ATLANTIS PRESS

Advances in Social Science, Education and Humanities Research, volume 498

Proceedings of the XIV European-Asian Law Congress "The Value of Law" (EAC-LAW 2020)

Legal Support of State Tax Sovereignty: Paradigm Change

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ABSTRACT
Tax sovereignty is defined as a basic legal value aimed at ensuring the principle of tax equity. The restriction of tax sovereignty is objectively caused by modern economic and political interaction between states. The analysis of the content and forms of restriction of tax sovereignty is carried out on the basis of the study of legal acts of the European Union as the most developed modern legal system, which has a direct limiting effect on the sovereignty of member states in the field of taxation. The development of this area may be in demand within the framework of international cooperation, for example, the Eurasian Economic Union, since the rules for tax collection serve a significant factor determining the development of international economic activity and the creation of a single market. A conclusion is being formed on the change of the paradigm of tax sovereignty in the modern world, which undergoes an increasing coordinated regulation (restrictions) based on international contracts or agreements on the formation of unions. The axiological aspects of limiting the tax sovereignty of states on the basis of international agreements act as a balance between such basic modern values as tax equity and the system of a common economic market.
Keywords: *state sovereignty, tax sovereignty, integration, coordination, value of law, legal values*

1. INTRODUCTION

Sovereignty is a category that for centuries has been accompanying social, political and scientific life reflecting the basic characteristic of the legal identity of the state. The content of this category is multifaceted, distinguishing internal and external, state, moral, cultural, tax and other types of sovereignty, reflecting the understanding of the boundaries of the freedom of state in its actions on its territory, as well as its ability for independent, “impervious” existence [1].
The sovereignty of a state implies full control over domestic policy matters, without dependence on other laws or regulations with greater legal force than the law of that state and without external interference [2]. However, we should admit that the principle of full external autonomy has never been a reality in relations between states [3]. The dependence of state sovereignty on many factors led to a discussion about its internal and external limits. The significance of these problems is clearly reflected in the situation where a number of acts of the European Court of Human Rights have formulated new aspects in understanding the limits of state sovereignty with regard to the protection of human rights [4].
To a large extent, the problem of the limits of state sovereignty is aggravated by the globalization of economic links and the strengthening of the role of international cooperation. Current trends in political life and their apparent inconsistency with the traditional paradigm of state sovereignty create fears in the viability of this category in general [5].
This is associated with increased attention to the category of tax sovereignty of the state, theoretical aspects of its content, limits and permissible forms of restriction. Tax sovereignty – a traditionally distinguished feature of the state – is becoming increasingly dependent on international legal regulation due to digitalization of economic relations, their transparency, as well as the need to counter the erosion of the tax base and the movement of profits to evade taxes.
The mobility of modern factors of production makes it possible to choose between tax regimes in different countries in order to minimize the tax burden, which, according to experts in this field, leads not only to the development of tax competition between states, but also to the resulting trend of increasing inequality in the distribution of income and wealth among countries, undermining their state sovereignty and independence [6].
Hence the task of understanding the possible goals of the legal restriction of tax sovereignty, its permissible limits, legal forms and other substantive aspects. Despite the intensification of scientific interest in this political and economic problem, and the growth of proposals for its adjustment, we face the fact that even basic concepts, such as efficiency and sovereignty or financial autonomy, have different understanding among different authors [7]. Other

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issues of basic importance also require resolution: whether tax sovereignty can be considered as a legal value that requires special legal support (consolidation, protection, development); in what forms and to what extent the restriction of tax sovereignty is carried out in modern practice and a number of others.
The study used general scientific methods (analysis, synthesis, generalization, comparison, deduction, induction, etc.), as well as statistical, comparative-legal, structural-functional and formal-legal research methods.

