E-Commerce Taxation

In 2010 at eBay.com more than 97 million users were buying and selling goods all around the world in a total amount of $62 billion USD. The turnover of e-commerce activities is expected to grow to $963 billion USD in 2013\(^1\). E-Commerce is already playing a key role in the global economy and it is growing rapidly. In this context the taxation of e-commerce operations draws the attention of fiscal authorities worldwide.

Opportunities

E-commerce brings new possibilities for companies in terms of sales and cost-cutting. The World Wide Web offers companies an enormous potential in reaching their customers. For consumers it makes buying more convenient by making it flexible through electronic devices (e.g. computer, mobile phone) and transparent through comparing different products at once. The number of people who buy online is continually rising, with 38% buying at least once a month. About 15% of e-commerce is cross-border e-commerce, and it amounted to about $100 billion in 2011 and is predicted to be about $150 billion in 2013\(^2\).

Looking at this figures it is crucial to point out that consumption taxes are an important revenue source for federal states. In 2005, 31.9% of revenue shares derived from consumption taxes states the Organisation for Economic Co-operation and Development (OECD)\(^3\).

In order to conquer some of the long-standing problems in taxing cross-border income flows it will require new forms of international fiscal sovereignty\(^4\). This means that national and international institutions are more and more forced to work together to establish transparency as well as synergies and define rules and responsibilities.

Challenges/Problems

The lack of consistency between the features of e-commerce and international tax regime presents significant problems in taxing e-commerce income, as a result of which there is a serious undertaxation. One issue is that the traditional way of classifying supplies into supplies of goods and services regulated by the European Community Value Added Tax framework (EC VAT) is stipulated by supplies delivered in a digital form\(^5\). On the one hand tax legislation is based on territorial agreements, on the other hand the internet does not recognize geographical limits.

Challenges can be divided into three categories\(^6\):

1. The technical features of internet transactions create enormous problems for taxing authorities in obtaining documentation.
2. The digitalization of information makes it more challenging to define the source, origin and destination of the product.
3. Continual increase of cross border transactions.
Possible Solutions

In tax literature we can find several policy proposals arguing with these e-commerce challenges. Some examples are shown here:

- Tax jurisdiction to the country of the server (OECD).
- Tax jurisdiction to the country of the consumers (Professor Reuven Avi-Yonah, 1997).
- Formula taxation to e-commerce (Professor Jinyan Li, 2003)
- E-commerce should be taxed respective to personal jurisdiction (U.S. Department of Treasury, 1999)

International organizations, such as WTO or OECD and EU institutions are aligned on the fact that e-commerce and particularly the legal requirements regulating e-commerce should be equally around the world in order to avoid competitive distortions.

Conclusion

The relentless development of digital technology offers new and innovative ways for vendors and customers. E-Business activities play a significant role in this progress. As the traditional ways of purchasing goods are changing traditional ways of taxation need to change as well. Federal states have already realized the problem of taxation of digital supplies. Recommendations from national and international institutions are discussed, but the implementation takes time due to a variety of stakeholders (e.g. federal states, international institutions).