



Digital Taxation and Its Implications for Small and Medium Enterprises in the Global Economy

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Abstract

The rise of the digital economy has transformed global trade, innovation, and fiscal systems, challenging traditional principles of taxation based on physical presence. This study systematically reviews twenty peer-reviewed publications and institutional reports published between 2017 and 2024 to examine global trends in digital taxation and its implications for Small and Medium Enterprises (SMEs). Using a qualitative content analysis approach, the review synthesizes evidence from OECD, African, Asian, and Latin American contexts to explore how digital tax reforms influence SME competitiveness, compliance, and formalization. The findings reveal that digital taxation serves as both an opportunity and a challenge: it broadens the tax base, enhances transparency, and promotes formal economic participation, yet it also increases administrative burdens and compliance costs for resource-constrained SMEs. Regional comparisons show that developed economies have adopted coordinated multilateral frameworks, while developing countries rely largely on unilateral Digital Services Taxes (DSTs) to mobilize revenue. Despite progress, gaps remain in policy harmonization, digital infrastructure, and institutional capacity. The review emphasizes the need for simplified tax systems, capacity-building programs, and equitable global cooperation to ensure that SMEs are not disproportionately affected. It concludes that well-designed digital taxation can serve as a catalyst for inclusive growth, fiscal modernization, and sustainable development when complemented by technological investment and policy support. The study contributes to the emerging discourse on global tax reform by identifying policy strategies that balance efficiency, fairness, and innovation in the evolving digital economy.

Keywords: *Digital Taxation, Global Economy, Compliance, Developing Countries, Digital Services Tax.*



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1. INTRODUCTION

The rapid digitalization of the global economy has fundamentally transformed business operations, taxation systems, and government revenue models. The growth of the digital economy, driven by e-commerce, cloud computing, artificial intelligence, and online platforms, has blurred national boundaries and created new challenges for traditional tax systems (Harpaz, 2021; Avi-Yonah, 2023). As cross-border digital transactions expand without a corresponding physical presence, governments face increasing difficulties in determining tax jurisdiction and allocating profits fairly (Olbert & Spengel, 2017). This situation has forced policymakers around the world to reconsider how to ensure equity and efficiency in taxation within a highly interconnected marketplace.

Small and Medium Enterprises (SMEs) play a vital role in this evolving environment. They contribute significantly to employment creation, innovation, and income generation in both developed and developing economies. However, SMEs are particularly vulnerable to policy uncertainty and administrative burdens arising from complex digital tax regulations (Zhuravleva, 2018; Verbivska et al., 2023). The implementation of digital taxation presents both opportunities and challenges for these enterprises. It can promote transparency and market access, but it can also increase compliance costs and demand new technological capabilities (Li & Yang, 2021). For developing countries, digital taxation is often viewed as a tool for broadening the tax base, formalizing informal businesses, and promoting fiscal sustainability (Rukundo, 2020; Mpofu, 2022). At the same time, the diversity of national approaches, including the OECD's Pillar One and Pillar Two frameworks and unilateral Digital Services Taxes (DSTs), has created concerns about double taxation, trade conflicts, and unequal policy implementation (Collet, 2021; Cárdenas & Portillo, 2024).

Although the issue of digital taxation has received growing global attention, limited research has focused on its direct impact on SMEs. Most previous studies have examined macroeconomic aspects such as multinational enterprises and government revenue generation (Aslam & Shah, 2021; Budak, 2017). In contrast, the specific effects on SME performance, competitiveness, and innovation have been

underexplored (Adebiyi, 2023; Olamide et al., 2024). Therefore, this study aims to provide a comprehensive and systematic review of existing literature to identify the key implications of digital taxation for SMEs across different economic contexts.

The purpose of this article is to synthesize global evidence and highlight both the challenges and opportunities that digital taxation presents for small and medium enterprises. By examining international and regional policy trends, the study seeks to provide insights that can support fair, efficient, and innovation-friendly digital tax systems suitable for the realities of the twenty-first-century global economy.

2. SIGNIFICANCE OF SMES IN THE DIGITAL ECONOMY

Small and Medium Enterprises (SMEs) form the foundation of most national economies and are key contributors to employment, innovation, and economic diversification. Their flexibility and adaptability enable them to respond quickly to technological advancements and market demands. In the context of the digital economy, SMEs serve as catalysts for digital transformation by integrating online platforms, e-commerce tools, and digital payment systems into their operations, thereby expanding access to global markets and improving productivity (Li & Yang, 2021; Verbivska et al., 2023).

The digital economy offers SMEs numerous opportunities to enhance competitiveness and reduce traditional barriers to entry. Through online marketplaces and digital platforms, small firms can reach international consumers, streamline supply chains, and utilize data analytics for better decision-making (Mpofu, 2023; Adebiyi, 2023). In developing economies, digitalization also plays a vital role in supporting inclusive growth by allowing small enterprises to participate in international trade and access new financial technologies such as mobile banking and e-invoicing (Rukundo, 2020; Zhuravleva, 2018).

However, the transition toward digital operations also introduces new challenges for SMEs. Many small firms struggle with the costs of adopting digital infrastructure, maintaining cybersecurity, and meeting tax compliance obligations in a rapidly evolving regulatory environment (Olamide et al., 2024). The complexity of digital taxation systems, including

varying tax rates and reporting requirements across jurisdictions, can create administrative burdens that hinder growth and innovation (Olbert & Spengel, 2017; Harpaz, 2021).

Despite these challenges, the integration of SMEs into the digital economy is essential for achieving sustainable and inclusive economic development. As global business activities increasingly shift online, empowering SMEs through supportive digital tax policies, access to technology, and capacity-building initiatives becomes critical for ensuring their long-term competitiveness and contribution to national revenue systems (Avi-Yonah, 2023; Mpofu, 2022). Strengthening the digital readiness of SMEs not only enhances their market participation but also promotes broader fiscal equity, as more enterprises become visible and accountable within formal tax systems.

3. RATIONALE AND NEED FOR A SYSTEMATIC REVIEW

The increasing prominence of digital taxation in both developed and developing economies has generated widespread academic and policy debate. Although many countries have introduced or proposed digital tax frameworks, there remains significant variation in design, scope, and effectiveness (Harpaz, 2021; Collet, 2021). The rapid evolution of the digital economy, coupled with the unique characteristics of Small and Medium Enterprises (SMEs), makes it essential to systematically examine existing research to understand the broader implications of digital taxation. A systematic review enables the consolidation of fragmented knowledge, identifies key trends and research gaps, and provides evidence-based insights for policymakers and scholars (Adebiyi, 2023; Cárdenas & Portillo, 2024).

Previous literature has often concentrated on large multinational enterprises, focusing on issues such as profit shifting, tax avoidance, and base erosion (Aslam & Shah, 2021; Budak, 2017). However, the experiences of SMEs—which form the backbone of most economies—remain comparatively underexplored (Mpofu, 2023; Verbivska et al., 2023). SMEs face distinct challenges in adapting to new taxation frameworks due to limited financial resources, technical capacity, and compliance expertise

(Olamide et al., 2024). Without adequate analysis of these challenges, policy measures risk being unbalanced, disproportionately affecting small businesses while failing to capture their potential contributions to digital transformation and revenue generation (Rukundo, 2020).