2. IS TAX SOVEREIGNTY A LEGAL VALUE?

Understanding the value of law has several aspects. On the one hand, the law is characterized by instrumental value as a regulator of public relations ensuring the organization of society, communication within it, as well as social control. On the other hand, law is a means of implementing a set of absolute values, not only giving them legal form, but also refracting their content. The basic values in this series are freedom, justice, equality [8]. This is what determines another side of the value of law – it is able to act as a tool of social development, provided that it reflects these absolute values.
In the theory and philosophy of law, the concepts of "law" and "legislation" have different relations: from complete coincidence within the framework of legalistic legal concepts, to an understanding of their differentiation – within the framework of legal-libertarian schools – when law is not only the result of a law-making process, but also a certain external criterion to which positive law should correspond. In Russian legal doctrine, this direction was developed in the works of V.S. Nersesyants. He believed that law in the axiological sense acts as a specific strictly defined form of legal oughtness, different from other forms of oughtness and value forms – moral, religious, etc. Based on this, the value of law is the value of the legal form as a form of equality, freedom and justice, when the general significance of law derives from its objective nature, and not from the will (or arbitrariness) of the legislator. The legislation as a positive law, and the state should be legal [9].
Indeed, this complicates the tasks of the legislator and the requirements for legislation, as K. Marx pointed out, believing that the legislator does not make laws and does not invent them, but only formulates them: "...we would have to reproach the legislator for unlimited arbitrariness if he replaced the essence of the case with his fiction". According to K. Marx, the legislator should look at himself as a natural scientist, whose task is to search for and reflect the "internal laws of spiritual relations" [10].
The "legal" meaning of a positive law as a criterion for its content and as a basic idea of law, or otherwise, the question of the value of law, is still not unequivocal either in understanding or in the form of its consolidation (in legal or outside legal): what values contain the law, what values it can bring to the life of society and the individual. In the literature, the values that determine the legal position include various parameters that somehow reflect the idea of justice, the essence of which is also very different in each legal school [11], thereby creating a deeper understanding of this most complex category.
Awareness of this allows agreeing with another judgment expressed in science. Historical and civilizational development updates and enriches the meaning of the legal position following changes in the understanding of the essence and meaning of the concepts of power, the functions of the state, the limits of its interference in the affairs of civil society, and the understanding of the content of human rights and freedoms. This specifies the understanding of the legal as a criterion of the positive law. This results in the need for continuous improvement of practical and effective forms of positive law and the state, which are always far from ideal [12].
The set of values that determine the content of the legal meaning of the law is thus the subject of public discussion. The basic requirements are to take into account the interests of all segments of the population, to protect socially weak categories of persons, to ensure the priority of the interests of the state [13].
The issues of state sovereignty are among those basic values, the enduring value of which persists, despite and even to some extent contrary to the recent trends in relations between states. There is an obvious tendency to change the understanding of the essence of tax sovereignty and its dependence on external factors.
Can tax sovereignty be seen as a legal value that requires special legal support: consolidation, protection, development?
Taxation is an activity objectively necessary for organizing the life of society, ensuring the formation of public money funds and, as a result, solving public problems. However, in a democratic state, the "right of the state to tax" is not a subjective right, but a power derived from the sovereignty, i.e. the state is obliged to organize effective taxation, as well as to ensure defense, social policy, etc. [14].
If tax sovereignty is a continuation of the will of the people, then one of its expressions is the fair taxation. Justice does not mean private justice, but public justice. For example, progressive taxation is unfair individually to every taxpayer with a sufficient level of income, but may be public justice for taxpayers whose income does not reach the level of increased rates, provided that such taxpayers form the majority.
We observe the processes of transformation of the traditional paradigm of tax sovereignty: from the autonomy of the state will to establish taxes on its territory to its restriction by the norms of interstate agreements. When social interactions cross borders and form interdependencies among countries and external effects on domestic government issues, there is a growing need to form interstate agreements, which is assessed by many as a form of global governance [15, 16]. Economic interdependence among states extends the format of the limitation of tax sovereignty: it is possible not only for states participating in an international agreement, but also

for states not participating in them, for example, as a result of the concerted actions of member countries to international agreements.

The question of the limitation of tax sovereignty is becoming relevant due to the apparent competition of such values as state sovereignty in the field of taxation and global distributive justice [6]. In terms of international taxation, the idea of global distributive justice implies that the international tax rules should be based on national interests, which are not limited to the interests of individual international groups of companies and developed states. In the international aspect, the balance of public and private interests has more complex structure due to the diversity of tax systems of sovereign states that are parties to tax relations. The most significant features are the following.

