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Re-shaping legal concepts to support the use of artificial intelligence and a taxation perspective on digital services

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Abstract
The paper addresses the legal challenges generated by the new configuration of the digital economy, in general, and in the European Union, in particular. In the context of the unprecedented development of technology-enabled activities and digitization in recent years, the Artificial Intelligence (AI) Regulation promotes a set of rules to ensure that the technology is trustworthy. New legal concepts emerge to insure safe use of IT tools and protection of subjects of law in the digital economy. The legal framework analysis is both needed and controversial, determining in-depth research and intense debate for the global effect of new law, which spans over multidimensional sectors, reaching the area of digital service tax. The latest is a topic more open to individual initiative than to multilateral agreements for different states. The research outlines the result of the analysis of the content of this new and original regulation, to validate the hypothesis that the EU law generates considerable advantages for citizens and the entities that use it, equally. Opinions contrary to this hypothesis are also analyzed, presenting possible disadvantages of AI laws to the social environment. The research show that EU regulation on AI will, in the long term, affect the global law and markets.

Keywords: artificial intelligence, regulation, risks, digital economy, digital service tax

Introduction

The fervent and global digital activity has put pressure on regulatory actors to create efficient sources of hard law, keeping pace with the need for regulation imposed by social realities. One of the very recently emerging factual origin of law is artificial intelligence (AI), an (almost) unknown instrument (Raimondo & Locascio, 2024), which we can intuit that, if used correctly, could help solve many problems of contemporary society (Manyika, 2022, p. 18). This can be achieved if the technical aspects, which are continuously developing (Krishna, 2024), are clearly presented and the new technologies are used only in ways worthy of the trust of users, individuals and legal entities alike (Tai, 2022).

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To comply with the latest criterion, the doctrine pointed out that a coherent and effective legal framework is needed (Brown, 2024), capable of building and justifying the trust to accept solutions based on artificial intelligence, while encouraging its advancements in use (Gillespie et al., 2023). Recent regulatory achievements in July 2024 demonstrate, again, that the European Union (EU) has the potential to become a global leader in shaping a coherent and effective legal framework (Bradford, 2020, p. 232), also for AI regulation. The adopted text has global relevance, and it is already known as the Artificial Intelligence Regulation, AI Regulation or AI Act (European Parliament, 2024). It is a confirmation of the EU's role as a pioneer in the adoption of uniform rules (Selin & Vandeer, 2015), when different states analyze or unilaterally adopt various norms, unproductively fragmenting the legal landscape at the global level. Like with other occasions and/or in other areas of uniform law, like taxation (Tofan, 2022, p. 23), the EU's view in this regulation emphasizes the need for sovereignty in artificial intelligence. The "AI sovereignty" is presented as a feature of sovereignty trap (Mugge, 2024) and it preserves the right of states to prioritize their independence and autonomy in adopting the most suitable rule of law for important normative areas, in response to European acknowledged goals and scenarios (Pech, 2022). The research develops the hypothesis that digital tax has influence on shaping the legal concept and the use of AI. This paper particularly aims to answer the question: what are the interconnection of the regulation governing AI and taxation, and how effective are they in addressing the challenges posed by the technology?

This paper holds as main argument the effectiveness of EU AI regulation and proposes recommendations for improving the law, in connection with its fiscal effects, as secondary analyzed topics. The methodological approach considers doctrinal analysis of the relevant publications, legal texts evaluation and interpretation of the EU regulation, using legal research tools for observing the innovation and addressing law efficiency. Our empirical research includes observations and problematization of the scenario of possible cases within the scope of law, to estimate the real-world impact of EU AI regulation. The analysis includes different legal systems to identify similarities and differences, while examining the development of legal concepts and doctrines. The systematic analyses generate a comprehensive result on the impact of the regulation, pointing out possible gaps or missus of the regulatory tool in shoeing the framework for AI safe use, emphasizing the fiscal perspective.