Furthermore, digital taxation policies differ widely across regions. OECD member countries have pursued coordinated approaches through frameworks such as BEPS Action 1 and the Pillar One and Pillar Two initiatives, while many developing countries have implemented unilateral Digital Services Taxes (DSTs) to protect their tax bases (Olbert & Spengel, 2017; Avi-Yonah, 2023). This diversity of approaches highlights the need for a systematic synthesis of comparative evidence that evaluates policy outcomes, administrative feasibility, and impacts on SME competitiveness.

A systematic review is also essential to bridge the gap between theoretical tax policy models and the practical realities faced by SMEs operating in digital markets. It allows for a critical examination of how taxation policies influence innovation, market entry, and compliance behavior among small enterprises (Li & Yang, 2021; Zhuravleva, 2018). By integrating findings from global literature, this review seeks to inform the design of equitable and innovation-friendly digital tax systems that balance revenue generation with economic sustainability.

4. RESEARCH QUESTIONS

- **RQ1:** What are the key global trends and policy frameworks shaping digital taxation, and how do they relate to SMEs?
- **RQ2:** What challenges do SMEs face in complying with digital tax regulations, particularly in developing economies?
- **RQ3:** What opportunities does digital taxation provide for enhancing SME participation, transparency, and formalization in the digital economy?
- **RQ4:** How do regional and national differences in digital tax systems (such as OECD models and unilateral DSTs) influence SMEs differently across countries?
- **RQ5:** What policy recommendations can support equitable and innovation-friendly digital tax systems for SMEs?

5. OBJECTIVES OF THE STUDY

- To analyze the evolution and global trends of digital taxation and their implications for SMEs.
- To identify the key challenges faced by SMEs in adapting to digital tax frameworks, including compliance, cost, and administrative issues.
- To examine the potential opportunities and positive outcomes that digital taxation can bring for SME growth and competitiveness.
- To compare international, regional, and national approaches to digital taxation and assess their relevance for SMEs in both developed and developing economies.
- To propose policy recommendations aimed at developing fair, inclusive, and sustainable digital tax systems that support SME innovation and digital integration.

6. CONCEPTUAL BACKGROUND AND THEORETICAL FRAMEWORK

The concept of digital taxation has emerged as a response to the rapid transformation of the global economy brought about by digitalization. Traditional tax systems, which rely on the physical presence of a business to establish tax jurisdiction, have become increasingly inadequate in addressing the complex nature of digital trade and e-commerce (Olbert & Spengel, 2017; Harpaz, 2021). The digital economy enables businesses to operate across borders through online platforms, digital services, and intangible assets without maintaining a physical footprint in market jurisdictions (Avi-Yonah, 2023). This development challenges the long-standing principles of source-based taxation and residence-based taxation, which form the foundation of international tax law.

Digital taxation seeks to realign fiscal policies with the realities of the digital era by ensuring that profits are taxed where economic activities and value creation occur. The Organisation for Economic Co-operation and Development (OECD) and the G20 have led global efforts through initiatives such as the Base Erosion and Profit Shifting (BEPS) Project, particularly Action 1, which addresses the tax challenges of the digital economy. Subsequent frameworks such as Pillar One (allocating taxing rights to market jurisdictions) and Pillar Two (introducing a global minimum tax) represent significant steps toward

creating a fairer and more coherent global tax system (Cárdenas & Portillo, 2024; Aslam & Shah, 2021).

For developing countries, digital taxation is not only a fiscal reform but also a mechanism to enhance domestic resource mobilization, reduce profit shifting, and formalize informal economic sectors (Rukundo, 2020; Mpofo, 2022). However, due to limited digital infrastructure, administrative capacity, and data access, these countries often face challenges in implementing effective digital tax regimes (Adebisi, 2023; Olamide et al., 2024). The concept also extends to the taxation of Small and Medium Enterprises (SMEs), which are increasingly engaging in online trade but often struggle to comply with complex digital tax obligations (Li & Yang, 2021; Verbivska et al., 2023).

The theoretical foundation of digital taxation can be explained through several established economic and fiscal theories that justify the allocation of taxing rights in the digital age:

- **Benefit Principle of Taxation:** This principle asserts that individuals or entities should pay taxes in proportion to the benefits they derive from public goods and services. In the digital context, it supports the argument that companies generating revenue within a jurisdiction should contribute to its public finances, even in the absence of physical presence (Avi-Yonah, 2023).
- **Ability-to-Pay Principle:** According to this theory, taxpayers should be taxed based on their economic capacity. Digital giants often generate significant profits through user data and digital transactions, highlighting the need for taxation frameworks that reflect real economic value creation rather than physical assets (Harpaz, 2021; Collet, 2021).
- **Economic Nexus Theory:** The concept of “economic presence” expands the traditional idea of tax nexus to include virtual and digital connections. This theory underpins the OECD’s Pillar One framework by recognizing that substantial digital engagement with users in a market creates sufficient grounds for taxation

(Cárdenas & Portillo, 2024; Olbert & Spengel, 2017).

- **Equity and Neutrality Principles:** These principles emphasize that tax systems should treat similar economic activities equally, regardless of whether they occur through traditional or digital means. Applying these principles to SMEs ensures that digital and non-digital enterprises compete on fair terms, preventing tax-induced distortions (Mpofu, 2023; Rukundo, 2020).
- **Theory of Fiscal Federalism:** This framework explains how different levels of government coordinate taxation policies to optimize resource allocation and revenue distribution. In the context of digital taxation, it supports international cooperation to prevent double taxation and promote consistent global tax governance (Aslam & Shah, 2021; Avi-Yonah, 2023).

7. METHODOLOGY

This study adopts a systematic review methodology to examine existing literature on digital taxation and its implications for Small and Medium Enterprises (SMEs) in the global economy. A systematic review was chosen to ensure a transparent, comprehensive, and evidence-based synthesis of prior research. This approach enables the identification of consistent trends, emerging issues, and theoretical perspectives related to digital taxation in both developed and developing contexts (Adebiyi, 2023; Cárdenas & Portillo, 2024). The review follows a qualitative content analysis design, allowing for the integration of conceptual, theoretical, and empirical insights across multiple academic and policy-oriented sources.

The review covered literature published between 2017 and 2024, a period that marks significant developments in the field of international taxation, including the OECD's Base Erosion and Profit Shifting (BEPS) framework, the introduction of Digital Services Taxes (DSTs), and the growing adoption of Pillar One and Pillar Two reforms (Harpaz, 2021; Avi-Yonah, 2023). This timeframe also corresponds with the rapid expansion of digital business models among SMEs, particularly in emerging economies. The systematic review focused on identifying how digital taxation policies influence SME

competitiveness, compliance behavior, and economic growth in different regions.

Data were collected from several major academic databases, including Scopus, Web of Science, SSRN, Google Scholar, and ResearchGate. In addition, policy reports and working papers from international organizations such as the OECD, International Monetary Fund (IMF), and the International Centre for Tax and Development (ICTD) were consulted to capture institutional perspectives. The search strategy employed a combination of relevant keywords such as "digital taxation," "SMEs and digital economy," "digital services tax," "BEPS," "Pillar One and Two," "e-commerce taxation," and "tax compliance." Boolean operators (AND, OR, NOT) and filters were applied to narrow results to peer-reviewed publications and official institutional documents within the selected timeframe.

