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Digital Nomadism and the Future of Residence-Based Taxation

Ms. Khawya Selvan

Temporary Assistant Professor, Accounting and Financial Management, The Maharaja Sayajirao University of Baroda

Abstract

The twenty-first century is fuelled by rapid digital innovations and driven by continuously evolving communication technologies. These developments have fundamentally altered the structure and organisation of modern workplaces. Resultantly, new forms of work have emerged. This includes the ability to travel while maintaining professional commitments, which is apparently referred to as digital nomadism. Such flexibility represents a remarkable shift in workplace ergonomics. At the same time, it also creates significant challenges for existing tax frameworks, which were designed on the assumption that individuals live and work within a single territorial jurisdiction. But the increasing mobility of digital workers raises important questions about the continued adequacy of residence-based taxation as the primary basis for allocating taxing rights between states. This paper endeavours to examine whether the traditional residence-based tax criterion remains effective in the context of the digital era. By analysing the implications of highly mobile work arrangements, the paper highlights the potential for jurisdictional gaps and tax arbitrage. It thus questions the ability of existing tax structures to adequately respond to the realities created by digital nomadism.

Keywords: Digital Nomadism, Residence based taxation, Tax Rate Arbitrage

Introduction

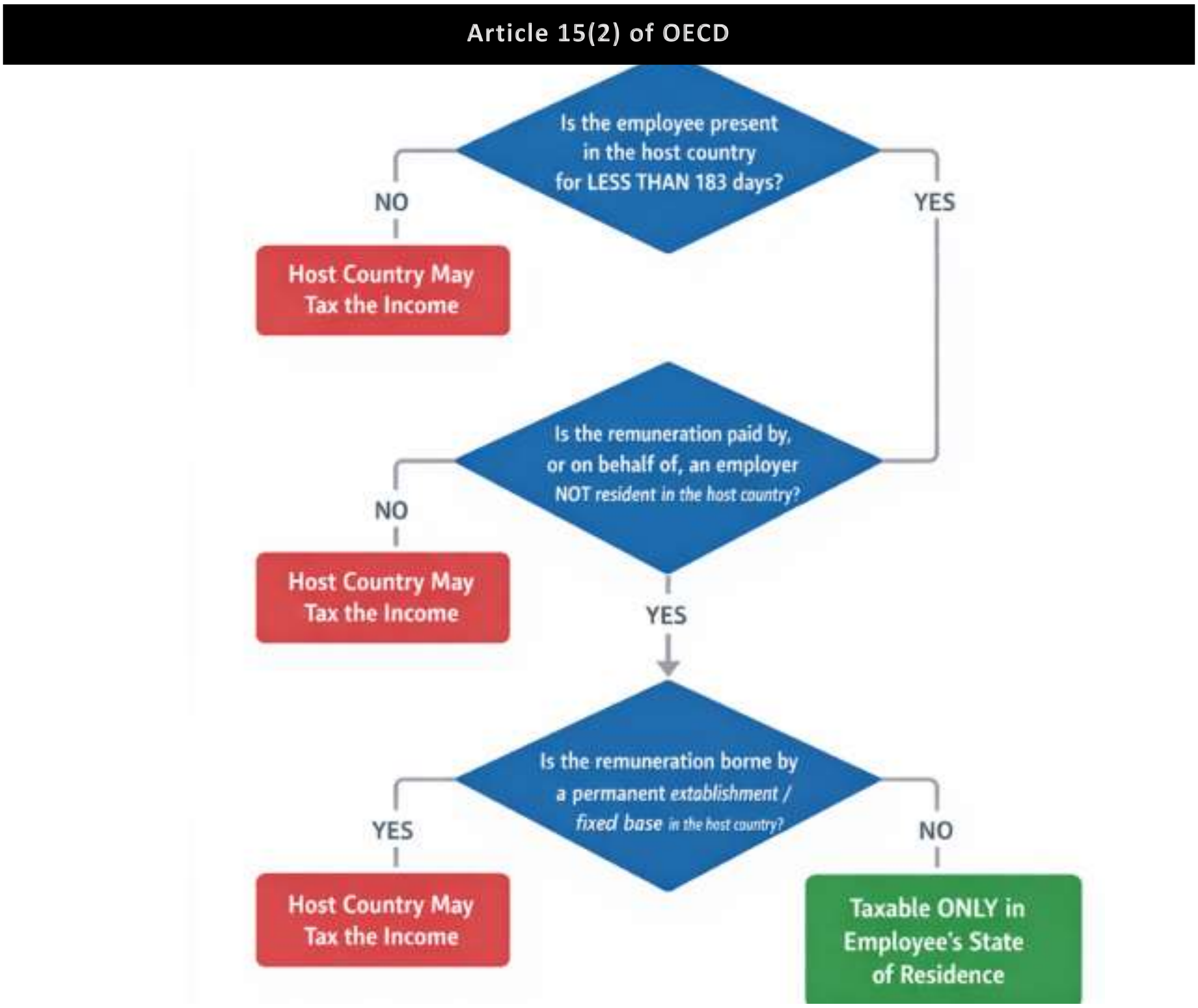
Advances in communication technology have invariably impacted social and economic realities globally. The proliferation of high-speed internet, digital collaboration tools, etc. have revolutionised the ways and means of work worldwide. Work that was once limited to a particular office space or geographical periphery can now be performed remotely with little or no disruption to productivity. While such developments have simplified and enhanced workplace ergonomics by enabling greater flexibility and mobility for workers, they have also created significant distortions within the traditional structures of tax policy and revenue collection. The existing framework of international taxation was largely designed for an era in which employment was territorially fixed and individuals generally lived and worked within a single jurisdiction. However, the advent of highly mobile forms of employment challenges these long-standing assumptions. One such potential disruptor of the residence-based system of tax collection is the rapidly expanding phenomenon of digital nomadism.