The paper is structured starting from the analysis of the EU's vision on the regulation of AI and its limits (section 1), the tax implication for the realization of income from digital activities (section 2), insights on national regulation regarding taxation of income from digital activities/services (section 3), the EU regulation on the fiscal treatment for the income generated by the use of digital services (section 4) and the proposals for the completion and modification of the text of law in force

(*lege lata*), for the reinforcement of the regulatory framework (*lege ferenda*) in the concluding part.

1. The EU's vision on the regulation of AI and the limits of an expected pioneer

In April 2021, the Commission, together with the European Parliament and after the approval of the Council in December 2023, issued an AI regulation to address potential risks to the health, safety and fundamental rights of citizens, while supporting the development of innovative and responsible use of AI within the EU (Regulation 2024/1689). The Commission has also launched an AI Innovation Package to support European start-ups and SMEs in developing trustworthy AI that respects EU values and norms (European Commission, 2024b), part of the strategic investment framework in AI, especially in infrastructure. For the European Commission, maximizing resources and coordinating investments is a critical component of AI excellence, which will be ensured through the Horizon European and Digital Europe programs, while investing €1 billion per year. The Commission is committed to mobilize additional investment from the private sector and Member States to reach annual investment of EUR 20 billion during the Digital Decade. The Recovery and Resilience Facility makes available €134 billion for the digital, enabling Europe to deliver on its ambition to become a global leader in the development of cutting-edge and reliable AI (European Commission, 2024a).

The public statements made by the European Commission show its aim to promote excellence in AI, to strengthen Europe's competitive potential globally, building the EU as a strategic leader in the high-impact sector of digitalization, ensuring that AI works for people and is an engine of advancement of welfare in society. Access to high-quality data is a critical factor in building robust, high-performance AI systems and this is why the EU's approach to build trust in AI includes 3 interrelated legal measures:

- adopting EU legal framework for AI, upholding fundamental rights and addressing specific safety risks of AI systems;
- modifying the legal framework regarding civil liability and adapting the conditions of legal liability to the specifics of digital era and AI;
- review of sectoral safety legislation (i.e. Machinery Regulation, Product Safety Directive, etc.).

The Commission's proposal sees AI as a tool for building a Europe resilient to the challenges of this digital decade, where citizens and businesses should be able to enjoy the benefits of artificial intelligence, feeling safe and protected (Von Essen & Ossewaarde, 2024).

Although EU has made the first significant step by adopting AI regulations, some issues are still on debate, as the specificity of AI challenges developments is putting constant pressure for identifying appropriate answerers (Schwartz et al., 2022) for the controversies already estimated in areas as ethics, possible bias,

concurrent accountability and means to provide security. The Commission's April 2021 proposal on AI regulation included a review of the Coordinated Plan on Artificial Intelligence with EU Member States (Kelly et al., 2023) and the impact assessment of the AI regulatory framework (Zhai et al., 2024) to accelerate, act and align priorities to the current European and global landscape of artificial intelligence.

1.1. Innovative rules within the European law addressing digital concepts

The AI Act is the first comprehensive legal framework on AI worldwide, which will ensure that AI systems used in the EU are safe, transparent, ethical, impartial and under human control (Celso, 2024). The regulation has a clear, easy-to-understand approach and is structured according to different levels of risk. According to the regulation, the concept of "risk" denotes the combination between the probability of causing a damage and its severity (art. 3 paragraph 1 point 2 of the Regulation), and there are four categories of risks: minimal risk, high risk, unacceptable risk and specific risk.

Minimal risk is most often related to free use of applications such as AI video games or spam filters. Most AI systems currently in use in the EU fall into this category where the new rules do not intervene, as these systems pose little or no risk to the rights or safety of citizens. Once an AI system is on the market, authorities are responsible for market surveillance, implementers provide human oversight and monitoring, while suppliers have a post-market monitoring system. Suppliers and distributors will report serious incidents and malfunctions. Thus, AI systems that carry minimal or no risk can be used without restrictions and are not regulated or affected by the AI Act.