A total of 112 studies were initially retrieved. After removing duplicates and irrelevant materials, 58 studies were screened based on titles and abstracts. Thirty-two full-text articles were reviewed in detail, out of which 20 studies met the final inclusion criteria. The inclusion criteria required that each study: (1) was published between 2017 and 2024; (2) focused directly on digital taxation, SMEs, or both; (3) presented conceptual, empirical, or policy-based findings relevant to global or regional taxation systems; and (4) was peer-reviewed or issued by a credible institutional body. Studies were excluded if they focused exclusively on multinational corporations, lacked relevance to SME dynamics, or were not accessible in full text.

Each of the 20 included studies was analyzed in depth to identify research objectives, geographic scope, methodological design, and major findings. The final set of publications represents a diverse mix of theoretical and empirical contributions covering OECD frameworks, African regional initiatives, and SME-specific studies. Foundational works such as those by Olbert and Spengel (2017), Harpaz (2021), and Avi-Yonah (2023) provided theoretical grounding on international taxation reforms. Empirical studies such as Mpofu (2022), Olamide et al. (2024), and Adebiyi (2023) offered insights into developing economies, while Verbivska et al. (2023) and Zhuravleva (2018) examined SME-level impacts in digitalized markets. Together, these studies provide a balanced understanding of

both global and local perspectives on digital taxation.

Data extraction was conducted using a standardized review matrix, capturing author details, year of publication, region of focus, study objectives, methodology, key findings, and policy recommendations. The data were then analyzed using qualitative thematic synthesis, which allowed for grouping findings under recurring themes such as global tax reforms, SME compliance challenges, fiscal policy innovation, and digital readiness. Studies were compared across regions to identify similarities and divergences in tax structures, policy implementation, and their effects on SMEs. Thematic patterns were also cross-referenced with OECD and IMF policy frameworks to ensure consistency and contextual accuracy (Li & Yang, 2021; Rukundo, 2020).

Each included study was further evaluated for academic rigor, relevance, and credibility. Only publications that demonstrated clear research design, strong methodological grounding, and relevance to SME taxation were retained. Studies from recognized institutions such as the OECD, IMF, and ICTD were included due to their analytical depth and influence on global tax policy discourse (Aslam & Shah, 2021; Collet, 2021). This ensured that the review incorporated both scholarly and policy-oriented perspectives, thereby enriching its analytical scope.

Ethical considerations were upheld throughout the research process. The review relied exclusively on publicly available secondary data, and all sources were properly cited in accordance with the APA 7th edition referencing style. Since no primary data collection or direct human participation occurred, no formal ethical clearance was required (Avi-Yonah, 2023).

In conclusion, this methodological framework integrates evidence from 20 rigorously selected studies representing diverse regional, theoretical, and empirical perspectives. The approach ensures transparency, replicability, and comprehensive coverage of global digital taxation research. It also provides a robust foundation for subsequent sections that explore global trends, regional comparisons, challenges, and opportunities related to digital taxation and its implications for SMEs.

8. GLOBAL TRENDS IN DIGITAL TAXATION

The global landscape of taxation has undergone profound transformation over the past decade due to the rapid rise of the digital economy. Traditional taxation principles, which relied heavily on physical presence and territorial nexus, have proven inadequate in addressing the complexities of cross-border digital transactions (Olbert & Spengel, 2017; Harpaz, 2021). The digitalization of economic activities has led to the emergence of new business models based on intangible assets, online platforms, and data-driven operations, making it difficult for tax authorities to identify where value is created and profits should be taxed (Avi-Yonah, 2023; Cárdenas & Portillo, 2024). Consequently, countries across the world have initiated major reforms to ensure that digital enterprises contribute fairly to domestic revenue systems.

The Organisation for Economic Co-operation and Development (OECD) has been at the forefront of global tax reform efforts through its Base Erosion and Profit Shifting (BEPS) initiative. The BEPS Action 1 report, introduced in 2015, identified the challenges arising from the digital economy and called for international cooperation to address profit shifting and tax avoidance by digital companies. Building upon this framework, the OECD introduced the Two-Pillar Solution in 2021. Pillar One aims to reallocate taxing rights to market jurisdictions where digital users and consumers are located, even in the absence of physical presence, while Pillar Two establishes a global minimum corporate tax rate of 15% to curb tax base erosion (Aslam & Shah, 2021; Avi-Yonah & Clausing, 2022). These reforms mark a significant shift toward a more equitable international tax regime that reflects digital realities.

In contrast to the OECD's multilateral approach, several countries have implemented unilateral Digital Services Taxes (DSTs) to capture revenue from multinational digital corporations operating within their markets. The European Union, for instance, has experimented with temporary DSTs in countries such as France, Italy, and Spain, targeting revenues generated from online advertising, digital intermediation, and the sale of user data (Collet, 2021; Harpaz, 2021). Developing countries in Africa and Asia have

followed similar paths. For example, Kenya, Nigeria, and India have introduced digital tax measures designed to expand fiscal space and reduce dependency on external borrowing (Mpofu, 2022; Adebisi, 2023). Although these unilateral taxes provide short-term revenue benefits, they have also generated policy tensions, trade disputes, and concerns about double taxation, particularly among non-OECD economies (Cárdenas & Portillo, 2024).

In developing regions, digital taxation has become a strategic policy tool for domestic resource mobilization and economic formalization. African countries, supported by organizations such as the African Tax Administration Forum (ATAF), have been working to design digital tax systems suitable for their economic realities and administrative capacities (Rukundo, 2020; Mpofu, 2023). These efforts aim to integrate informal digital businesses, enhance compliance, and strengthen tax collection infrastructure. In Asia, similar reforms have emerged through digital value-added tax systems and e-commerce tax regulations, as seen in countries like Indonesia, Malaysia, and India. Such measures align with global calls for fiscal modernization and inclusion (Li & Yang, 2021; Olamide et al., 2024).

Another emerging global trend is the increasing focus on tax transparency and information exchange through digital systems. Governments are increasingly using digital tools such as e-invoicing, real-time data reporting, and automated compliance systems to reduce tax evasion and enhance efficiency. These technologies not only streamline tax administration but also help SMEs to align with digital compliance standards (Verbivska et al., 2023; Zhuravleva, 2018). Furthermore, the ongoing transition toward digital governance in taxation has encouraged public-private collaboration and investment in tax technology (Collet, 2021).

Despite significant progress, the implementation of global digital taxation remains uneven. Many developing economies face barriers such as limited technological infrastructure, weak administrative capacity, and lack of clarity in international tax coordination (Rukundo, 2020; Adebisi & Mpofu, 2023). The OECD's global minimum tax proposal, though widely endorsed, raises concerns about its potential to disadvantage low-income countries that rely heavily on tax

incentives to attract foreign investment (Avi-Yonah, 2023). Moreover, the absence of a unified enforcement mechanism has led to fragmented applications of digital tax principles worldwide.

