

CAREC INSTITUTE RESEARCH CONFERENCE

4-5 March 2021

Session One

Digital CAREC and post-COVID-19 economic recovery

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РАНХиГС

РОССИЙСКАЯ АКАДЕМИЯ НАРОДНОГО ХОЗЯЙСТВА
И ГОСУДАРСТВЕННОЙ СЛУЖБЫ
ПРИ ПРЕЗИДЕНТЕ РОССИЙСКОЙ ФЕДЕРАЦИИ



E-COMMERCE TAXATION IN CENTRAL ASIA: CURRENT STATE AND OPPORTUNITY FOR REFORM

CONFERENCE "COVID-19 AND ECONOMIC RECOVERY POTENTIAL IN CAREC REGION"
TOPIC: "COVID AND THE DIGITAL ECONOMY IN THE CAREC REGION", March 3, 2021,
CAREC Institute (virtual event)

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RESEARCH GOAL

The objective of this research is to propose tax policies which are relevant to digital business transformation and COVID-19 economic outcomes in Central Asia's four leading economies: Kyrgyzstan, Kazakhstan, Uzbekistan, and Tajikistan.

These policy proposals are based on a comparative analysis of the state of play in e-commerce tax regulation, tax administration development, and the economic significance of trade in digital services in them.

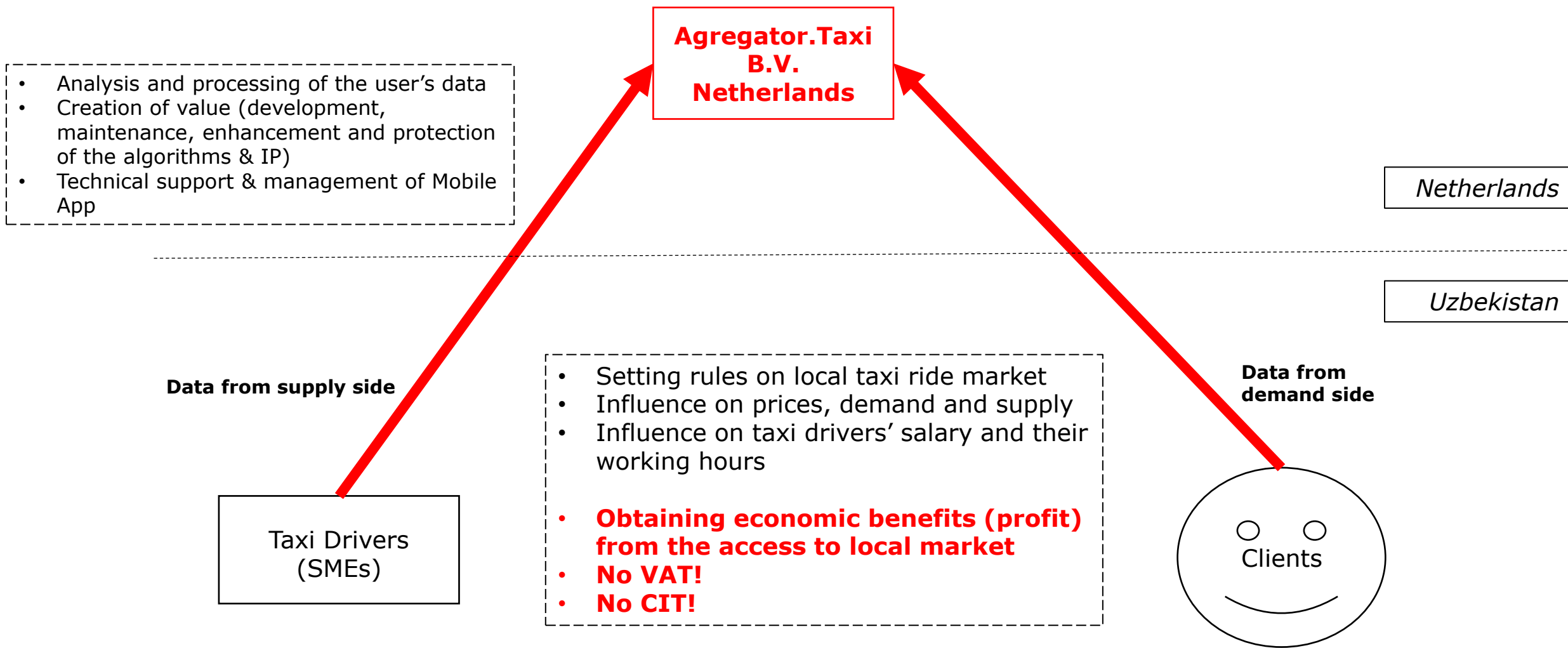
CENTRAL ASIA & POST-COVID-19 CONTEXT

- **SMEs suffered most from the pandemic crisis in CA region.** *Switching to digital channels of distribution could compensate some losses of revenues. Driving local SMEs' economic activity to digital platforms can provide them with access to larger export and domestic markets, to financing, and to decreased barriers and transaction costs*