Limited risk is present when AI systems such as chatbots are subject to minimal information obligations designed to enable those interacting with the content to make informed decisions. The user can then decide to continue or withdraw from using the application. In other words, in accordance with the provisions of the AI Regulation, AI systems that carry only limited risks are subject to transparency obligations.

High risk may be present in the case of critical infrastructure (e.g. transport), which could endanger the life and health of citizens; educational or vocational training, which may determine access to education and the professional course of one's life (i.e. exam marks); safety components of products (i.e. application of AI in robot-assisted surgery); hiring, managing workers and access to self-employment (i.e. CV sorting software for recruitment procedures); essential private and public services (for example, the credit score that prohibits citizens from obtaining a loan); law enforcement that may interfere with people's fundamental rights (i.e. assessing the reliability of evidence); Management of migration, asylum and border control (i.e. automated processing of visa applications); Administration of justice and democratic processes (i.e. AI solutions for searching court decisions). High-risk AI

systems will be carefully assessed before they are placed on the market and throughout their life cycle, they must meet strict requirements and obligations to gain access to the EU market. These include rigorous testing, transparency and human oversight.

Unacceptable risk is any situation/thing considered a clear threat to EU citizens and all such scenarios will be forbidden. AI systems that pose a threat to people's safety, rights or livelihoods are prohibited from being used in the EU. These include behavioral-cognitive manipulation, predictive analytics policing, emotion recognition in the workplace and in educational institutions, and social scoring. Within EU it is forbidden, with some limited exceptions, the use of real-time remote biometric identification systems such as facial recognition by law enforcement authorities in public spaces (Zulehner, 2024). This is an intensely discussed and argued prevision (Raposo, 2023; Qandeel, 2023), even before publication (Barkane, 2022), the balance of potential security risk and the protection of private life being finally turned in the favor of the protection of against serious threats to public security (regulated as exception).

Given the extraordinary dynamism of the AI area, the flexibility and stability the AI Act is proved by the mechanisms that the Commission will regularly assess the effectiveness of the regulatory framework and adjust it, if necessary (Comunale & Manera, 2024). To provide stability to this new regulation on such dynamic topic, the Commission can use "delegated acts" to adjust certain provisions of the regulation. Harmonized standards on risk assessment will have binding legal force and provide practical guidance for providers, implementers and users of AI (Schuett, 2024). Because these standards have not yet been finalized (van Kolfschooten & van Oirschot, 2024), the doctrine pointed out that there remains an opportunity for players in the AI services and products market to work to influence the adoption of those standards that protect their situation or position in the industry (Gornet & Maxwell, 2024).

1.2. Some limits of AI regulation

Predictive and generative artificial intelligence (AI) have both become integral parts of our lives through their use in making high-impact decisions. AI systems are already widely deployed – for example, in employment, healthcare, insurance, finance, education, public administration and criminal justice. However, severe ethical problems such as bias and discrimination, invasion of privacy, opacity and environmental costs of these systems are well known (Cevallos et al., 2023). Generative AI (GAI) can create inaccurate or harmful hypotheses and information, which can lead to misinformation, and misinformation causes the erosion of scientific knowledge (Hoffman et al., 2024).

The AI Act reflects Europe's attempt to reduce some of these problems, while the advantages of its use of it impossible to be banned. The EU Artificial Intelligence

(AI) Regulation has several important limitations, including some complexity and (sometimes) ambiguity, difficulties in implementation (small and medium-sized enterprises, which do not have the necessary resources to comply), the volatility due to fast developing AI technology, big challenges in monitoring and enforcement (especially in the context of international and cross-border applications), generalization of some prevision neglects specific risks (i.e. different AI applications) and last but not least, the limitations of liability.