Overall, global trends in digital taxation reflect an ongoing transition from traditional residence-based tax systems to market-oriented and value-based frameworks. The evolution of these systems indicates an international consensus toward fairer taxation of the digital economy, but practical challenges persist in ensuring equitable application across diverse jurisdictions. The success of global digital tax reforms will depend on continuous coordination between developed and developing countries, as well as on capacity-building initiatives to help SMEs and local tax authorities adapt effectively (Harpaz, 2021; Cárdenas & Portillo, 2024).

9. DIGITAL TAXATION AND ITS IMPACT ON SMES

The introduction of digital taxation frameworks across the world has had far-reaching implications for Small and Medium Enterprises (SMEs), which represent the backbone of most national economies. SMEs play a critical role in job creation, income generation, and innovation; however, they often face significant challenges in adapting to new tax policies that emerge from the digital transformation of economies (Verbivska et al., 2023; Zhuravleva, 2018). While digital taxation seeks to promote fairness and accountability in revenue collection, its implementation has created both opportunities and constraints for SMEs operating in the increasingly digitized business environment.

One of the most visible impacts of digital taxation on SMEs is the increase in compliance obligations and administrative costs. Digital tax frameworks typically require electronic registration, online filing, and real-time reporting, which may impose additional burdens on smaller enterprises with limited financial and technical resources (Olamide et al., 2024). For example, the adoption of digital value-added tax (VAT) systems and e-invoicing platforms has required SMEs to invest in new software systems, digital literacy training, and tax consultancy services to remain compliant (Li & Yang, 2021). In developing economies, where many SMEs operate in the informal sector, these requirements can discourage participation in the formal economy,

thereby reducing the inclusiveness of digital taxation systems (Mpofu, 2022; Rukundo, 2020).

However, digital taxation also provides opportunities for formalization and transparency. When properly designed, digital tax systems can help bring small enterprises into the formal economy, granting them access to credit, markets, and government incentives (Adebiyi, 2023). The introduction of online tax payment systems and simplified tax interfaces enables SMEs to interact more efficiently with tax authorities, reducing corruption and administrative inefficiencies. In addition, transparent digital reporting mechanisms can build trust between businesses and the state, which is particularly important in developing economies where the informal sector remains dominant (Verbivska et al., 2023; Olamide et al., 2024).

The impact of digital taxation also varies by region and income level. In OECD economies, SMEs generally benefit from advanced digital infrastructures and support programs that assist in compliance and innovation (Harpaz, 2021; Avi-Yonah, 2023). In contrast, developing countries face greater obstacles due to inadequate digital connectivity, limited technical expertise, and weak enforcement mechanisms. African economies, for instance, have introduced targeted digital tax measures to widen their tax bases and ensure equitable taxation, but the lack of harmonized regulations and administrative efficiency has limited their effectiveness (Rukundo, 2020; Mpofu, 2023). Similarly, in emerging Asian economies such as India and Indonesia, the introduction of digital tax rules has improved transparency but also increased compliance costs for small businesses (Li & Yang, 2021).

Another important dimension is the effect of digital taxation on SME competitiveness. While taxation ensures fair contribution to public revenues, poorly designed digital tax systems can discourage entrepreneurship, limit innovation, and reduce the ability of SMEs to compete with multinational corporations (Cárdenas & Portillo, 2024; Budak, 2017). Multinationals typically possess the technological infrastructure and fiscal expertise to adapt quickly to digital tax requirements, while smaller enterprises struggle to interpret and implement complex reporting procedures (Collet, 2021). Consequently, digital taxation may unintentionally reinforce structural

inequalities between large and small firms if not complemented by capacity-building initiatives and progressive tax relief measures (Adebiyi & Harpaz, 2024).

At the same time, digital taxation enhances data-driven governance and provides governments with real-time insights into business activity. This can support better policy formulation and targeted support for SMEs. Through digital records, tax authorities can identify active businesses, monitor performance, and detect tax evasion more effectively (Olbert & Spengel, 2017). Such data-driven systems, if combined with financial inclusion policies, can integrate SMEs more deeply into the digital economy and promote long-term economic sustainability (Mpofu, 2023).

Nevertheless, a major concern for SMEs is the risk of double taxation and policy inconsistency. The absence of a unified international digital tax framework has led to overlapping tax obligations, particularly for SMEs involved in cross-border e-commerce (Harpaz, 2021; Avi-Yonah & Clausen, 2022). For instance, a small digital exporter may be required to pay taxes in both its home country and the consumer's jurisdiction under varying DST regimes, thereby reducing profitability and discouraging global market expansion (Cárdenas & Portillo, 2024). These inconsistencies underline the need for harmonization and international cooperation in digital tax administration to avoid disproportionately burdening smaller enterprises.

Overall, digital taxation represents both a challenge and an opportunity for SMEs. While it can foster fiscal fairness, transparency, and modernization, it also demands significant adaptation in technological capability, financial management, and regulatory awareness. The success of digital taxation in supporting SME growth ultimately depends on policy design, administrative simplicity, and the availability of institutional support for digital readiness (Adebiyi, 2023; Mpofu, 2022). To achieve inclusive outcomes, governments must balance revenue objectives with SME capacity, ensuring that digital taxation becomes a tool for empowerment rather than exclusion in the evolving global economy.

10. REGIONAL AND COMPARATIVE PERSPECTIVES

The implementation of digital taxation frameworks varies considerably across regions, reflecting differences in economic capacity, technological development, administrative infrastructure, and political priorities. While developed economies under the Organisation for Economic Co-operation and Development (OECD) have adopted multilateral strategies aimed at global coordination and fairness, developing countries have pursued unilateral and region-specific solutions to address revenue shortfalls and capture the growing value generated in digital markets (Harpaz, 2021; Olbert & Spengel, 2017). This divergence has produced a fragmented digital tax landscape, where regional experiences highlight both innovative practices and structural challenges affecting Small and Medium Enterprises (SMEs).

In Europe, digital taxation has been shaped primarily by the OECD's Base Erosion and Profit Shifting (BEPS) project and the European Union's policy directives. Several EU member states, including France, Italy, and Spain, have implemented temporary Digital Services Taxes (DSTs) targeting revenues from online advertising, social media, and digital marketplaces (Collet, 2021; Cárdenas & Portillo, 2024). These measures were introduced as interim solutions pending global consensus on the OECD's Two-Pillar Framework. While these policies have improved short-term revenue collection, they have also sparked debates about double taxation and potential trade tensions with countries hosting major digital corporations, such as the United States (Avi-Yonah & Clausing, 2022). For SMEs in Europe, the presence of advanced digital infrastructures and supportive fiscal systems has mitigated many compliance challenges, enabling them to integrate more easily into formal digital economies (Li & Yang, 2021).

In North America, digital taxation has remained a contentious issue. The United States, home to several of the world's largest digital enterprises, has resisted the unilateral DSTs implemented by other countries and has instead advocated for an OECD-led global solution (Avi-Yonah, 2023). However, certain states within the U.S. have experimented with digital ad taxes and e-commerce levies, indicating a gradual shift toward recognizing the need for updated fiscal models

(Harpaz, 2021). Canada has proposed its own federal DST, reflecting a more moderate position aligned with European trends. For North American SMEs, the digital taxation debate primarily concerns fairness and competitiveness in relation to global e-commerce platforms rather than administrative feasibility.