First, in relations between states, the sphere of interest is the levy of taxes on objects of international economic activity in their budget. The primary is the balance of public interests of states based on the principle of equality of states as parties to international legal relations. Criticism of this thesis is quite fair, since the balance of public interests is initially supposed due to the sovereign status of the parties to legal relations. However, taxation of international economic activities falls within the interests of all states whose territory or persons are associated with such activities. A striking example of a conflict of public interest is the processes in relation to "American" international groups of companies, to which not only companies but also a number of states are parties [17]. The purpose of negotiations and other dispute resolution instruments in this case is to find a balance between the public interests of different states and the private interests of taxpayers.

Second, a necessary element of this system of legal relations is the balance between the private interest of the taxpayer and the public interest of those states that levy the tax. It is essential for the taxpayer that the international nature of his activities does not lead to increased unfair taxation. The guarantee of private interest is a balance between the public interests of states achieved through mechanisms for avoiding multiple taxation and mutual agreement. The OECD proposal to expand the scope of the procedure to include not only the parties to a particular international agreement but also other states whose interests are related to the case under consideration seems interesting. [18].

The question of the limits of the restriction of tax sovereignty inevitably addresses the problem of distinguishing between legitimate, i.e. permissible and necessary, financial interdependence between states from illegal tax competition, as well as the structures capable of assessing states' compliance with established restrictions. Thus, P. Dietsch, T. Rixen consider it necessary to form two new principles of international taxation and a specialized international organization – International Tax Organization – to consider disputes between states concerning the implementation of these principles in a specific situation [6].

This allows concluding that ensuring reasonable limits on the restriction of the tax sovereignty of states is a guarantee of the principle of fairness of interstate taxation.

3. FEATURES OF EUROPEAN TAX LAW

3.1. European Union tax federalism and its principles

Tax coordination in the European Union has similar features to the tax federalism of the federal states [19]. Thus, integration processes require "effective" interaction not only of tax, but also of budgetary processes taking place within each member state individually and the entire Union. The principle of self-restriction of tax sovereignty acquires special importance, shifts to a new level, since it is assumed that the higher objective, i.e. the creation of a single market, requires states to renounce certain rights in the field of taxation.

Tax federalism in the European Union can be considered as a tax policy tool aimed at optimizing the structure and distribution of taxes within the European Union, as well as solving the problems of multiple taxation and tax evasion on the basis of the principles of harmonization, proportionality and subsidiarity.

The tax federalism of the European Union is closer in features to decentralized federations, which imply a large volume of the subject of regional lawmaking and "actively developing the competing legislation of the federation".

The main tools of tax integration are directives and regulations, which combine the features of national and international legal regulation. The Court of Justice of the European Union has a special role in positive integration.

3.2. Provisions limiting the tax sovereignty of the EU member states

The law of the European Union provides for rules that are aimed at protecting the tax sovereignty of member states, as well as rules that can be attributed to the institution of self-restriction of tax sovereignty.

The first group may include provisions of Article 58 of the Treaty Establishing the European Community, which imply that the norms of the Treaty do not limit the right of the member states to apply the standards of the tax law considering features of a domicile and origin of the capital [20].

The second group includes the norms on the prohibition of tax discrimination and on the national regime: Articles 90 and 96 of the Treaty Establishing the European Community. Article 97 of the Treaty limits the right of states whose tax systems provide for a turnover tax (cumulative) to set average rates for imported or exported goods that violate the principle of prohibition of tax discrimination and national regime. Exemption (reduction or other relief) of export-import transactions for other

taxes is allowed only with the permission of the Community Administration Bodies (Council and Commission).

The Council of the European Union adopted the Code of Taxation of Business Activity (further – the Code) on December 01, 1997 [21]. In accordance with the provisions of section A of the Code, the activities of member states involving exemption from taxation of certain activities (application of a zero tax rate or their taxation below an effective level) are considered as potentially dangerous to the common market of the Union. The measures taken by the states should be considered in terms of the inadmissibility of tax exemptions on the basis of tax residency; its restrictions on entrepreneurial activity only in the national market; prohibiting the use of tax incentives without real business activities; the extent to which the regulation of taxation of the International Group of Companies is in line with best practices, in particular those under the auspices of OECD; transparency of measures taken.