These limits underscore the challenges of regulating such a dynamic and complex technology as AI. Each of these indicated limits involves further analysis, and the list can be criticized and extended, each researcher bringing into this analysis his/her personal insight. For example, the additional verification and certification procedures (Kop, 2021), weak oversight and investigation mechanisms (Guha et al., 2023), and the numerous exceptional situations included in the AI Regulation may be the result of the influence exercised in the drafting phase of the regulation by very large companies, beneficiaries of the AI tools, which the above list neither shows, nor explains. The orientation of the regulation for the establishment of sanctions in the hypothesis of actual material liability, while ignoring non-patrimonial damage, in the form of moral, ethical and/or social harm, as it happens in cases of undue influence (bias), misleading and damaging up to levels which are impossible to quantify. Based on the AI Act, subjects injured by AI must be aware of the damage caused to file a complaint, and in the case of non-pecuniary damage, most often the affected person are not. For example, AI can remove ads for cheaper new products without applicants being aware of it. In other words, the initiation of the sanctioning procedure based on the notification of the injured person in the field of AI is, in our opinion, ineffective. Therefore, additional tools such as (temporary) bans or mandatory repetitive authorization/certification, external audits or withdrawal of products or services from the market would be more useful in the future.

Legal liability in the AI misconduct most often results in the use of civil liability mechanisms, which means that the risks and costs of litigation rest exclusively with the claimant. Even if the injured party becomes aware of being harmed by an operation involving AI, most often does not have the necessary knowledge to identify the procedure to follow in order to obtain reparation for the harm suffered and, in most cases, will not correctly assess the costs inherent in the procedure by reference to the amount of reparative amounts to which he/she is entitled. Furthermore, damages caused by AI may be considered individually insignificant (for example, prices slightly higher than those paid without AI intervention), which means that injured persons will most likely not take steps to be compensated. In other words, these cases will simply be overlooked, unless some mechanism for collective action is not provided by the law.

Compliance assessments of AI activities are sensitive operations. To increase accountability and oversight, it would be better if these assessments were conducted by independent third parties. For high-risk AI systems, independent external

assessments could help detect and mitigate systemic risks. This change in the application of AI Regulation would be in line with the prevision that empowers the Commission to adopt delegated acts to update internal and third-party assessments.

Another issue is the dependence of the sanctioning procedure on the transparency that the AI provider must ensure. Transparency about harm will be avoided by providers and implementers of AI systems that are not oriented towards user or customer retention, and do not publicly report their impact even in situations where they will take steps to remedy the situation that caused harm. Where harms are hidden due to the implementation model or lack of public reporting, existing mechanisms in AI Regulation will be insufficient to protect individual rights. This deficiency can be eliminated by harmonized standards and provisions requiring periodic testing and publication of a summary of the results to affected parties.

To remove the risks caused by the low level of understanding of how AI works, it would be useful for the application of the AI Regulation to have a provision at national level on the reversal of the burden of proof in relation to the quality and accuracy of the operation of the AI system. AI models, systems and AI operators should be required to demonstrate that risks are minimal or obtain certification for any other situation. In our view, AI systems aimed at detecting emotions should be absolutely banned as a global priority due to the high levels of inaccuracy and lack of scientific evidence to establish the reliability of these techniques, as well as the significant human rights violations they could cause during their use.

2. Tax implication for the realization of income from digital activities

From the perspective of the general theory of taxes and fees, fiscal equity is a principle unanimously and consistently admitted by the authors who publish in the field of fiscal law, but investigated from a different perspective. Fiscal equity assumes that all incomes are subject to taxation, and that comparable incomes of the same nature should be taxed equally.

Sometimes, fiscal equity can equally indicate that social solidarity takes precedence, and wealthier taxpayers are forced to bear a higher share of public spending (Costaș & Put, 2023). Thus, the fiscal obligations are distributed based on the criterion of horizontal equity and the criterion of vertical equity. Horizontal equity aims to ensure equality before the tax and is achieved when taxpayers with similar family situations and incomes pay the same tax. Vertical equity aims to achieve equality through tax and involves differentiating the tax, depending on the contributory capacity of a person.