Concept of Digital Nomadism

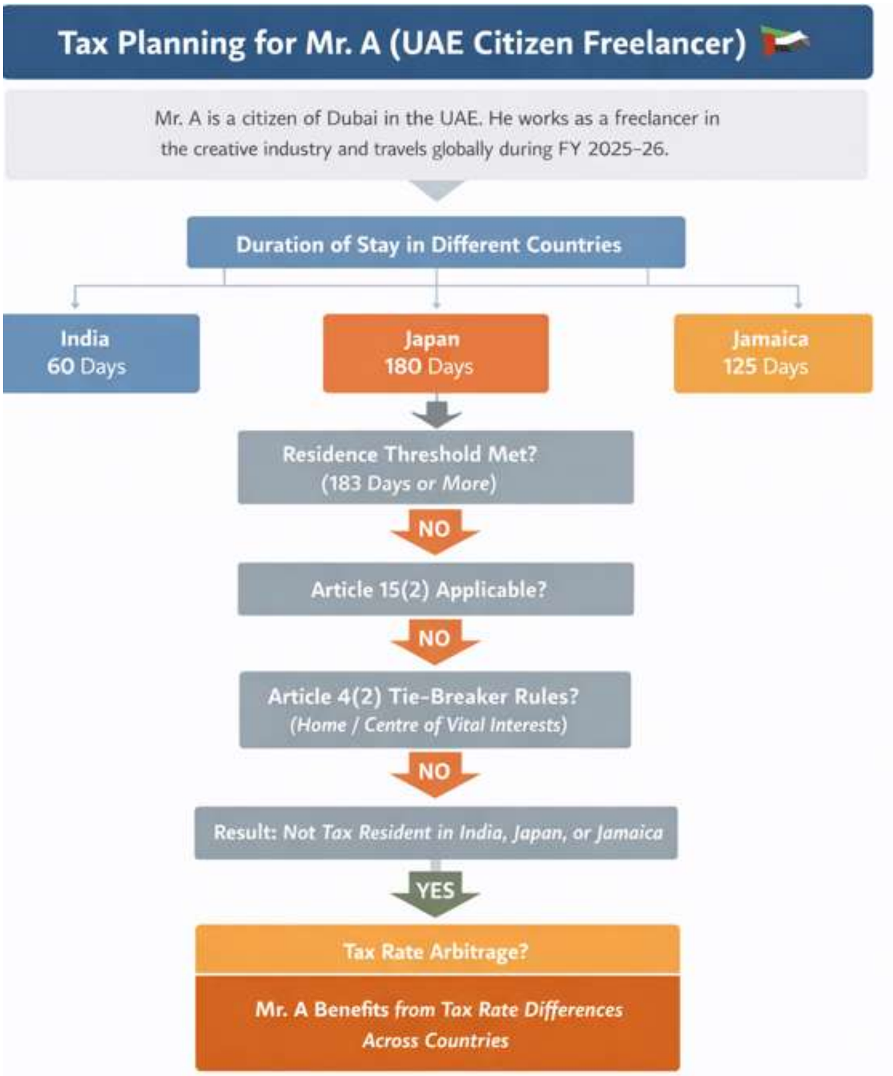
The term “digital nomad” gained prominence following the publication of the book Digital Nomad in 1997. It introduced the idea of individuals leveraging technology to work while traveling across different locations. Since then, scholars and policymakers have attempted to conceptualize and define this new category of workers in distinct ways. A comprehensive definition was offered by Dave Cook in 2023 in his paper *What is a digital nomad? Definition and taxonomy in the era of mainstream remote work*. In that, he describes digital nomads as individuals who rely on digital technologies to perform their work remotely, possess the capacity to travel while maintaining their professional responsibilities, and exercise autonomy over both the frequency and choice of their locations. According to this characterization, digital nomads typically spend time in multiple jurisdictions throughout the year and often visit at least three locations annually that are neither their permanent homes nor the residences of friends or family members. This pattern of constant mobility distinguishes digital nomads from traditional expatriate workers or short-term business travellers.

Taxation of Employment under Article 15 OECD

The increasing prevalence of digital nomadism raises important questions regarding the adequacy of existing international tax rules, particularly those governing the taxation of employment income. Despite the evolving nature of work arrangements, the allocation of taxing rights between States continues to be largely governed by Article 15 of the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention. This provision establishes the basic framework for determining which jurisdiction has the authority to tax income derived from employment.



The 183 days' rule was originally designed to prevent administrative burdens for short-term work assignments and business travel. Now, its continued application in an era of digital mobility presents considerable challenges.



At the prima facie level, tax rate arbitrage may appear to be an incidental benefit. However, the possibility that it is strategically planned to reduce tax liability cannot be ruled out.

Suggestions

1. Citizenship based tax criterion should also be applied along with the residence criterion.
2. Consumption based tax regime should be further strengthened.

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