

Chapter 86

Taxing E-Commerce: Its Challenges and Future Prospects – A Comparative Analysis

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ABSTRACT

With the advent of globalization, world governments have been under pressure to face the significant challenges of e-commerce. The vast growth of e-commerce, sale and purchase of commodities over the internet, has ruined the existing tax structure. With the smart phones and internet getting cheaper, the tax administration of every country is facing the difficulty of protecting their share of revenue in this dynamic e-market. The tussle between the developed and developing country is going to stretch as it would be an alarming signal for the reduction of the tax base for the developing economy. E-commerce challenges the current International taxation regime. In the present scenario, personal income tax is being taxed by the resident country while business income is being taxed by the source country.

INTRODUCTION

The rapid growth of e-commerce, especially the sale of goods and services over the internet, has fuelled a debate about the taxation regimes to be used. The shift from a physically oriented commercial environment to a knowledge- based electronic environment poses serious and substantial issues in relation to taxation and taxation regimes. Tax administrations throughout the world face the formidable task of protecting their revenue base without hindering either the development of new technologies or the involvement of the business community in the evolving and growing e-market place. Concerns of governments centre on the impact of e-commerce on the state and local revenue. Whereas states can impose a tax on residents' purchases from out-of-state vendors, they cannot impose an obligation on those vendors to collect the tax unless the vendor has a substantial presence, or nexus, in the state. These problems will be greater for developing countries. The shrinking of the tax base will have a disproportionate effect and further jeopardize the already fragile economy of the developing world.

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E-commerce offers potential benefits in the form of enhanced participation in international value chains, increased market share at the very lower cost. Changes in the ICT landscape have enlarged the scope for businesses in developing countries to engage in the E-commerce. In September 2014 the initial public offering on the New York stock exchange of Alibaba group- a Chinese commerce enterprise was the world's largest ever raising \$2.5 billion. Earlier in the same year African online Jumia which is part of African Internet Group, announced that it was expanding into Cameroon, Ghana and Uganda, complementing its existing operations in Egypt, Kenya, and Cameroon. These actions of the Alibaba and Jumia are to understand the development of E-commerce in developed as well as developing countries. Indeed, the fastest growth of e-commerce is now witnessed in Asia and Africa.

Definition of Ecommerce

As per the OECD the definition of the E-commerce, "The sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations. To be included are orders made over the web, extranet or electronic data interchange. The type is defined by the method of placing the order. To be excluded are orders made by telephone calls, facsimile or manually typed e-mail."

Types of Ecommerce

- **B2B Commerce:** Accounts for the bulk of ecommerce. It involves transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer.
- **B2C Commerce:** It involves sales by "pure play" e-commerce enterprise to consumers and by traditional bricks and mortar retail or manufacturing firm that's add an online sales channel. Selling directly to the consumers via ICT networks can help micro and small businesses to reach new market both domestically and internationally.
- **C2C Commerce:** It covers online auctions platforms (such as ebay or Taobao) and sales within online communities. It platforms offer possibilities for informal enterprises to engage in ecommerce
- **B2G Commerce:** These transactions are similar to B2B, except that the buyer, in this case is a government entity such as in the case of public procurement.

The Global Trends

Measuring ecommerce is challenging there is no comprehensive data for the ecommerce value of domestic or international transactions. Available resources tells us that it has developed significantly in the last decade and still progressing in the developing countries especially in Asia. In the US, B2B, total revenue from the ecommerce sector amounted to \$5.4 trillion. In Canada almost 64% sales were attributed to e-commerce was from B2B in Korea 91% B2B sales of all ecommerce sales. In Russia 57% was from B2B.

More and more enterprise is exploiting the opportunities created by improved connectivity and great willingness by the consumers to buy online. According to some estimates there are more than 1 million

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