

Journal of Economics Library

econsciences.com

Volume 12

December 2025

Issue 4

Taxation in the Digital Era: Economic, Legal, and Policy Challenges. By Åsa Hansson and Joakim Wernberg (Eds.). Palgrave Macmillan 2025

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Abstract. This open-access edited volume, *Taxation in the Digital Era*, provides a comprehensive and multidisciplinary analysis of the profound challenges that digitalization poses to established national and international tax systems. The rapid rise of intangible assets, mobile capital, and remote work has strained traditional tax principles—particularly the concepts of physical presence and source for taxing corporate profits and labor income. The book is structured to examine these issues from three interconnected perspectives: economic, legal, and policy. Economically, it explores how new business models, such as platform economies and data monetization, create value that escapes conventional taxation, leading to corporate tax avoidance and international competition. Legally, the volume analyzes the limitations of the current international tax framework, particularly the struggle of the OECD's Base Erosion and Profit Shifting (BEPS) project and the rise of digital services taxes (DSTs) as unilateral measures. The policy sections delve into potential solutions, including the OECD's Two-Pillar Solution (Pillar One and Pillar Two), but also explore national-level reforms related to VAT/GST, labor income, and environmental taxation. A key theme is the need for tax systems to become more adaptive and resilient, requiring significant international cooperation to ensure a fair and efficient allocation of taxing rights in a world increasingly defined by digital transactions.

Keywords. Digital Taxation; Base Erosion and Profit Shifting (BEPS); Pillar One, Pillar Two; Tax Competition; International Tax Law Reform.

JEL. D47; F23; H25; H87; K34.

Book Review

T*axation in the Digital Era: Economic, Legal, and Policy Challenges*, edited by Åsa Hansson and Joakim Wernberg, is a crucial and meticulously organized collection that addresses what is arguably the most complex fiscal challenge of the twenty-first century: adapting national and international tax systems to the digital economy. The volume serves as a comprehensive mapping of the theoretical fissures and practical policy dilemmas that have arisen as global business models have transcended traditional physical boundaries. As an open-access publication, it ensures that this highly technical and urgent debate is accessible to scholars, policymakers, and practitioners worldwide.



The book's strength lies in its multidisciplinary approach, integrating economic principles (value creation and allocation), legal constraints (treaty

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    **CRediT** (article last page)

Received 20 Nov. 2025; Received in revised form 10 Dec. 2025; Accepted 20 Dec. 2025.

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  <https://doi.org/10.1590/xxx-2025-xxx>

law and jurisdiction), and political realities (unilateralism and multilateral cooperation). The central thesis is that the existing tax architecture, rooted in early 20th-century concepts of physical presence and source, is fundamentally obsolete in a world where value is increasingly created by intangible assets, data, and user contributions, allowing multinational enterprises (MNEs) to decouple taxable profits from physical locations.

Part I: The Economic Challenges and Value Creation

The initial chapters effectively lay the economic groundwork by exploring how digitalization alters the very nature of value creation and allocation. The digital economy introduces business models—such as platform monopolies, remote services, and data monetization—that leverage network effects and global reach without needing significant fixed infrastructure in the user's jurisdiction.

The economic analysis highlights that this decoupling leads to two primary negative outcomes:

1. **Tax Base Erosion:** MNEs can strategically shift profits to low-tax or no-tax jurisdictions by utilizing transfer pricing mechanisms, particularly for hard-to-value intangibles (HTVIs) like patents and software. The digital nature of services facilitates this shifting, leading to what the book terms "digital tax avoidance."
2. **Inefficient Tax Competition:** The resulting loss of tax revenue compels countries to engage in a "race to the bottom" by offering attractive tax regimes to retain or attract mobile capital, further eroding the corporate tax base globally. This process undermines public trust and fiscal sustainability.

The economic discussion is particularly astute in analyzing how user participation and data contribute to value. Traditional tax rules do not recognize the implicit contribution of a user base in a market jurisdiction; consequently, the revenue generated by this consumer market cannot be taxed there. This injustice fueled the early demand for unilateral Digital Services Taxes (DSTs).

