



E-Commerce Taxation Without Representation!

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Principles and Objectives of Tax Policy

- **The concept of taxation is co-related to jurisdiction.**
- **Why do we tax the way we do?**



E-Commerce in Action

- The VAT loophole allows Channel Island companies to sell products worth less than £18 to the mainland without charging VAT
- Supermarket giants Tesco and Asda, have taken advantage of the current rules
- UK parliamentary debate in February 2006 it was stated that the Treasury is losing £80m a year from retailers operating "offshore" and that could soon reach £200m a year



E-Commerce in Action

- An e-commerce firm has its headquarters in country 'A', and the company accepts customers ordered through a website that is maintained in country 'B'.
- The website then transmits orders to the company's sales department in country 'C'.
- A customer residing in country 'D' places an online order. The order is then channelled electronically through a chain of servers in number of locations, ultimately arriving at the company's website in country 'B', which in turn transmits the order to the sales office in the country 'C'.
- Let further assume that the company has 'storage facility' in yet another jurisdiction country 'F'.
- After approving the order, the sales office arranges for shipment of the product from the storage facility in Country 'F' to the customer.



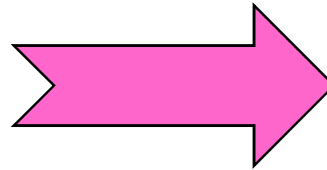
Tax Challenges for E-Commerce

- **What makes taxation of e-commerce so unique?**
 - One transaction may consist of many separate transactions
 - Each separate transaction may be subject to different countries tax regimes
 - Each separate transaction may be separately taxed
 - Different taxes can apply to each separate transactions



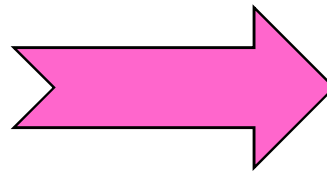
Challenges of E-Taxation

**LOCATION
OF ACTIVITIES**



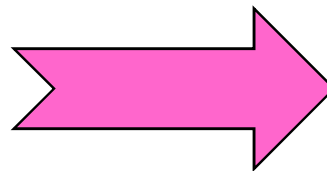
**JURISDICTION
ISSUES**

**ANONYMOUS
USERS**



**IDENTIFICATION
ISSUES**

**LESS
INTERMEDIARIES**

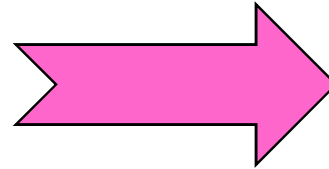


**ENFORCEMENT
ISSUES**



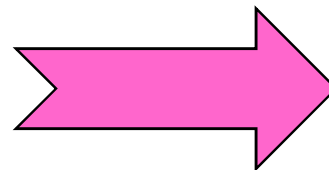
Challenges of E-taxation

For goods which are
traded on-line
delivered physically



No new issues:
taxation at the
border

For goods that are
traded and delivered
electronically
(digitizable goods)



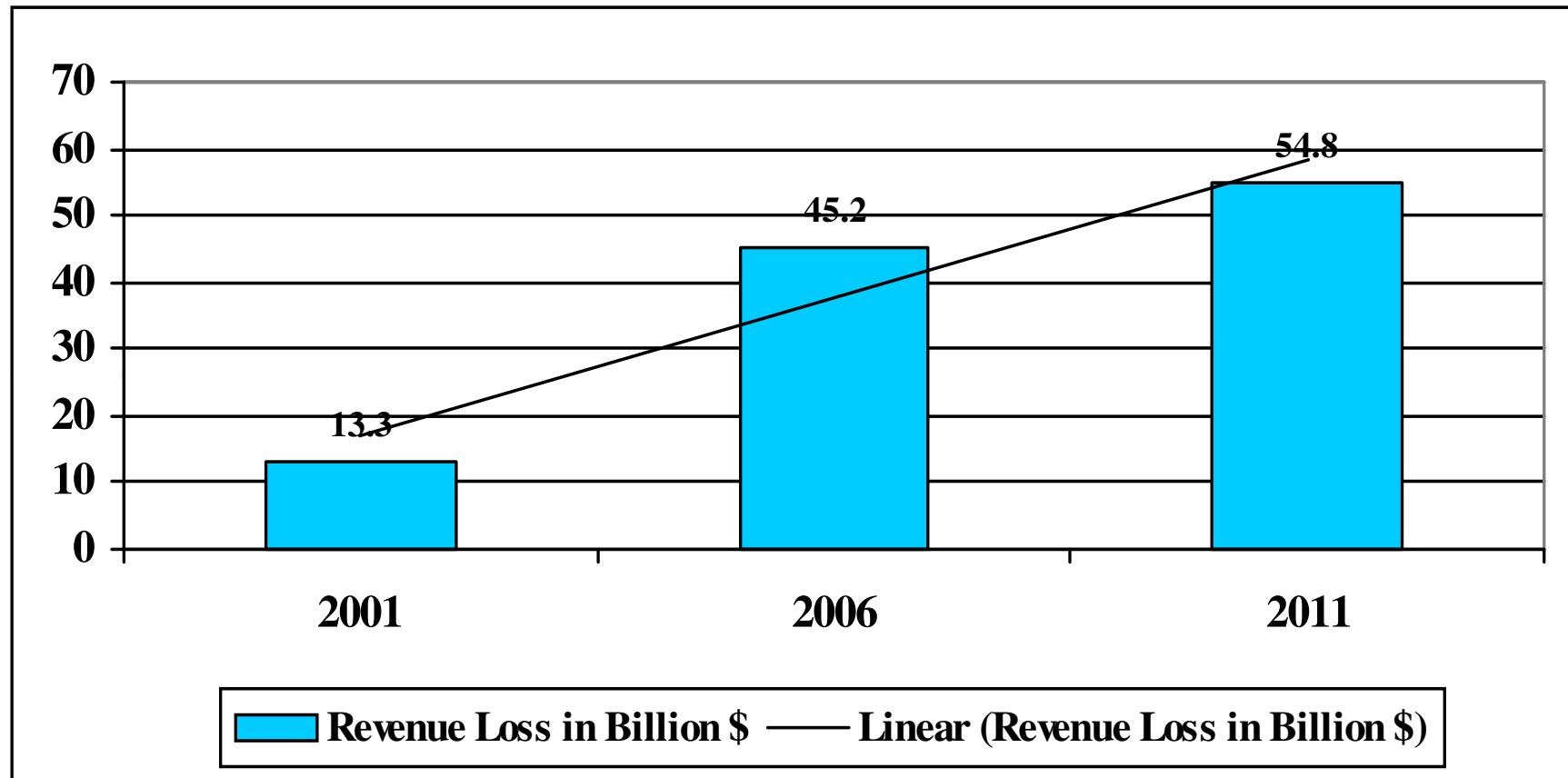
Problem of:

- identification of taxpayer,
- definition of jurisdiction,
- enforcement of payment

Books, music, software, etc



Loss of Revenue and Erosion of Tax Base



Estimated Revenue loss: Based on the Study by Prof. Bruce and Prof. Fox



Revenue Loss for Developing Countries

- More high-income consumers shop online than low-income consumers.
- The majority of countries that are mostly affected by tariff revenue losses come from the developing world.
- Developing countries' import share in digital products is only 18.5%, their absolute tariff revenue (loss) is almost double that of the developed countries, amounting to 63% of world tariff revenue losses for these products.



The Question

TO TAX OR NOT TO TAX E-COMMERCE



To Tax or Not to Tax E-Commerce

- **Should e-commerce at all be taxed?**
- **What about arguments that e-commerce should not be taxed during its infancy?**
- **Can, e-commerce actually be taxed, as it should be?**



Fundamental Principles for Taxation

- **Neutrality.** Suggests that goods and services receive the same tax treatment regardless of delivery method.
- **Simplicity and Certainty.** The tax rules should be clear and simple to understand so that taxpayers can anticipate the consequences in advance of transaction, when, where and how the tax is to be accounted.
- **Fairness and Effectiveness.** The right amount of tax at the right time and minimize the potential for tax avoidance.
- **Flexibility.** The systems for the taxation of electronic commerce should be flexible to keep pace with technological and commercial developments.
- **Enforceability.** Need to develop reasonable and technologically tax collection, free of undue burdens or economic distortion.



Types of Taxes

- **Direct taxes.** Includes income taxes, these are applied on a base of jurisdiction, PE, source-based, residence-based.
- **Indirect taxes.** Includes transaction taxes, these are applied to sales, use taxes, custom duties, VAT, retail sales taxes.



The International Tax Environment

INCOME TAXATION



The International Tax Environment

- **Income Tax:**
- International taxation based on principles of territory or “connection” with a jurisdiction
 - Based on residence of taxpayer and/or source of income
 - How to determine when an electronic presence is enough to establish a taxable base in a country?
 - What creates jurisdiction? Location of server?
 - OECD uses the concept of permanent rental\ownership of a server



The International Tax Environment

CONSUMPTION TAXES



VAT Themes

- **VAT is a tax collected at every stage of product. When products cross international boundaries, complicated set of issues arise:**
 - **Who collects the tax?**
 - **Who remits the tax?**
 - **What country does the ultimate consumer live in?**
 - **Destination country or residence of the consumer keep the tax?**



Conclusions



Conclusion: Direct Taxation

- Traditional rules of residency that rely on PE determination need to be re-examined.
- In fact, the definition may need to change as it promotes actions that are not congruent with tax policy directives



Conclusion: Consumption Taxation

Identify Potential New Intermediaries

- ISPs
- credit card companies
- banking and payment system providers
- telecommunications companies



Conclusion

- **Convenience of Payment**
 - How can the payment of taxes be convenient when the actual determination of what is taxed is so uncertain?
- **Economy in Collection**
 - Compliance costs should be kept at a minimum.



Implications For Future Research

- Policy directives for the new E-commerce need to be established first.
- Research is required to determine the optimum method of applying direct and indirect taxes to e-commerce transactions
- Research is needed to ensure a stable collection policy



Conclusion

“In this world, nothing is certain but
death and taxes”

Benjamin Franklin