Equality before the tax, which derives from the famous slogan inscribed on the banner of the French revolution (*liberté*, *egalité*, *fraternité*) requires the taxation to be done in the same way for all natural and legal persons, regardless of where they reside or have their headquarters. There are, therefore, differences in tax treatment from one area to another of the country (Tofan, 2023). In the context of the effects

generated by the observance of fiscal equity, the income generated from new activities, previously not included in the taxation provided by the regulations in force (i.e. artificial intelligence), determines the need to update the regulatory framework, respectively the outline of specific normative provisions for the activities that generate income which previous regulations did not consider. Taxation of revenues from digital activities is a concern of every government, but also at the global level, the need for collaboration between tax authorities from different states being acute, due to the particularities of conducting revenue-generating operations in the digital environment.

3. National regulation regarding taxation of income from digital activities

The EU supervises national tax rules in certain areas, especially when EU policies targeting businesses and consumers are involved. This is to guarantee that goods, services and capital can move freely throughout EU single market; companies from one country do not benefit from unfair advantages over competitors from other countries; taxation does not discriminate against consumers, workers or companies in other EU countries (Tofan & Verga, 2023). The express provisions of the domestic Fiscal Code for all MS corroborate these statements. For example, the art. 1 of the Romanian Fiscal Cod, establishing purpose and scope of the law, notes in para. (3) that when any of its rules contravenes a provision of a treaty to which Romania is a party, the provision of that treaty shall prevail. Procedural formalities are not indicated for the enforcement of this rule, yet the code affirms the principle of the priority of the direct and immediate effect of the rules of EU law.

The fiscal regulations in force for all EU member states give imperative power to the principle of fiscal equity, from two perspectives: efficiency and certainty of taxation (Tofan, 2022). In this sense, taxpayers must be able to predict and understand their tax burden, as well as be able to determine the influence of their financial management decisions according to their estimated tax burden. Also, the effects of the relevant regulations and cases of the European Court of Human Rights aims at establishing new fiscal burdens by reporting the taxation of revenues from digital services, in connection with the way the right to free expression is regulated (art. 10 ECHR) and which fully applies to communications made in the online environment (the Internet). The exercise of the right to freedom of expression by users online must be balanced with the right to personal protection and the right to privacy. Article 10 of the ECHR is not an absolute right and therefore it is necessary to balance in each situation the interest in sharing information on the one hand, and the interest in protecting the rights of copyright holders, on the other hand. The ECHR emphasized that intellectual property benefits from the protection offered by Article 1 of the Protocol to the ECHR, considering two competing interests, both protected by the convention. The topic in itself does not directly target digital

services, but indirectly it affects the way these activities are carried out and the effects arising from this type of operations.

In other words, although not all EU MS hold specific regulation at national level regarding the taxation of digital service revenues, the general rules that establish the obligations of taxpayers outline a precise legal regime, which includes both substantive and procedural rules for identification of tax base and its collection by the national authorities (Tofan, 2024).

Digital income of a natural person includes, yet it is not limited to, the promotion of goods or products in online environment, investments in virtual currencies and, quite often, renting of personal homes to tourists, in a hotel regime. Although usual activities, the channel of connection between the client and the beneficiary of the income makes the transaction difficult to be monitored so the tax treatment is frequently avoided. Income from the online environment must be declared by people who obtain income from digital activities like online platforms (i.e. YouTube, Facebook, Instagram, Google Play Store or Tik-Tok) from online activities such as blogging, vlogging or from the sale of programs /software applications. Even though the law does not refer to every possible situation which generate income, the beneficiaries of digital income (bloggers, vloggers and other influencers) must choose a form of incorporation and declare their income and pay taxes.

An additional challenge is the correct identification of digital incomes, for verifying the conformity of the tax declaration completed by the individual taxpayer. For this scope, some measures have already been taken by the national tax authorities within EU, in line with the digital administration mechanism, implementing measures regarding the digitization of the public financial system, such as e-Invoice system (regarding the administration, operation and implementation of the electronic invoice system), e-Transport National System (establishment of the monitoring system for road transport of goods with high fiscal risk), e-Seal System (regulated by the Law 296/2023 in Romania for fiscal-budgetary measures to ensure the financial sustainability) etc.