Based on the above criteria, the member states undertake not to adopt tax measures that pose a danger to the single market and have signs of unfair tax competition. Besides, the states undertake to review and amend the existing tax legislation with a view to violating the principles of the Code.

The member states are obliged to inform each other, upon request, of the tax measures they have taken, if such measures relate to the above issues. The Commission composed of the representatives from each member state was established to ensure the implementation of the provisions of the Code. The Commission monitors the compliance by the member states with the Code on an ongoing basis. Besides, the member states undertake to review their contractual relations with third countries where such contracts create conditions for tax evasion.

The issue of the relationship between national tax law, bilateral agreements on the avoidance of double taxation, international tax conventions on other issues and tax rules of integration entities has its own characteristics due to the objectives of international cooperation. Thus, interstate cooperation within the framework of integration entities is aimed at ensuring the functioning of the single market. Bilateral agreements on the avoidance of double taxation are aimed to reduce the negative impact of legal double taxation on international economic activity within the jurisdictions of two contracting states. The objective is also to reduce the negative impact of tax evasion using differences in tax systems.

The second group includes supranational rules governing the collection of specific taxes. Thus, the collection of value added tax in the countries of the European Union is harmonized by the Council Directive No. 2006/112/EC [22]. This Directive establishes a number of general rules for VAT collection in the territory of the European Union, which form the general VAT system. In particular, the Directive obliges the states to establish tax-relevant terms, facts, institutions and other circumstances in the national legislation to create a single system of indirect taxation: for example, the concept of "taxable person", "taxable transaction", rules for determining the place of provision of transport and other services, making a transaction, and also contains relevant explanations (Clauses 13-24 of the General Provisions). Article 1 of the Directive establishes the principle of VAT collection (as a more instrumental essential characteristic that explains the VAT "mechanism"). The following articles of the Directive define the objects of taxation, as well as exceptions to them (Articles 2-4), taxpayers (Articles 9-13), peculiarities of the qualification of the sale of goods and the provision of services for tax purposes (Chapter 4), as well as the rules for determining the place of sale of goods, the provision of services (Chapter 5), the moment of tax obligation (Chapter 6) and the tax base (Chapter 7).

Thus, the Directive establishes all necessary elements of tax on value added tax. In fact, the VAT tax system is established at the level of the Directive, and the participating states are free to determine only the rate of taxation, which really differ significantly depending on the economic conditions and financial condition of member states [23].

In terms of excise taxes, the acts of the European Union can be divided into acts aimed at establishing a harmonized system for collecting excise taxes on operations with a certain type of excise goods, and acts aimed at harmonizing excise rates.

For example, for excise taxes levied on alcohol transactions, the harmonized system is established by EEC Council Directive No. 92/83/EEC and for rate harmonization – by EEC Council Directive No. 92/84/EEC. The first Directive establishes common approaches to the definition of excise goods (beer, wine, other fermented drinks, etc.), defines some tax-relevant concepts, for example, "small alcohol factory", the procedure for determining the tax base and some other elements of taxation.

With regard to indirect taxation in the European Union, it is possible to conclude on the development of a harmonized taxation system. This is expressed at the supranational level in the establishment of unified definitions, concepts and terms characteristic of the relevant tax, as well as the principles of determining tax elements and harmonizing tax rates.

In terms of indirect taxation, harmonization of the above rules slightly limits the tax sovereignty of states parties. The main competence that remains at the national level is the establishment of tax rates. According to OECD statistics, VAT rates in the EU vary significantly: in Austria – 20%, Germany – 25%, Hungary – 27% [24]. The consumer activity and regulation of tax rates is a sufficient combination of the properties of the tax system that meets the national interests of each state included in integrated union.

It is noteworthy that with regard to the international aspects of VAT payment, a significant number of states, regardless of their participation in integration entities, adhere to the practice of applying a zero export rate. In this case, the principle of taxation at the destination of goods

(work, services) applies. In this regard, D.V. Vinnytsky identifies a separate system of institutions of cross-border taxation with indirect taxes, which includes rules for determining the place of sale of goods (works, services), the application of the principle of the country of destination and issues of tax compensation in export transactions [25].

