

THE ROLE OF THE DIGITAL ECONOMY IN REDUCING THE SHADOW ECONOMY

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Abstract

Today, the shadow economy is a pressing issue in many countries. The primary aim of this article is to explore the potential of reducing the shadow economy through the development of the digital economy. It analyzes how digital technologies can enhance transparency in the economy, increase tax revenues, stabilize government incomes, and strengthen socio-economic and political stability. This approach seeks to improve the capacity of the formal economy, reduce shadow economic activities, and offer effective strategies for enhancing public welfare.

Keywords

hidden income, currency flow, counterfeit documents, informal trade, hidden investments, tax base, tax evasion, informal sector.

Introduction:

The digital economy involves managing economic activities, creating goods and services, and utilizing them effectively with the help of the internet, information technology, and modern digital technologies. Digitalization of the economy is a serious and very large-scale step towards economic development. But recently, digitalization meant only access to the Internet and the presence of personal computers. Today, the routine of the above gives rise to a new version at the digital economy, which includes the Internet of Things, augmented and virtual reality, cloud computing, blockchain, robotization, automated manufacturing. The shadow economy encompasses economic activities that operate outside formal regulation, reducing the amount of tax revenue reaching the national budget. By fostering transparency in economic processes, tracking transactions, and monitoring economic activity, the digital economy increases control over these processes. Thus, the development and widespread implementation of the digital economy can help reduce the shadow economy. The

shadow economy includes economic activities that are conducted covertly, are not under state and societal control, do not contribute taxes, and are not recorded in official government statistics.

Methods to reduce the shadow economy using digital economy tools:

1. Widespread implementation of electronic payment systems:

Electronic payment systems reduce cash use, enabling better tracking of economic activity.

Advantages of electronic payment systems:

Transition to a cashless economy: Each transaction through electronic payments are digitally recorded, ensuring transparency. All payments are under government oversight, simplifying economic activity analysis.

Increasing tax revenues: Electronic payment systems enable automatic tax collection, reducing opportunities for tax evasion, which helps decrease the shadow economy.

2. Implementation of electronic documents and accounting:

An electronic documentation and accounting system improves transparency between the public and private sectors:

Exchange of electronic documents: If contracts, tax reports, and accounting are conducted electronically, it becomes easier for the government to monitor corporate and individual activities.

Use of digital systems in government services: Digitizing government services and e-governance provides complete oversight of economic data. This ensures that tax payments are maintained and government budget revenues increase.

3. Utilization of blockchain technology:

Blockchain technology allows economic transactions to be conducted transparently and securely:

Transparency of Transactions: Through blockchain technology, all economic transactions are recorded and stored in an immutable format. This technology can be used in trade operations, tax collection, and financial processes.

Data Security: Blockchain technology ensures data security, reducing the likelihood of fraud and tax evasion. Additionally, it facilitates government monitoring of economic activity.

Advantages of developing the digital economy:

1. Increasing tax revenues: Digital systems and the digital economy can enhance the transparency of economic activities and enable better control over tax payments.

2. Reducing fraud and corruption levels: Combating the shadow economy effectively boosts taxpayer confidence and reduces corruption risks.

3. Efficient Management of State Resources: Digital tax control methods simplify the process of augmenting the national budget and efficiently distributing resources.

4. Fostering competition and economic growth: The digital economy helps create a transparent market, promoting healthy competition among businesses and stimulating economic growth.

It's important to delve deeper into the nuances of how the digital economy interacts with the shadow economy.

1.Mechanisms of reduction: Increased transaction traceability:

Digital payment systems (e.g., mobile money, electronic transfers) create a detailed record of transactions. This makes it significantly harder for individuals and businesses to hide income from tax authorities.

Online platforms and marketplaces also generate data on sales and revenue, providing valuable information for tax compliance.

Formalization of informal businesses:

E-commerce platforms and online services provide opportunities for informal businesses to expand their reach and access new markets.This increased visibility can incentivize businesses to formalize their operations to gain legitimacy and access to formal financial services.

Enhanced tax administration:

Digitalization allows tax authorities to automate tax collection and improve efficiency. Data analytics and AI can be used to identify patterns of tax evasion and target audits more effectively. E-government initiatives can streamline tax filing and payment processes, reducing opportunities for the corruption and tax avoidance.

2. Challenges and counterarguments:

Digital shadow economy:

While digitalization can reduce traditional forms of the shadow economy, it can also create new forms, for example online fraud, cybercrime, and the illicit trade of digital goods and services. The anonymity provided by online platforms can make it difficult to track and regulate these activities.

Digital divide:

Unequal access to digital technologies and skills can exacerbate existing inequalities and create new ones. Individuals and businesses in underserved areas may be excluded from the benefits of the digital economy, potentially pushing them further into the shadow economy.

Data privacy concerns:

The increased collection and analysis of data raise concerns about privacy and security. It's important to establish robust data protection frameworks to ensure that personal and business information is handled responsibly.

Regulatory adaptation:

Governments must adapt regulatory frameworks to keep pace with the immediate evolution of the digital economy. This includes addressing issues such as the taxation of digital services, the regulation of online platforms, and the prevention of cybercrime.

3. Policy Recommendations:

Promote digital literacy and inclusion:

Invest in education and training programs to increase digital skills and ensure equitable access to digital technologies.

Strengthen digital infrastructure:

Expand broadband access and improve the reliability of digital infrastructure to support the growth of the digital economy. Enhance tax administration capacity:

Invest in technology and training to better the efficiency and effectiveness of tax administration.

Foster collaboration:

Encourage collaboration between governments, businesses, and civil society organizations to address the challenges of the shadow economy and promote the responsible development of the digital economy.

Conclusion: In summary, developing the digital economy is a powerful tool for effectively reducing the shadow economy. Technologies like electronic payments, digital identification systems, and blockchain increase transparency and control in the economy, making it easier to identify informal activities and increase tax revenues. This process not only strengthens government income stability but also supports socio-economic development. Furthermore, reducing the shadow economy bolsters the official sector and improves public welfare. This analysis has demonstrated that the strategic development and implementation of the digital technologies can be significantly contribute to the formalization of economic activity.

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