Part II: The Legal and Policy Frameworks Under Strain

This section dives into the legal inadequacies of the current system, primarily governed by the network of bilateral tax treaties based on the OECD Model Convention. The concept of a "Permanent Establishment" (PE)—the physical trigger for taxing foreign companies—is rendered meaningless by business models that require only a server or a remote employee (if that).

The chapters review the significant multilateral effort spearheaded by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). While BEPS (Actions 1–15) successfully addressed many tax avoidance techniques, it failed to fundamentally solve the core issue of nexus (the right to tax) and profit allocation in the digital economy. This failure led directly to the development of the Two-Pillar Solution:

- **Pillar One (A-Amount):** A proposed multilateral solution to reallocate a portion of MNE residual profits (known as 'Amount A') to market jurisdictions, regardless of physical presence, based on a new nexus rule. The book analyzes the complexity of this proposal, noting its reliance on MNE turnover thresholds and the political compromises inherent in establishing a new taxing right.

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- **Pillar Two (Global Anti-Base Erosion - GloBE):** A set of rules designed to ensure MNEs with global revenues above a certain threshold pay a minimum effective tax rate (15%). Pillar Two is widely regarded as the most achievable and impactful part of the solution, primarily because it leverages the self-interest of countries by allowing them to apply a "top-up tax" if MNE profits fall below the minimum rate elsewhere.

The legal analysis underscores the political tension between multilateral consensus (the OECD/G20 approach) and the rise of unilateralism (DSTs). The book frames the DSTs adopted by countries like France and the UK not merely as revenue generators, but as bargaining chips designed to force MNEs and the international community to accept a multilateral solution that grants market jurisdictions greater taxing rights.

Part III: Alternative and Complementary Solutions

The final part explores alternative domestic and international policy adjustments beyond the OECD Pillars, focusing on broader tax types and administrative issues:

1. **Consumption Taxes (VAT/GST):** The digital economy poses challenges to consumption taxes due to cross-border services and the rise of platform intermediaries. The book examines the implementation of VAT on e-services and the role of platforms in collecting VAT/GST, noting that while the OECD has provided guidance, enforcement remains complex, particularly for micro-services and non-cooperative jurisdictions.

2. **Taxing the Labor Market:** The rise of the gig economy and remote work fundamentally challenges the concept of where labor income should be taxed. Chapters discuss the need to adapt social security contributions and income tax residency rules to handle workers whose presence is purely digital, complicating existing tax treaty rules on employee income.

3. **Environmental Taxation in a Digital Context:** The volume also touches upon the integration of environmental and digital taxation. The potential to use digital infrastructure (e.g., smart meters, transaction data) to improve the enforcement and effectiveness of environmental taxes (e.g., on energy consumption or waste management) is explored, suggesting a convergence of different tax policy goals.

4. **Administrative and Technological Capacity:** A practical theme running throughout the book is the disparity in technological and administrative capacity among tax authorities. Successfully implementing complex rules like Pillar One and Pillar Two requires significant investment in digitalization and cooperation mechanisms, posing a substantial challenge to developing nations.

Overall Assessment and Conclusion

Taxation in the Digital Era is an indispensable academic and practical resource. Editors Hansson and Wernberg have curated a collection that is both highly technical and exceptionally relevant to contemporary policy. The book's major contribution is its holistic approach, demonstrating that the challenge of digital taxation cannot be solved by a single discipline or a single policy; it requires a coordinated and systemic response across economics, law, and politics.

The book's strength lies in its critical, yet balanced, assessment of the Two-Pillar Solution. It acknowledges Pillar Two's potential to end the tax

S. Carson, JEL, 12(4), 2025. p.206-209

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competition race to the bottom but highlights the administrative burden and political hurdles facing Pillar One. The overall narrative reinforces that the transition to a modern tax system is far from complete, necessitating continued international cooperation to replace obsolete principles with resilient, sustainable ones. This volume is essential reading for researchers in public finance, international tax law, and anyone concerned with the future of fiscal sovereignty in the hyper-connected global economy.



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