Regarding the equitable establishment of the tax basis for tax on revenues from digital services, the legislative provisions address a new category of taxpayers, namely digital nomads (Cook, 2023). Apparently exotic, this type of taxpayers are very important for countries with lower level of fiscal discipline, like Romania, because according to Digital nomad index (Circleloop, 2024), it seems that Romania is in 3rd place in the preferences of digital nomads, after Canada and Great Britain, referring to a non-resident natural persons present on the domestic territory for one or more periods that do not exceed 183 days during any interval of 12 consecutive months.

4. European regulation on the fiscal treatment for the income generated using digital services

The normative basis of the fiscal sovereignty of EU member states is formed by the provisions of the Treaty of Lisbon (TFEU), respectively art. 113 (ex art. 93 TCE) according to which "the Council, deciding unanimously (…) adopts the provisions relating to the harmonization of legislation on turnover tax, excise duties and other indirect taxes (…) for the functioning of the internal market and the avoidance of distortion of competition". At the same time, art. 114 (ex art. 95 TCE) provides that "(…) the European Parliament and the Council, deciding in the ordinary legislative procedure (…) adopt the measures regarding the approximation of the laws and administrative acts of the member states that have as their object the establishment and operation of the market internal, but not fiscal provisions, for which unanimity is mandatory". According to art. 115 (ex art. 94 TCE), without prejudice to art. 114, "the Council, deciding unanimously in accordance with a special legislative procedure (…) adopts directives for the approximation of legislative acts and administrative acts of the member states, which have a direct impact on the establishment or functioning of the internal market".

The way in which the tax policy of the member states is organized is, first, a matter of national interest of each member state, but, as we will show in the following, many steps have already been taken on the way to an approximation of fiscal legislation and even in the direction of unifying some regulations regarding the taxation system (Costaș & Tofan, 2023).

On the topic of this research, the Digital Services Regulation published in 2022 and coming into force in February 2024 is the milestone. The provisions of the regulation are mainly aimed at preventing and/or sanctioning illegal services through rules that ensure the traceability of sellers in online marketplaces, to help build trust and to easily track fraudsters. Effective guarantees for users are established or outlined, considering the protection of minors on any platform in the EU.

The European regulation in force includes the obligations of very large online platforms and very large search engines to prevent any abuse of their systems by taking measures based on objective analysis of the risks involved, including supervision through independent audit missions to verify how to establish risk management measures. The regulation prohibits the use of manipulative design elements and sets a single supervisory structure, with the European Commission being the main regulatory and monitoring authority for very large online platforms and search engines (with at least 45 million users).

The regulation on a single market for the intermediation of digital services, known as the Digital Service Act in the EU (DSA), provides obligations including for intermediate operators of digital services, starting from activities that involve simple transmission ("mere conduit"), but also for storage in the cloud ("caching"), "hosting" services and search engines. In DSA's view, online platforms represent a

type of cumulative service, which combines hosting operations with information storage and/or dissemination.

Compared to the actual fiscal dimension of the regulation of revenues from digital services, the European legislation is still under construction. The principle of territoriality, with its two dimensions, i.e. the nationality of the taxpayer and the place of registration, together with the place of obtaining income, with some distinctions related to the features of permanent establishment, remains the priority in the assignment of taxation competence within the EU.

However, the social reality has surpassed this moment of the territoriality of the sources of taxation, requiring the adoption of regulations that respond to new architectures of the development of economic operations in the digital economy. The taxation of the digital economy is the subject of a legislative project made public by the European Commission in March 2024. This project envisages, in the long term, a substantial change to the current tax regime, by adopting a directive that introduces the concept of digital permanent establishment and leading to the introduction of this concept in the conventions to avoid double taxation in the future. Moreover, it is already recognized in the relevant legal doctrine that important European regulations tend to turn into legal norms with global valences, a situation subsumed by the concept of the Brussels effect.

