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Electronic Commerce: A Developing Problem

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Electronic Commerce: A Developing Problem

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Introduction

- The challenge to protect revenue base.
- The disproportionate effect on the economies of the developing world.
E-Commerce and Taxation

- Consumption Taxes and Intangible Goods
- E-Commerce the Challenge
  - Erosion of the Tax Base - Reduction in total tax income
  - Erosion of the tax base - the move from fair taxation.
- Developing Countries
- Global Initiative for Addressing Tax-Related Issues in E-Commerce
Consumption Taxes and Intangible Goods

• Intangible products include products such as music, software and services such as medical or legal consultations (Lukas, 1999), that are “produced” at one location and “consumed” somewhere else.
E-Commerce the Challenge
The erosion of the tax base

Total Government Revenue

80%

20%
E-Commerce the Challenge
The erosion of the tax base

% of Tax from Goods and Services

54% 46%
E-Commerce the Challenge
The erosion of the tax base

Import Duties

- As a share of total government revenue
- As a share of tax revenue

Developing Country
Developed Country
E-Commerce the Challenge
The erosion of the tax base

- Elimination of intermediaries, critical for identifying taxpayers.
- Foreign suppliers may be tax-exempted,
- Increase in the number of low-value shipments of physical goods to individual customers.
E-Commerce the Challenge
The move from fair taxation

- Sales taxes are regressive.
- Sales tax rates will increase.
- Sales tax liability concentrated among the lowest-income segments of the population.
Developing Countries

- Developing countries are capital-importing countries.
- They buy from foreign countries more than foreign countries buy from them.
- The income flows between developed and developing nations is unbalanced in favour of the developed (capital-exporting) nation.
Developing Countries

- Rely heavily on consumption taxes for their budget.
- Net importers of e-commerce in medium term.
- The export-import trade deficits vary from year to year and from country to country.
Developing Countries

- More affected by fiscal losses
- A shift to origin based tax system will cause erosion of tax base.
- Tax collection on e-commerce activities will require access to the latest technologies by tax authorities.
• US figures
  – loss of $5 billion in sales tax revenues annually from their inability to tax most mail-order sales,
  – an additional $10 billion annually due to e-commerce.
  – Total loss of tax in 2003 could be $15 billion
Developing Countries

- Tax rules will impact on all countries.
- And increasingly on small and medium-sized enterprises that will be drawn in by e-commerce.
Developing Countries

- Cooperation and harmonization of existing tax rules needed for the expansion of e-commerce.
- With a few exceptions, developing countries will not be part of an OECD agreement on Internet taxation.
- Developing countries have used tax legislation in the past to attract private foreign direct investment (FDI)
Developing Countries

- “Above all, what is needed is a recognition that globalisation is not merely a matter of unrestricted market forces. It requires a strengthening of international standards and cooperative arrangements, to provide a basis of mutual confidence.” (Picciotto, 2000)
Global Initiatives

OECD
EU
USA
Global Initiatives: OECD

- Rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place.

- For the purpose of consumption taxes, the supply of digitised products should not be treated as a supply of goods.

- Reverse charge, self-assessment or other equivalent mechanisms.

- Application of these principles should maintain fiscal sovereignty of countries, ensure a fair sharing of the tax base between countries, and avoid double and unintentional non-taxation.
Global Initiatives: EU

European Commission, Directive on VAT, June 7 2000

Facilitation and simplification measures

Existing VAT rules will be modernized.

The inadequacy of current VAT in the supply of services delivered online by digital means.

Application of VAT would depend on the tax status and location of the recipient.

Tax Revenue from Consumption Taxes in EU

- Mainly VAT: 29%
- Other Taxes: 71%
Global Initiatives: USA

Advisory Commission on Electronic Commerce

- Extending the current moratorium on Internet taxes for five years.
- Prohibiting the taxation of digitized goods and products and their non-digitized counterparts.
- Banning all taxes on Internet access.
- Abolishing the federal excise tax of 3 percent on telephone calls.
- Encouraging state and local governments to reform industry-specific telecommunications taxes.
Global Initiatives: USA

- Establishing firm "nexus" rules for electronic commerce
- Encouraging state and local officials to work together
- Establishing a new Advisory Commission
Conclusion

- E-commerce increase the gap between
  - the technology exporting developed country and technology importing developing countries,
  - those where primary tax base is direct taxation and those which raise substantial amounts of revenue by consumption taxes.

- Zero tax options benefits will go to industrialised countries.