- **Largely young CA populations (potential digital users)** *can justify the CA states' rights to tax the profits and the consumption of the large foreign digitalized MNEs*
- **Highly significant role of informal (shadow) and agricultural economic activity, in which "bazaars" play a critical coordinating role.** *Supporting the penetration of e-commerce platforms into agriculture and substituting the "bazaar" grey-zone economic activity with digital platforms might make the sector more transparent and contribute to economic efficiency, direct market access, coordination between farmers and consumers*

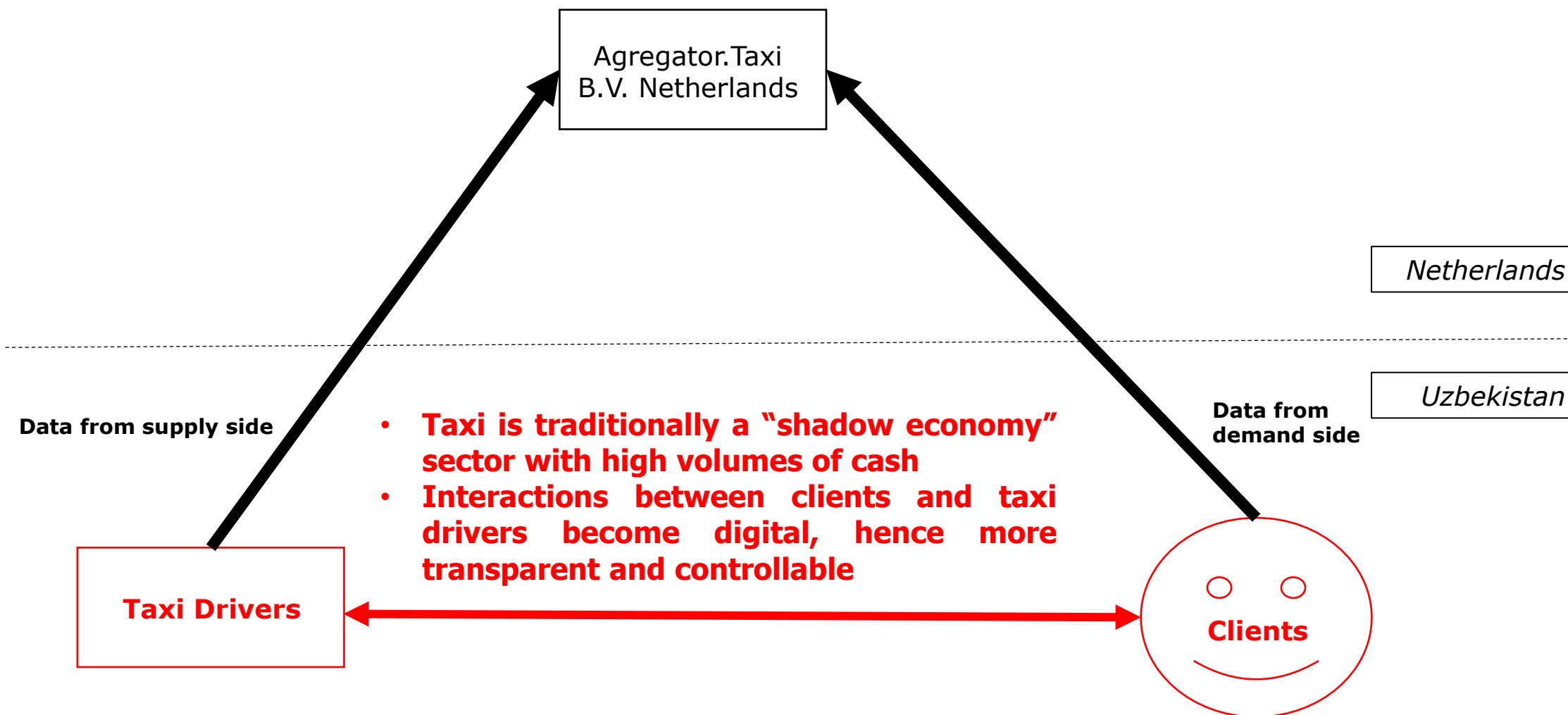
TAX CHALLENGES OF DIGITALISATION (A,B,C)

- A. VAT taxation on the consumption of digital services (such as computer games, online advertising, online support, storage of information and its remote processing, sale of domain names, and search results processing) by local businesses and natural persons (B2B/B2C) when such services are supplied by foreign companies without a physical presence in the country
- B. Taxation of profits on Big Data “consumer facing” businesses (such as internet search engines, e-commerce platforms, and social networks) in market states
- C. Tax regulation of digital platforms & the shadow economy