Each MS is allowed to adopt a relevant piece of law establishing the criteria for applying domestic regulation to a certain fiscal income on digital market. The vision of the normative project proposed by the European executive in the spring of 2024 qualifies as digital headquarters the situation in which a company that provides electronic services in a MS:

- has incomes above the limit (the proposed ceiling being 10 million euros);
- exceeds a certain number of users (number not specified yet);
- the number of contracts concluded online will exceed a certain limit.

To analyze the fulfillment of the criteria for the allocation of profits to a digital permanent establishment, the normative project proposes the analysis of the information collected by users, the number of users and the actual content created by users. The measure, although possible and characterized by measurable milestones, is still a measure that can be implemented in the long term, which affects the credibility and efficiency of the normative proposal. Moreover, the long-term implementation of the proposal at the global level, namely the introduction of the digital permanent establishment concept in the model conventions on the avoidance of double taxation in international taxation, raises even more problems. In this context, turnover taxation for those who earn income from the digital economy has been discussed as a short-term solution, being a simpler option that applies the income tax mechanism where the value is created. This form of taxation would target groups with a global turnover above the ceiling of 750 million euros and with revenues in the EU worth min. 10-20 million euros. The incomes that would be taxed would be those from:

- services that utilize user data or through virtual advertising space (for example Facebook, google, twitter, Instagram, etc.);
- services provided for a fee on different platforms/digital markets (intermediation services, for example Airbnb, Uber).

The determination of the income taxed on the territory of a state will be assessed by establishing the digital footprint, a new concept that will be used to calculate the tax rights related to the states. The determination of the fingerprint by MS will be based on the following information:

- in the case of activities that capitalize user data or the virtual advertising space (i.e Facebook, google, twitter, Instagram, etc.), the statistical and geographical information regarding those who use the information will build the digital fingerprint.
- for services provided for a fee on different digital platforms/markets (intermediation services like Airbnb, uber) tax will be paid in the countries where those who pay for the respective services are residents.

In this proposal of the Commission regarding the regulation of the mechanism for taxing revenues from digital services, the services through which access to digital content is capitalized (i.e. Netflix) are excluded from the scope of the tax. The identified arguments validate the limits of regulation that should be addressed through future measures and actions, to globalize a coherent legal framework for the use of AI in the digital economy.

Conclusions

Without considering our analysis complete, because further investigations are needed, we outline a series of partial conclusions regarding the AI regulation and taxation of income from digital services.

EU AI regulation will generate increases in productivity and resources, while many ethical, legal and societal challenges are pending. As a legal framework based mainly on human rights and fundamental values, the EU regulation has the force to stimulate the development of artificial intelligence system for the benefit of citizens, governments and the socio-economic environment equally. The regulatory mechanisms adopted in response to the legislative vacuum in the field of AI create a system that prevents harmful technology and stimulates beneficial innovation from an ethical and societal point of view. Yet, the EU's view of AI sovereignty neglects the global logic of AI development beyond borders and normative competences, and its impact on people outside the EU. There are some estimates that AI sovereignty as an EU policy resonates with growing geo-economic tensions.

At the time of conducting the research, there is no consensus among the member states regarding the introduction of taxation of digital services, yet at the EU level, several states (France, Italy, Spain, Great Britain, Austria, the Czech Republic) have adopted unilateral measures, which raise problems from the point of

view of their compatibility with the national legislation of other states, but also with international rules in matter of avoiding double taxation. The changes aimed at harmonizing the taxation of revenues from digital services are very broad and tend to expand fiscal cooperation at the EU level from the area, while the need to integrate the AI regulatory milestone is acute.

We conclude that the proposed changes presented are steps towards a truly effective regulation of AI. The European AI Regulation have provided mechanisms for regulatory stability, and this is only a start to build the global AI regulatory system and standardization to ensure that the law effectively protects entities and individuals and ensure the liability of suppliers, intermediaries and users of harmful AI for the long-term impact of society.

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