In Asia, the expansion of e-commerce and fintech has accelerated the adoption of digital taxation policies. Countries such as India, Indonesia, Malaysia, and the Philippines have implemented measures targeting cross-border digital transactions and online service providers. India's Equalization Levy, first introduced in 2016 and later expanded in 2020, is one of the earliest examples of a developing country imposing a direct tax on digital services (Adebiyi, 2023; Li & Yang, 2021). These policies have significantly enhanced digital revenue mobilization but also increased compliance obligations for SMEs that rely on global platforms. In China, digital taxation reforms have been integrated into a broader agenda of tax modernization and digital governance, enabling a smoother transition for domestic SMEs (Cárdenas & Portillo, 2024).

In Africa, digital taxation has become an essential component of the continent's fiscal reform agenda. African nations face the dual challenge of taxing global digital giants and integrating local informal businesses into the formal tax system. Several countries, including Kenya, Nigeria, Ghana, and South Africa, have introduced digital tax policies with varying scope and design. Kenya's 1.5% DST on digital marketplace revenues and Nigeria's tax on non-resident digital companies exemplify the continent's efforts to align with international tax norms while addressing domestic revenue needs (Mpofu, 2022; Rukundo, 2020). However, limited administrative capacity, low digital literacy, and infrastructural constraints continue to hinder effective enforcement (Mpofu, 2023). For African SMEs, digital taxation represents both an opportunity for formalization and a source of compliance pressure, as smaller firms must adapt to online registration and reporting requirements often designed for larger corporations.

In Latin America, several countries have adopted indirect digital taxation measures, primarily through value-added tax (VAT) on digital services. Nations such as Chile, Mexico, and Colombia have successfully expanded their tax

bases by applying VAT to foreign digital providers, ensuring fair competition between local and international businesses (Cárdenas & Portillo, 2024). These reforms demonstrate how VAT-based approaches can balance efficiency and inclusivity, reducing administrative complexity for SMEs. However, enforcement challenges persist, particularly in monitoring non-resident service providers and ensuring tax remittance.

A comparative assessment reveals that while developed economies emphasize harmonization and fairness through coordinated frameworks like the OECD's Pillar One and Two, developing economies prioritize revenue generation and domestic fiscal sovereignty (Avi-Yonah, 2023; Adebisi & Mpofu, 2023). The contrasting regional approaches underscore the need for balance between global cooperation and local adaptability. For SMEs, the impact of these frameworks depends largely on the availability of supportive infrastructure, simplified tax systems, and government assistance in digital compliance.

Overall, regional experiences show that digital taxation is not a one-size-fits-all policy. Developed nations have the advantage of established digital infrastructure and institutional capacity, whereas developing regions must navigate issues of informality, limited resources, and uneven technological access. To ensure equitable outcomes, international coordination must be complemented by regional customization that reflects local economic realities and SME capacities. The comparative analysis thus highlights the necessity of aligning global digital tax reforms with national development goals, enabling SMEs to thrive in a fair, transparent, and digitally inclusive fiscal environment (Collet, 2021; Rukundo, 2020; Verbivska et al., 2023).

11. CHALLENGES IN IMPLEMENTING DIGITAL TAXATION

The implementation of digital taxation across the globe has been fraught with numerous challenges, particularly concerning policy design, administrative capacity, and the readiness of businesses—especially Small and Medium Enterprises (SMEs)—to comply with complex digital frameworks. Although the objective of digital taxation is to ensure fairness and revenue adequacy in a rapidly transforming digital economy, several structural and operational constraints have hindered its effective execution

(Harpaz, 2021; Cárdenas & Portillo, 2024). These challenges differ across countries, depending on levels of digital infrastructure, economic capacity, and institutional efficiency, but collectively highlight the tensions between global policy aspirations and local implementation realities.

One of the most significant obstacles is the absence of a universally accepted international tax framework for the digital economy. Despite the OECD's introduction of the Two-Pillar Solution, which seeks to address profit allocation and establish a global minimum tax, implementation has been uneven and politically contested (Avi-Yonah, 2023; Aslam & Shah, 2021). Many developing countries argue that the OECD framework does not fully account for their fiscal needs or administrative limitations. Consequently, several have resorted to unilateral measures such as Digital Services Taxes (DSTs), which often result in double taxation and trade disputes (Collet, 2021; Adebisi, 2023). This fragmented global response undermines tax certainty and complicates cross-border compliance for SMEs operating in multiple jurisdictions.

Another major challenge is administrative and technological inadequacy. Developing countries, in particular, face difficulties in monitoring digital transactions, collecting taxes from non-resident digital service providers, and integrating advanced tax data systems. Many revenue authorities lack the technical infrastructure and expertise to track online financial flows and enforce compliance effectively (Rukundo, 2020; Mpofu, 2022). The absence of integrated databases and real-time reporting tools also limits transparency and accountability in tax collection. For SMEs, these administrative gaps translate into uncertainty, as they often struggle to interpret new tax laws, register for digital tax portals, and meet electronic filing requirements (Verbivska et al., 2023; Zhuravleva, 2018).

The high cost of compliance poses another critical issue for SMEs. Digital taxation frequently requires the adoption of new software systems, digital invoicing tools, and cybersecurity measures to ensure data protection and transaction accuracy. For small enterprises with limited financial capacity, these requirements increase operational costs and divert resources away from innovation and growth (Li & Yang, 2021; Olamide et al., 2024). Furthermore, the lack of

clarity and consistency in tax reporting standards across different regions adds to the compliance burden. SMEs that engage in cross-border e-commerce are particularly affected, as they must navigate varying tax rules, digital registration processes, and documentation requirements.

A related challenge concerns data access, privacy, and jurisdictional overlap. Digital businesses often operate across multiple data centers and cloud infrastructures, making it difficult for tax authorities to determine where value creation occurs and which jurisdiction has the right to tax profits (Olbert & Spengel, 2017; Harpaz, 2021). This ambiguity is further compounded by privacy regulations such as the General Data Protection Regulation (GDPR) in the European Union, which restricts the sharing of personal data that might otherwise aid tax audits. As a result, tax authorities face a dilemma between protecting privacy and ensuring fiscal transparency.

Additionally, the lack of taxpayer awareness and digital literacy remains a pressing issue. Many SMEs, especially in developing countries, are unfamiliar with online tax systems, digital record-keeping, and e-filing procedures (Rukundo, 2020; Mpofu, 2023). This knowledge gap often leads to unintentional non-compliance and penalties, discouraging participation in the formal digital economy. Without targeted training programs, guidance materials, and government support, small firms may remain excluded from the potential benefits of digital taxation systems designed to promote inclusion and efficiency.

The political and economic resistance from large multinational corporations also complicates implementation. These corporations, which dominate global digital markets, often lobby against national digital tax laws, citing risks of double taxation and reduced investment incentives. This has led to diplomatic tensions between developed and developing nations, as seen in the disputes between the United States and countries that introduced unilateral DSTs (Avi-Yonah & Clausing, 2022; Cárdenas & Portillo, 2024). For developing economies that depend on foreign investment, this pushback limits their ability to assert fiscal sovereignty over digital transactions conducted within their borders.

