

## Chapter 87

# Electronic Commerce and Actual Problems of Taxation: The Key Underlying Issues

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### **ABSTRACT**

*This chapter examines the problems related to the international taxation of electronic commerce and identifies the alternative solutions that have been adopted in the current fiscal framework. The results obtained demonstrate the proposed models of e-commerce taxation based on existing international legislation, notably origin-based taxation, tax withheld at source and technology based solutions. This study argues that any legislative change should be implemented by a number of countries or through international efforts to harmonize practices, and sets out the future directions in the taxation of e-commerce. This chapter contributes to the scientific knowledge to accounting and tax research on the taxation of e-commerce.*

### **INTRODUCTION**

Economic growth and the globalization of international markets have driven the development of the new technologies sector. The development of new information technologies, more specifically the internet, led to the emergence of new forms of commerce. Of these, electronic commerce stands out in particular; not only has it registered steady growth, but it has completely changed the way commerce takes place and had a great impact in various areas. As a result, new markets and new products have been created and relationships have become virtual without any physical contact between buyer and seller, in contrast to what happens in traditional commerce. This change in the way commerce takes place has raised a

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number of accounting and tax issues, notably that of identifying the best method for dealing with the accounting and taxation of this kind of transaction (Yang & Aquilino, 2016).

In recent years, the internet has ceased to be used simply for communication and information search purposes and has increasingly become a commercial network. As such, it offers multiple advantages as it allows companies to do business all over the world at low cost without the need for a physical establishment. It is usual for these companies to make their products or services available through their sites, often transcending the economic rules that govern the trade of the destination countries, and even international rules (Gamage & Heckman, 2011).

The national tax systems as well as trade and customs barriers are therefore easily by passed. Previous studies report that countries have not yet prepared legislation and methods to tax this kind of transaction (Azam, 2012; Cockfield, 2005; Ligthart, 2004; McLure, 2001, 2003). The advances in e-commerce allow sophisticated information systems to be developed, giving rise to the urgent need for various international organizations to work together on advancing common tax systems.

This chapter examines the problems related to the taxation of electronic commerce and identifies the alternative solutions that have been adopted in the current fiscal framework. The research does not intend to study all the difficulties that the taxation of this kind of commerce involves, but to analyze some of these issues, more specifically in direct international taxation.

The results obtained demonstrate the proposed models of e-commerce taxation based on international legislation, notably origin-based taxation, tax withheld at source and technology based solutions. This study argues that any legislative change should be implemented by a number of countries or through international efforts to harmonize practices. The biggest mistake that could be made would be to try to find an individual or regional solution to the problems of internet and e-commerce, without taking the international context into account. After all, e-commerce is not an issue of merely local scope but has global implications given the breaking down of borders afforded by the internet.

This chapter contributes to accounting and tax research on the taxation of e-commerce given that, according to the studies and articles published to date, governments have not yet approved any law or significant guidelines on the taxation of international e-commerce.

The chapter is structured as follows. Following a brief introduction, the next section presents the background to the internet as it is the means used for this kind of purchase, describes the characteristics of e-commerce and sets out the international institutional framework. An analysis is then made of the taxation difficulties in e-commerce, making reference to the following factors: characteristics of e-commerce, the permanent establishment, tax havens and the application of criteria for the assignment of profit. Section four develops the proposed models of taxation of e-commerce. The work concludes by outlining the main aspects of the current problems and future challenges of e-commerce.

## **ELECTRONIC COMMERCE**

### **Definitions, Typologies and Characteristics**

The increasing use of the internet worldwide is proof of the rapid revolution in the new information and communication technologies. The communication process has become renowned thanks to the internet and is present in various social segments. In short, the internet is a communication system that links

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