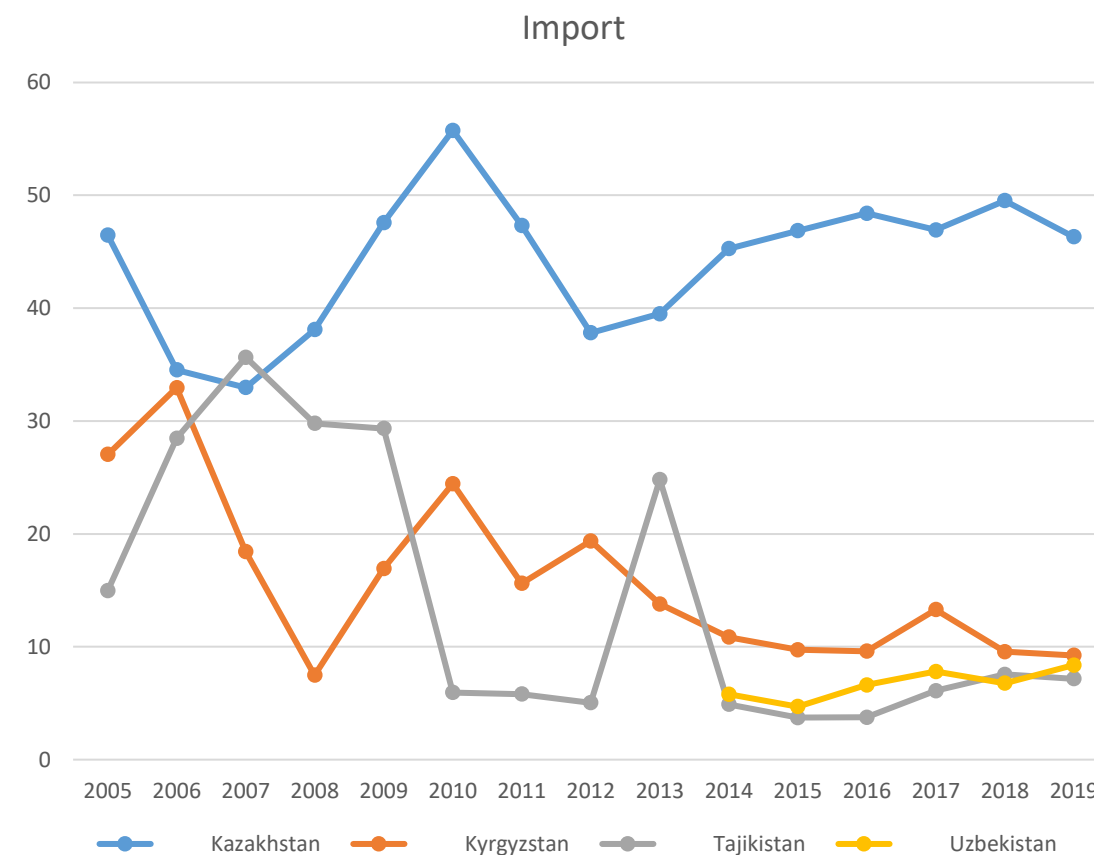
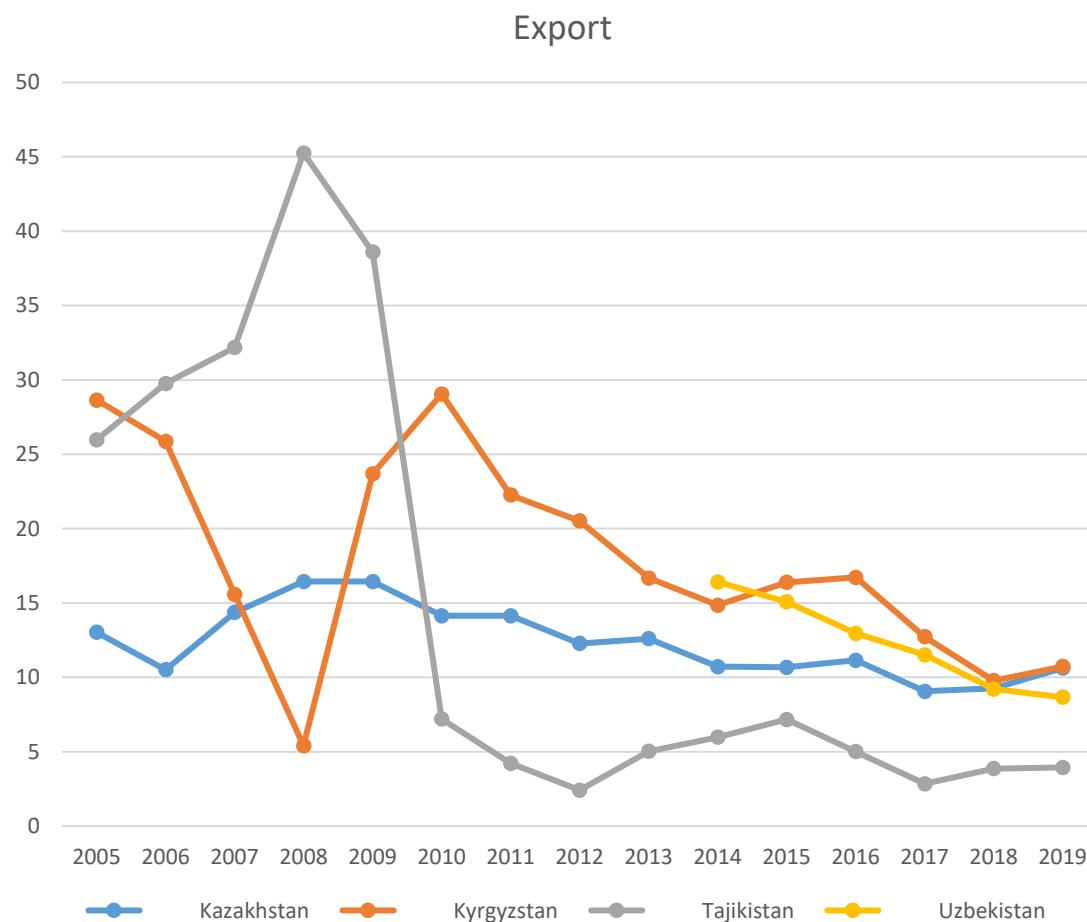
CHALLENGES A & B – TAXING FOREIGN DIGITAL BUSINESSES