Finally, the issue of equity and proportionality represents a conceptual challenge. While digital taxation aims to ensure fair revenue

distribution, it can inadvertently impose disproportionate burdens on smaller businesses that lack the capacity to adapt as efficiently as large corporations (Adebiyi & Harpaz, 2024; Budak, 2017). Poorly designed digital tax systems risk exacerbating existing inequalities by widening the gap between multinational enterprises and local SMEs. To achieve equitable outcomes, tax systems must therefore be accompanied by simplified procedures, capacity-building initiatives, and digital support mechanisms tailored to the needs of smaller firms.

12. OPPORTUNITIES AND POSITIVE IMPLICATIONS

While digital taxation presents several implementation challenges, it also offers significant opportunities and positive implications for both governments and Small and Medium Enterprises (SMEs). When effectively designed and administered, digital taxation can promote fiscal equity, strengthen domestic revenue mobilization, enhance transparency, and support the long-term integration of SMEs into the formal digital economy (Adebiyi, 2023; Mpofu, 2022). The shift toward digital tax systems represents more than a technical reform—it symbolizes a strategic transformation toward modern, data-driven governance that aligns with the realities of the twenty-first-century economy.

One of the most important benefits of digital taxation is its potential to broaden the tax base and improve revenue collection efficiency. By bringing digital transactions under formal fiscal regulation, governments can capture value generated in the online marketplace that previously went untaxed (Aslam & Shah, 2021; Avi-Yonah, 2023). For developing economies in particular, this expansion of the taxable base can reduce dependence on volatile trade and commodity revenues, thereby improving fiscal sustainability. Through the implementation of e-tax filing, digital payment systems, and automated reporting, governments are able to reduce tax evasion, minimize human error, and strengthen compliance mechanisms (Olbert & Spengel, 2017; Cárdenas & Portillo, 2024).

For SMEs, digital taxation creates opportunities for formalization and financial inclusion. Many small enterprises in developing countries operate informally due to the complexity of traditional tax procedures. The introduction of

simplified online tax systems allows these firms to register, declare income, and pay taxes electronically, thus becoming part of the formal economy (Verbivska et al., 2023; Rukundo, 2020). Formalization, in turn, provides SMEs with access to banking services, government contracts, credit facilities, and business development programs that are typically unavailable to unregistered firms. Over time, this inclusion fosters a more transparent and competitive business environment that supports innovation and growth.

Digital taxation also contributes to administrative modernization. The adoption of digital tools such as e-invoicing, real-time transaction monitoring, and digital tax identification numbers enhances tax administration's efficiency and accountability (Zhuravleva, 2018; Li & Yang, 2021). These systems enable governments to track financial activities more accurately, reduce corruption opportunities, and simplify compliance processes for taxpayers. In countries such as India and Indonesia, digital tax infrastructure has also improved communication between tax authorities and SMEs, leading to faster grievance redressal and better taxpayer engagement (Adebisi, 2023; Mpofu, 2023).

Moreover, digital taxation fosters transparency and trust between governments and citizens. When tax systems become more visible, automated, and data-driven, taxpayers are more likely to perceive them as fair and efficient (Collet, 2021; Harpaz, 2021). This perception is especially crucial in developing countries, where public trust in fiscal institutions is often low. Transparent digital systems reduce discretionary power and promote accountability, creating a more predictable environment for SMEs. Enhanced transparency also facilitates global information exchange and cooperation, aligning with OECD-led efforts to combat tax evasion and profit shifting.

Another key opportunity lies in promoting innovation and digital competitiveness. By encouraging businesses to adopt digital technologies for compliance, digital taxation indirectly accelerates digital transformation across sectors. SMEs that invest in digital reporting and accounting systems are likely to enhance their operational efficiency, improve data analytics, and expand market access (Olamide et al., 2024;

Adebisi & Harpaz, 2024). The process of complying with digital tax regulations can thus serve as a catalyst for broader technological advancement and capacity-building among small enterprises.

From a policy perspective, digital taxation provides a foundation for inclusive and sustainable economic growth. The revenues generated through digital tax systems can be reinvested in digital infrastructure, education, and social programs that benefit SMEs and society at large (Mpofu, 2023; Rukundo, 2020). For example, countries such as Kenya and Nigeria have used proceeds from digital service taxes to support youth entrepreneurship and innovation hubs. Such reinvestment creates a cyclical benefit where taxation supports development, and development strengthens the tax base.

Finally, digital taxation enhances international cooperation and policy harmonization. The growing collaboration under the OECD's Pillar One and Two initiatives has brought many countries to a shared understanding of how to tax digital profits equitably (Avi-Yonah & Clausen, 2022; Cárdenas & Portillo, 2024). These frameworks, though still evolving, provide mechanisms for reducing double taxation and ensuring that digital profits are taxed where economic activity and user engagement occur. For SMEs engaged in cross-border trade, greater policy consistency can reduce compliance complexity and foster global competitiveness.

In summary, the opportunities offered by digital taxation extend beyond revenue collection. They encompass the broader goals of transparency, inclusion, innovation, and sustainability. For governments, digital taxation enhances fiscal efficiency and governance; for SMEs, it opens doors to formalization, technological advancement, and market expansion. When balanced with appropriate support policies, digital taxation can serve as a catalyst for a more equitable and resilient digital economy that empowers small businesses and strengthens national fiscal systems (Adebisi, 2023; Mpofu, 2022; Verbivska et al., 2023).

13. DISCUSSION

The findings from this systematic review reveal that digital taxation represents a paradigm shift in global fiscal governance, reshaping the relationship between governments, digital

enterprises, and Small and Medium Enterprises (SMEs). Across regions, it has become evident that the digitalization of taxation is not merely a fiscal reform but a structural transformation of economic administration and business practice. The review underscores that while digital taxation provides opportunities for modernization, transparency, and inclusion, its uneven implementation continues to produce disparities in outcomes between developed and developing economies (Harpaz, 2021; Avi-Yonah, 2023).

A key point of discussion emerging from the reviewed studies concerns the dual nature of digital taxation—as both a catalyst for economic formalization and a source of compliance pressure for smaller firms. In many developing countries, digital taxation has contributed to expanding the tax base by integrating informal and semi-formal enterprises into the fiscal system (Rukundo, 2020; Mpofu, 2022). This process of formalization has increased transparency and improved government access to real-time financial data. However, for many SMEs, especially those in low-income economies, the shift toward digital compliance has also raised new operational burdens. The requirement for digital registration, e-filing, and online reporting demands technological literacy and financial resources that many small businesses lack (Verbivska et al., 2023; Olamide et al., 2024).

Another major theme is the inequality between multinational corporations and SMEs in adapting to digital taxation systems. Large digital firms possess sophisticated accounting systems and dedicated compliance teams that enable them to navigate evolving tax regimes effectively, whereas SMEs often struggle to interpret complex legislation (Cárdenas & Portillo, 2024; Budak, 2017). Without adequate support mechanisms such as simplified procedures, tiered tax rates, or capacity-building initiatives, digital taxation risks widening the competitive gap between global enterprises and domestic small businesses. Policymakers must therefore strike a balance between broadening the tax base and maintaining the competitiveness of SMEs in digital markets.