Thus, integration processes do not only limit the tax sovereignty of states parties, but on the contrary, the harmonization of indirect taxation rules significantly contributes to the development of trade between the concerned states.

A much more serious restriction of national interests is the harmonization of direct taxation, since the receipt of taxes in the budget of the relevant state in this case does not depend on consumer activity, i.e. the will of the actual payer.

In the field of direct taxes, the acts of the European Union established several rather narrow and discrete measures mainly related to the qualification of corporate taxpayers and aimed at avoiding double taxation in international transactions with subsidiaries. They are not considered to have a significant restrictive effect on the sovereignty of member states. [26].

It would be difficult to quarrel with this statement. The general requirements for taxation on the operations of subsidiaries and parent companies located in different states are determined by the Directive 2011/96/EC of November 30, 2011 [27].

Clause 3 of the preamble to this Directive establishes that its purpose is to exempt dividends and other payments from subsidiaries in favor of parent companies from taxation and to prevent double taxation of such payments in the jurisdiction of the location of parent companies. This rule is aimed at ensuring the functioning of such companies within the EU in a single market and making them more competitive in external markets.

Clause 7 of the preamble establishes a general rule according to which the jurisdiction of the parent company does not tax payments from associated subsidiaries or provides for the right to credit the tax paid by associated companies for such profits. Clause 8 of the preamble establishes a rule banning source tax. The same rules apply to relations between the permanent establishment and the main enterprise. The Directive also provides for the harmonization of certain definitions, such as participation in a subsidiary (10%), permanent establishment and some other rules necessary for the application of the Directive in different legal systems.

By accepting the 2011/96/EC restrictions imposed by the Directive, the states parties waive the right to tax passive income, both under the rule of residence and under the rule of source. It is evident that such a restriction is true for those states that benefit from single market conditions, such as increasing the tax base in the form of active income. The benefit of the state creating conditions for the operation of direct investment, but refusing to tax the profits paid to a non-resident investor, is doubtful only if it does not receive any other advantages.

The example of restriction of tax sovereignty of member states is also the Convention on avoidance of double taxation concerning revenues of the related enterprises [28]. This Convention obliges a state to revise its income tax base if a symmetrical adjustment of the tax base was made by another state to a taxpayer-related company.

4. TAX COORDINATION IN THE EUROPEAN UNION

Thus, tax coordination in the European Union is expressed in the distribution of tax rights among states [29].

Since some tax coordination measures entail significant changes in national tax systems, they can only be implemented through soft law without restrictions on the tax sovereignty of states parties. The European Commission is developing a system of recommendations (soft law) aimed at coordinating tax systems [30]. One of the most “painful” issues for tax sovereignty is the creation of a consolidated tax base on income tax [31].

Direct tax coordination is a matter of “shared responsibility with advantage”, i.e. the implementation of these issues by the Union implies the loss of advantage from member states. The rules of soft law aimed at coordinating direct taxation, in cases of discrepancy with national legislation, are supported by the Court of Justice of the European Union, provided that their application is consistent with the objectives of the Union and its principles. In this case, the Court of Justice of the European Union acts as the tool of “negative integration” [32].

The decisions of the Court of Justice of the European Union on the conformity of national tax law with the principles proclaimed in the first-level Union sources provide guidance to other member states in the direction of changing national tax systems.

The Court of Justice of the European Union does not seek to violate the tax sovereignty of member states by considering the inconsistency of national tax rules with the rules of the primary law. Its task is to ensure an effective balance of tax sovereignty and rights (freedoms), the equality of which is declared to all persons belonging to the European Union. In this regard, K.A. Ponomareva notes “the importance of a balance between the interests of EU citizens – holders of fundamental freedoms and the Union itself in implementing mechanisms of the common market, on the one hand, and the interests of sovereign states, on the other. Fundamental freedoms and sovereignty of the states have equal weight therefore the interests of neither party will not be the priority” [29].

