, resulting in regional tax distribution problems and affecting the balanced development of regional economy.

In addition, in the digital economy era, taxpayers are decentralized, difficult to track and regulate, making it difficult to define the collection and management targets under the traditional economic model. These factors collectively pose challenges to traditional tax systems and management models.

3. The Development of Horizontal Taxation in Regional Areas under the Digital Economy

The digital economy is a new economic form that relies on data resources as a key element, modern information networks as the main carrier, and the integration and application of information and communication technology, as well as the digital transformation of all factors, to promote a more unified balance between fairness and efficiency. During the 13th Five Year Plan period, China has deeply implemented the digital economy development strategy, continuously improved digital infrastructure, accelerated the cultivation of new business models, and achieved positive results in promoting digital industrialization and industrial digitization. In 2020, the added value of China's digital economy core industry accounted for 7.8% of the gross domestic product (GDP), providing strong impetus for the sustained and healthy development of the economy and society. The impact of the digital economy on the horizontal tax distribution of value-added tax has a complex duality

On the positive side, the digital transformation of the digital economy has significantly improved the transparency and traceability of transactions, enabling tax departments to more effectively track and collect taxes, thereby reducing tax losses. The current value-added tax distribution mechanism based on the principle of production location is prone to unfair tax distribution between regions, exacerbating fiscal imbalances and uneven development between regions. The allocation mechanism that shifts towards the principle of consumption location can help reduce these negative impacts and promote sustainable economic development. With the continuous development of the digital economy, tax policies are gradually improving, reflecting the essence of transactions more accurately and promoting fair distribution of taxes among different regions and industries.

On the negative side, in the context of the digital economy, companies may reduce their tax burden by establishing entities or transferring profits in low tax areas, leading to a decrease in overall tax revenue and exacerbating uneven tax distribution between regions; At the same time, the cross regional nature of the digital economy allows consumers and producers to be geographically separated, leading to the transfer of tax revenue from the place of consumption to the place of enterprise registration or server location, that is, the deviation between tax revenue and tax sources, exacerbating regional imbalances and affecting local government fiscal revenue; In order to attract the tax base, local governments may engage in fierce competition and adopt strategies such as reducing tax rates or providing tax incentives, further exacerbating the uneven distribution of taxes between regions.

4. Strategies for optimizing the development of horizontal tax distribution between regions in the digital economy

4.1. Clarify the principles of tax distribution

The promotion of the principle of consumption location: Under the traditional economic model, China's value-added tax mainly follows the principle of production location, but the development of the digital economy has made the separation between production and consumption locations more obvious, and the problem of tax revenue and tax source deviation has intensified. Therefore, we should gradually shift towards the principle of consumption location. The principle of consumption location refers to determining tax attribution based on the final consumption location, which can more accurately reflect the economic contribution and public service demand of the region in terms of taxation. For example, for transactions such as online shopping and digital services, the collection location and distribution share of value-added tax should be determined based on the consumer's location to protect the tax rights and interests of the local government and promote fairness in tax distribution between regions.

The combination of the principle of value creation: In the digital economy, factors such as user data and online platforms are increasingly important in contributing to value creation. When determining tax distribution, it is not enough to rely solely on the place of production or consumption of goods or services, but also on the place of value creation. If the participation of users or consumers plays a crucial role in creating value for the enterprise, then the government of the user's location should also have corresponding rights in tax distribution. For example, some data-driven enterprises provide personalized services and generate profits by analyzing user data, and the government of the user data source should participate in the distribution of this portion of tax revenue.

4.2. Optimize tax collection and management methods

Establish a digital tax collection and management system: Utilize digital technologies such as big data, cloud computing, and artificial intelligence to build an efficient and precise tax collection and management platform. Strengthen the data sharing and information exchange between the tax department and other departments (such as industry and commerce, banking, public security, etc.) to achieve comprehensive monitoring and management of taxpayers. For example, by comparing and analyzing multiple sources of data such as financial data, transaction information, and logistics information of enterprises, tax risks and violations can be detected in a timely manner, improving the efficiency and accuracy of tax collection and management.

Strengthen tax supervision of digital economy transactions: Develop specialized tax collection and management measures to address the virtual and hidden characteristics of digital economy transactions. For cross-border digital transactions, it is necessary to strengthen international tax cooperation and coordination, clarify tax jurisdiction and taxation rules, and prevent tax loss. For example, for transactions on cross-border e-commerce platforms, a mechanism for sharing cross-border tax information should be established to ensure that tax departments in various countries can accurately grasp transaction information and tax situations.

4.3. Improve the design of the tax system

Clarify tax categories related to the digital economy: With the development of the digital economy, new business models and transaction forms continue to emerge, requiring clear tax policies for emerging businesses such as digital products and digital services. For example, for businesses such as data transactions, cloud computing services, and online advertising, their taxable scope, tax rates, and other tax elements should be determined to ensure that the tax system can cover all areas of the digital economy.

Adjusting the distribution method of shared tax: Shared tax is an important component in the tax distribution between the central and local governments. For shared taxes such as value-added tax and corporate income tax, the allocation ratio and method should be adjusted according to the characteristics of the digital economy and the economic connections between regions. We can consider adopting the model of "same source taxation, split rate taxation", where the central and local governments levy taxes on the same tax base at different tax rates, in order to enhance the enthusiasm and initiative of local governments in tax distribution.

4.4. Establish and improve a horizontal tax distribution coordination mechanism

Establish a specialized coordination agency: Establish a horizontal tax distribution coordination agency led by the central government and involving local governments. This institution is responsible for formulating rules and standards for horizontal tax distribution, coordinating and resolving tax distribution disputes between regions, and supervising the implementation of tax distribution policies. For example, when there is a dispute over the tax attribution of a certain digital economy transaction in different regions, the coordinating agency will investigate and make a ruling.

Strengthen tax cooperation between regions: Encourage tax cooperation between regions to jointly promote regional economic development. For example, neighboring regions can establish tax cooperation demonstration zones for collaborative innovation in tax policies, collection and management services, etc., to achieve optimized allocation of tax resources and coordinated development of regional economy. At the same time, strengthen the exchange and sharing of tax information between regions, and improve the efficiency and quality of tax collection and management.

5. Research Conclusion

In the digital economy, the inter regional tax distribution model has encountered both opportunities and challenges, with the problem of uneven tax distribution between regions and the widening economic development gap caused by uneven tax distribution. We should fully utilize the advantages of transparency and traceability of the digital economy, combined with its factors affecting uneven horizontal tax distribution between regions, optimize the coordination mechanism of tax distribution, strengthen tax cooperation between regions, and promote tax reform.

Acknowledgements

Funded by the Innovation and Entrepreneurship Training Program for College Students of Anhui University of Finance and Economics (202410378239)

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