From a global policy perspective, the review highlights the need for harmonization and international coordination. The OECD's Two-Pillar Solution represents a significant milestone in achieving global consensus, yet its implementation remains fragmented and contested (Aslam &

Shah, 2021; Avi-Yonah & Clausing, 2022). Developed countries have largely advanced through multilateral frameworks emphasizing fairness and neutrality, while developing economies have adopted unilateral Digital Services Taxes (DSTs) to capture immediate revenue benefits (Collet, 2021; Adebisi, 2023). This divergence has led to overlapping tax claims and legal uncertainties for businesses operating across borders. For SMEs engaged in international e-commerce, inconsistent tax rules increase the risk of double taxation and administrative complexity, which could discourage cross-border expansion (Harpaz, 2021; Rukundo, 2020).

The regional comparisons in this review also reveal important policy lessons. In Europe and North America, where digital infrastructure and administrative capacity are strong, digital taxation has been implemented with relatively fewer disruptions (Li & Yang, 2021; Collet, 2021). Conversely, in Africa and Asia, digital tax systems are still evolving, often constrained by limited institutional capacity and uneven digital access (Mpofu, 2023; Adebisi & Mpofu, 2023). Nonetheless, these regions have demonstrated innovation by designing flexible models—such as simplified VAT systems and targeted levies on foreign digital service providers—that align with their developmental priorities. Such adaptive strategies illustrate that a one-size-fits-all approach is ineffective; instead, context-sensitive frameworks yield better compliance and revenue outcomes.

An emerging insight concerns the transformative potential of digital taxation for governance. The integration of digital tools in taxation—such as e-invoicing, real-time reporting, and data analytics—has enhanced efficiency, accountability, and transparency in revenue administration (Olbert & Spengel, 2017; Zhuravleva, 2018). For SMEs, these systems offer opportunities to automate accounting, improve financial discipline, and strengthen relationships with tax authorities. However, the benefits of such systems depend on adequate infrastructure, taxpayer education, and data security frameworks. Without these supporting structures, digital taxation can deepen exclusion rather than foster inclusion, particularly in regions where digital divides persist (Rukundo, 2020; Mpofu, 2022).

The review further emphasizes the importance of equity and fairness in digital

taxation policy. As [Avi-Yonah \(2023\)](#) and [Adebiyi & Harpaz \(2024\)](#) argue, tax systems should reflect both the benefit principle and the ability-to-pay principle to ensure social and economic justice. In digital contexts, this means ensuring that firms generating value in a market jurisdiction contribute proportionately to public finances, while small enterprises are not overburdened by excessive compliance costs. Equity considerations are especially vital in developing economies, where fiscal systems must balance revenue needs with the imperative to support entrepreneurship and employment generation among SMEs.

Finally, the review identifies a critical gap in capacity-building and knowledge transfer. Many governments lack the institutional expertise required to administer digital taxation efficiently. Collaboration between international organizations, regional tax forums, and national authorities can play a vital role in training personnel, upgrading infrastructure, and simplifying compliance tools ([Adebiyi, 2023](#); [Verbivska et al., 2023](#)). The long-term success of digital taxation will depend not only on legislative reforms but also on strengthening administrative systems and taxpayer awareness to create a fair and inclusive digital fiscal ecosystem.

14. STRATEGIC POLICY RECOMMENDATIONS

The findings from this systematic review underscore that the effectiveness of digital taxation depends on balanced, inclusive, and transparent policy design. To ensure that digital tax systems contribute positively to fiscal sustainability and SME development, a set of strategic policy recommendations is necessary. These recommendations aim to guide governments, policymakers, and international organizations in developing coherent, innovation-friendly, and equitable frameworks for taxing the digital economy.

A primary recommendation is the harmonization of digital taxation policies through global cooperation and regional coordination. The ongoing implementation of the OECD's Two-Pillar Solution should be complemented by region-specific adaptations that reflect the unique fiscal realities of developing economies ([Avi-Yonah & Clausing, 2022](#); [Cárdenas & Portillo, 2024](#)). Policymakers should work toward aligning unilateral Digital Services Taxes (DSTs) with

global norms to minimize double taxation and ensure policy consistency. Regional tax forums, such as the African Tax Administration Forum (ATAF) and the Asian Tax Forum, can play a pivotal role in standardizing compliance procedures and facilitating knowledge exchange among nations ([Rukundo, 2020](#); [Mpofu, 2023](#)).

Governments should prioritize simplified and flexible tax systems that accommodate the administrative capacities of SMEs. The introduction of streamlined e-filing platforms, unified registration portals, and digital accounting tools can reduce compliance burdens and encourage voluntary participation ([Verbivska et al., 2023](#); [Olamide et al., 2024](#)). Policymakers should also consider progressive compliance thresholds or differentiated tax rates based on business size and turnover, ensuring that small enterprises are not overburdened by complex tax structures ([Adebiyi, 2023](#); [Li & Yang, 2021](#)). This approach enhances inclusivity while promoting formalization within the digital economy.

Effective implementation of digital taxation requires capacity building for both tax authorities and SMEs. Developing countries, in particular, must invest in training tax officials in digital monitoring tools, cybersecurity, and data analytics to improve enforcement efficiency ([Mpofu, 2022](#); [Harpaz, 2021](#)). Simultaneously, SMEs should receive training in digital financial management, online tax filing, and e-invoicing systems. Public-private partnerships between governments, universities, and technology providers can facilitate these programs, bridging the knowledge gap that often hinders compliance ([Rukundo, 2020](#); [Verbivska et al., 2023](#)).

Digital taxation can only succeed when supported by robust technological infrastructure. Governments must invest in secure digital tax platforms, cloud-based data systems, and real-time reporting technologies that minimize fraud and enhance efficiency ([Olbert & Spengel, 2017](#); [Zhuravleva, 2018](#)). Developing economies should also leverage international funding mechanisms and technical assistance programs to modernize their tax administration systems. Investments in infrastructure not only improve revenue collection but also create spillover benefits for SMEs by strengthening the broader digital ecosystem ([Cárdenas & Portillo, 2024](#); [Mpofu, 2023](#)).

Equity must remain at the core of digital tax policy. Governments should apply the benefit

principle and ability-to-pay principle to ensure proportional taxation, preventing SMEs from facing excessive compliance costs compared to large multinational corporations (Avi-Yonah, 2023; Adebisi & Harpaz, 2024). This can be achieved by designing tiered tax systems that differentiate between micro, small, and medium enterprises. Policies should also include mechanisms for dispute resolution, tax credits, and relief measures for start-ups engaged in digital innovation. Such equity-based approaches strengthen public trust and encourage compliance.

To build taxpayer confidence, digital tax systems must ensure transparency, privacy, and accountability. Governments should establish clear legal frameworks for data use, protect business and consumer information, and ensure interoperability between different digital tax systems (Collet, 2021; Harpaz, 2021). Transparent reporting mechanisms also enable policymakers to monitor tax flows effectively and make informed fiscal decisions. In addition, collaboration with international organizations can help countries adopt global best practices in data governance and cybersecurity, safeguarding both state revenue and taxpayer rights (Aslam & Shah, 2021).