The search for an effective and equitable balance in taxation accompanies this direction of financial activity of the state at both the national and international levels. At the national level, taxation is required to balance private and public interests, at the international level, in terms of tax coordination, to balance the restriction of tax sovereignty and the goals of integration processes, for example, the creation of a single market. The greater the

number of participants in integration processes and significant differences not only in the economic, but also in the cultural spheres, the more difficult it is to find this balance.
In addition to issues of direct and indirect taxation, the tax law of the European Union covers the issues of tax control, measures against tax evasion. The sovereignty of the state usually presupposes, among other elements, the supremacy of the state in establishing measures to ensure the payment of taxes, including the organization of tax control.
The legal basis for combating tax evasion in the European Union is the Directive No. 2016/1164 of July 12, 2016 [33]. This Directive contains some rules on anti-tax evasion similar to those developed by the Organization for Economic Cooperation and Development in the framework of the BEPS project (rules on hybrid tools controlled by foreign companies, etc.). However, unlike the BEPS plan, the European Union Directive is not a recommendation but a binding rule. It seems difficult to recognize the issues of legal regulation of protective relations (in the areas of tax control, combating tax evasion, etc.) less limiting tax sovereignty than the issues of regulation of direct and indirect taxation. This thesis is well illustrated by the issue of taxation of the digital economy. Perhaps, it is one of the most difficult issue for a compromise both at the level of the European Union, and between other participants of the international economic activity, "complicated by a digital element" [34].

5. CONCLUSION

Historical and civilizational development updates and enriches the axiological meaning of legal tools following changes in the understanding of the essence and meaning of the concepts of power, the functions of the state, the limits of its interference in the affairs of civil society, and the understanding of the content of human rights and freedoms.
Hence the need to constantly improve the practical and effective forms of positive law and state, which are always far from ideal. The issues of state, and tax sovereignty in particular, are no exception.
Tax sovereignty – a traditionally distinguished feature of the state – is becoming increasingly dependent on international legal regulation due to digitalization of economic relations, their transparency, as well as the need to counter the erosion of the tax base and the movement of profits to evade taxes. The mobility of modern factors of production makes it possible to choose between tax regimes in different countries in order to minimize the tax burden, which, according to experts in this field, leads not only to the development of tax competition between states, but also to the resulting trend of increasing inequality in the distribution of income and wealth among countries, undermining their state sovereignty and independence.
The question of the limitation of tax sovereignty is becoming relevant due to the apparent competition of such values as state sovereignty in the field of taxation and global distributive justice. In terms of international taxation, the idea of global distributive justice implies that the international tax rules should be based on national interests, which are not limited to the interests of individual international groups of companies and developed states. In the international aspect, the balance of public and private interests has more complex structure due to the diversity of tax systems of sovereign states that are parties to tax relations.
On the basis of a study of the tax and legal regulation of the European Union, it was established that ensuring reasonable limits on the limitation of the tax sovereignty of states is a guarantee of the principle of fairness of taxation having interstate importance. The main tools of European tax integration are directives and regulations, which combine the features of national and international legal regulation and are aimed at limiting the right of member states of the Union to adopt tax measures that pose a danger to the single market and have signs of unfair tax competition. The Court of Justice of the European Union has a special role in positive integration. Thus, the law of the European Union provides for rules that are aimed at protecting the tax sovereignty of member states, as well as rules that can be attributed to the institution of self-restriction of tax sovereignty.
This system has different effects on direct and indirect taxation in EU member countries. The harmonization of indirect taxation rules significantly contributes to the development of trade between the states concerned. The harmonization of direct taxation, on the contrary, forms a more serious restriction of national interests, since the receipt of taxes in the budget of the relevant state does not depend on consumer activity.
On this basis, a conclusion is being formed on the change of the paradigm of tax sovereignty in the modern world, which undergoes an increasing coordinated regulation (restrictions) based on international contracts or agreements on the formation of unions. The axiological aspects of limiting the tax sovereignty of states on the basis of international agreements act as a balance between such basic modern values as tax equity and the system of a common economic market.

ACKNOWLEDGMENTS

This study by O.Yu. Bakaeva, E.V. Pokachalova, M.B. Razgildieva was carried out with the financial support of RFBR in the framework of scientific project No. 18-29-16102.

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