CHALLENGE C – TACKLING SHADOW ECONOMY



COMPARISONS: TRADE IN DIGITAL SERVICES (%/SERVICES TRADE)



Source: author's compilation based on data from UNCTAD Statistics database

COMPARISONS: B2C E-COMMERCE

	Kazakhstan	Uzbekistan	Tajikistan	Kyrgyzstan
Share of individuals using the Internet (2018 or latest)	79	52	22	38
Share of individuals with an account (15+, 2017)	59	37	47	40
Secure Internet servers (normalized, 2018)	64	51	33	47
UPU postal reliability score (2018 or latest)	72	41	1	20
2019 Index value	68.2	45.4	25.7	36.4
2019 Country rank	57	93	129	111

Source: author's compilation based on data from UNCTAD B2C E-commerce index, 2019, World

COMPARISONS: TAX ADMINISTRATION CAPACITIES

	Kazakhstan	Uzbekistan	Tajikistan	Kyrgyzstan
Overall ranking	79	52	22	38
Ease of paying taxes score	59	37	47	40
Total Tax and Contribution Rate (TTCR), % of profits before all taxes	64	51	33	47
Post-filing index (efficiency of post filing procedures)	72	41	1	20
Number of payments (per year)	68.2	45.4	25.7	36.4

Source: author's compilation based on data from UNCTAD B2C E-commerce index, 2019, World

COMPARISONS: ADDRESSING DIGITAL TAX ISSUES

	Kazakhstan	Uzbekistan	Tajikistan	Kyrgyzstan
VAT on import of digital services (B2C/B2B)	Effective 1 January 2022	Effective 1 January 2020	Effective 1 January 2021	Announced but not yet introduced
Taxing the local profits of foreign digital businesses	No initiatives declared. Country is BEPS Project Inclusive Framework member; therefore, will likely join the OECD Proposal on Pillar 1	No initiatives declared	No initiatives declared	No initiatives declared
Tax regulation of domestic e-commerce platforms	Tax incentives (0% rate for e-commerce)	Tax incentives (7,5% rate for e-commerce)	No initiatives declared	No initiatives declared

Source: author's analysis based on data extracted from IBFD (2020) database

A WAY FORWARD...

Critical issues identified

- Underdevelopment of digital infrastructure
- Regional digital and economic divide
- Shadow economy and SMEs

Tax proposals

- ✓ Introduction of Digital Services Tax (DST) based on regionally harmonized model legislation
- ✓ Level playing field in digital taxation instead of regional tax competition
- ✓ Simple and effective instrument for taxing local rents of foreign digital businesses and to raise funds to finance COVID-19 recovery
- ✓ Simple and clear tax conditions for the leading foreign e-commerce platforms operating in the local SMEs' markets
- ✓ More cooperation between platforms and tax authorities (information sharing, tax compliance, etc.)

THANK YOU FOR ATTENTION!

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