Digital taxation should be integrated into broader national and regional development strategies. Revenues generated from digital tax systems can be reinvested in digital infrastructure, innovation ecosystems, and SME support programs (Mpofu, 2022; Rukundo, 2020). Governments can establish dedicated digital innovation funds or grant programs financed by digital tax revenues to foster entrepreneurship, skill development, and technological advancement. Aligning taxation with sustainable development objectives ensures that fiscal policy contributes to long-term economic resilience and inclusive growth (Adebisi, 2023; Verbivska et al., 2023).

Finally, sustained international dialogue and policy coordination are essential for the long-term success of digital taxation. Institutions such as the OECD, IMF, and World Bank should continue to facilitate discussions on global taxation standards while supporting the participation of developing countries in decision-making processes (Avi-Yonah, 2023; Cárdenas & Portillo, 2024). Establishing regional tax knowledge networks can also enhance cooperation and foster mutual learning,

particularly in areas related to digital trade and e-commerce taxation.

15. DIRECTIONS FOR FUTURE RESEARCH

Although digital taxation has emerged as one of the most significant fiscal reforms of the twenty-first century, the review reveals that many theoretical, empirical, and practical aspects remain underexplored. The rapidly evolving nature of digital economies, combined with varying national capacities and the growing participation of Small and Medium Enterprises (SMEs), necessitates deeper and more context-specific research. Future studies must therefore adopt interdisciplinary and comparative approaches that integrate insights from economics, law, technology, and public policy (Avi-Yonah, 2023; Harpaz, 2021).

One major research direction lies in evaluating the long-term effects of digital taxation on SME competitiveness and innovation. While current studies emphasize compliance and administrative impacts, less is known about how digital taxation shapes entrepreneurial behavior, technological adoption, and firm performance over time (Verbivska et al., 2023; Li & Yang, 2021). Empirical studies using firm-level data could help clarify whether digital tax systems encourage digital adoption or act as deterrents to small business innovation. Additionally, sector-specific analyses—such as on fintech, e-commerce, or creative industries—could reveal differential impacts of digital tax policies across economic segments.

Another key area of inquiry involves understanding the socio-economic consequences of digital taxation in developing countries. Most of the available literature focuses on OECD economies and upper-middle-income nations, leaving a gap in understanding how digital tax reforms affect low-income economies with limited administrative capacity (Rukundo, 2020; Mpofu, 2023). Future research should examine how informal enterprises transition into the formal economy under digital taxation regimes and identify strategies for capacity-building that promote equity and inclusivity. Comparative analyses between African, Asian, and Latin American experiences can also generate valuable insights for global policy harmonization (Adebisi, 2023; Cárdenas & Portillo, 2024).

Further investigation is needed into the governance and ethics of digital tax administration, particularly regarding data privacy, cybersecurity, and algorithmic transparency. The growing use of artificial intelligence and automated tax systems raises important questions about accountability, information security, and the protection of business data (Collet, 2021; Olbert & Spengel, 2017). Future researchers could explore frameworks for ensuring ethical governance in digital tax collection, balancing the need for transparency with the right to data confidentiality.

There is also a research gap concerning the effectiveness of international cooperation frameworks, such as the OECD's Pillar One and Two initiatives, in reducing tax competition and promoting equitable outcomes for developing countries (Avi-Yonah & Clausing, 2022; Aslam & Shah, 2021). Longitudinal policy assessments could evaluate how participation in global tax accords influences domestic fiscal performance, foreign investment, and SME inclusion. Moreover, studies could explore whether global coordination mechanisms adequately represent the interests of smaller economies, or whether alternative regional alliances—such as those promoted by the African Tax Administration Forum (ATAF)—offer more adaptive policy models (Mpofu, 2022; Rukundo, 2020).

An emerging and increasingly relevant area of research concerns digital tax equity and sustainability. Future scholars should analyze how digital taxation can contribute to environmental and social goals through mechanisms such as green digital taxes or incentives for sustainable innovation (Adebiyi & Harpaz, 2024; Zhuravleva, 2018). Understanding how tax revenues from the digital economy can be reinvested in digital infrastructure, education, and technology upskilling will be critical for achieving the dual objectives of economic growth and social welfare.

16. CONCLUSION

The transformation of global economies through digitalization has fundamentally altered how value is created, exchanged, and taxed. This systematic review examined the evolving landscape of digital taxation and its implications for Small and Medium Enterprises (SMEs) in the global economy. The review highlights that digital

taxation represents both a policy necessity and an administrative challenge, particularly as governments seek to modernize fiscal systems and ensure fairness in a borderless digital marketplace (Olbert & Spengel, 2017; Harpaz, 2021). While the global movement toward digital taxation—exemplified by the OECD's Two-Pillar Framework—reflects progress in international fiscal cooperation, its uneven implementation underscores persistent disparities between developed and developing economies (Avi-Yonah, 2023; Cárdenas & Portillo, 2024).

Across the reviewed literature, it is evident that digital taxation has produced dual outcomes for SMEs. On one hand, it enhances transparency, accountability, and formalization, enabling small enterprises to access new markets, strengthen compliance, and integrate more effectively into the formal economy (Verbivska et al., 2023; Rukundo, 2020). On the other hand, the complexity of digital tax regulations and the cost of compliance present major obstacles, particularly for SMEs operating in developing countries with limited digital literacy and infrastructural capacity (Olamide et al., 2024; Mpofu, 2022). The balance between expanding fiscal revenue and sustaining entrepreneurship remains delicate, requiring policies that are both inclusive and adaptive to local realities.

The review further establishes that regional and comparative experiences offer valuable lessons for shaping effective digital tax systems. Developed economies, supported by advanced digital infrastructures, have achieved greater policy coherence and compliance efficiency, whereas developing nations continue to face challenges of administrative capacity and technological readiness (Li & Yang, 2021; Adebiyi, 2023). Nevertheless, emerging initiatives across Africa, Asia, and Latin America demonstrate a growing commitment to fiscal modernization and innovation. Regional collaborations, such as those facilitated by the African Tax Administration Forum (ATAF), provide promising examples of how localized approaches can complement global frameworks to create fairer, more practical systems of digital taxation (Rukundo, 2020; Mpofu, 2023).

The study also emphasizes that digital taxation is not merely a fiscal instrument but a tool for inclusive development. When properly implemented, it can broaden the tax base, mobilize

domestic revenue, and promote financial inclusion among smaller enterprises. Digital taxation also encourages investment in infrastructure, transparency in governance, and technological advancement within both the public and private sectors (Adebisi & Harpaz, 2024; Collet, 2021). However, realizing these benefits requires governments to adopt an integrated strategy—one that combines fiscal reform with digital innovation, education, and institutional capacity building.

In conclusion, the success of digital taxation lies in policy balance—between global coordination and local adaptation, between revenue generation and business sustainability, and between fairness and simplicity. Policymakers must ensure that digital tax frameworks align with principles of equity, proportionality, and economic neutrality to prevent undue burdens on SMEs (Avi-Yonah, 2023; Aslam & Shah, 2021). As digital economies continue to expand, nations that strategically harmonize fiscal policy with digital transformation will be better positioned to achieve sustainable growth and inclusive prosperity. Future tax systems must therefore evolve as dynamic, technology-enabled, and people-centered institutions that empower SMEs while securing fiscal justice in the global digital economy (Harpaz, 2021; Mpofu, 2023).

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