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The Challenges in the Taxation of E-Commerce Transactions

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Abstract - It is projected that E-Commerce will grow to be a massive sector in the next years as it has captured the interest and minds of customers across the globe like never before. Globalization and market liberalization, on the other hand, make it difficult for international tax arrangements to keep up with these changes. A new business model has arisen based on the use of seamless, cross-border cyber networks. For company methods based on real-time management and using cutting-edge technology, E-Commerce has created a distinctive code of conduct. It would be difficult to create an effective tax policy without a thorough knowledge of the sector, taxation authorities' issues, and Internet-specific quirks. It argues that E-Commerce has grown tremendously over the globe including in India, and that legal and tax issues have arisen as a result of this expansion. Indian tax reform is also taken into consideration in this research, which aims to keep up with India's explosive development in E-Commerce.

Keywords - E-Commerce, Technological advancements, International taxation arrangements, Challenges, Rational tax policy.–

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INTRODUCTION

The way businesses do business throughout the globe has been completely transformed by the advent of E-Commerce and all of its new codes of behavior and business practices. With the advent of intranet and internet, electronic money transfer systems, and other electronic data exchange, the notion of product development, marketing, business operations, and organizational structure has been completely transformed. Because to EC, businesses can now produce and distribute goods on-demand, increasing their client base and their worldwide competitiveness. No one definition of EC exists. European Commission "E-Commerce" involves more than the buying of products online, according to the European Commission There are many undefined activities that fall under this umbrella, such as exploring the Internet, searching for things, and completing the transaction like any other long-term commercial operation. It also include conducting customer satisfaction surveys, collecting consumer data, and maintaining customer databases for marketing and promotional purposes. A logical tax policy that takes into consideration the unique characteristics of the internet's lack of territorial jurisdiction as well as the difficulties posed by the intangible nature of economic transactions has become more difficult for governments throughout the globe, including India. However, as time went on, tax authorities began to grasp the need of understanding the principles of E-Commerce and establishing tax laws that would help limit the majority of tax evasion and bring the E-Commerce business into the tax system.

LITERATURE REVIEW

Susanna Hartanto (2020) E-commerce taxes in Indonesia was examined in this research, including several elements that supported and hindered its adoption. Fiscus (Directorate General of Taxation) and taxpayers in the e-commerce business were interviewed. Semi-structured interviews, observations, and documentation were employed to gather data. Descriptive data analysis was used in this study. E-commerce taxes has not been properly applied, according to the findings of this research. In order to educate e-commerce tax payers, more organized and thorough methods should be used. Interviewees were limited owing to time constraints in this research. According to Directorate General of Taxation Circular No 62 Year 2013, the number of interviewees may be added and divided into four different forms of e-commerce transactions. To track down illegal e-commerce transactions, the government will need well-defined e-commerce tax guidelines. To collect taxes on e-commerce transactions, it is necessary to execute more systematic and extensive outreach to e-commerce taxpayers.

Nurlita Sukma Alfandia et.al (2020) Market and production globalization may be triggered by technological advancements. National markets have been transformed into international trading units as a result of market globalization. As the internet has become more prevalent in international commerce, digital goods and services transactions have emerged. Tax is a major issue in this transaction since it is imposed digitally. It is possible to conduct international tax-related transactions using digital means. Transacting digitally does not need the presence of economic substance (a long-term presence). Taxation on digital transactions is currently under development by the Organization for Economic Co-operation and Development (OECD). Multinational web-based enterprises are discouraged from engaging in tax evasion by using this measure. Earlier this year, the Indonesian government published Regulation 210 / PMK.010/18, which governs the tax status of commercial transactions conducted through electronic systems (e-commerce). There were advantages and disadvantages to imposing it, which led to its suspension before it could take effect. Examining the taxation regulations for digital transactions in various countries and analyzing the usage of these rules in Indonesia is the objective of this research. Many nations have enacted their own rules on digital transactions and taxes, according to the findings. The Value Added Tax (VAT) object is often used to incorporate taxes on digital transactions. However, these taxes are included in the Good and Service Tax in a few of nations (GAT).

PA Folarin (2019) Technological developments have the potential to set off globalization of markets and manufacturing. Because of market globalization, national markets have become international trading units. A new kind of international trade is emerging since the internet has been more widely used. Due to the fact that taxes are levied online, this transaction presents a significant challenge. International tax-related transactions may be carried out using digital methods. Digital transactions do not need the existence of monetary value (a long-term presence). The Organization for Economic Co-operation and Development (OECD) is actively working on taxation on digital transactions (OECD). This approach is intended to deter multinational web-based corporations from participating in tax avoidance. Regulation 210 / PMK.010/18, which controls the tax status of business transactions made through electronic systems, was released by the Indonesian government earlier this year (e-commerce). Although there were both positive and negative aspects, it was halted before it could take impact. The goal of this study is to examine international tax legislation on digital transactions and to assess how these rules are applied in Indonesia. According to the data, several countries have adopted their own regulations on digital transactions and taxes. Taxes on digital transactions are often included using the Value Added Tax (VAT) object. Some countries, however, incorporate these taxes as part of the Good and Service Tax (GAT).

Arpita Mukherjee et.al (2018) One of the most important aspects of commercial activity is the use and growth of electronic commerce (e-commerce). As anticipated, the expansion of global e-commerce is expected to continue in the near future. Many nations are examining the prospect of e-commerce trade regulations that are open, transparent, and non-discriminatory in the World Trade Organization (WTO). Because of its obligations to the World Trade Organization (WTO), India has not joined this organisation. Indian trade agreements, such as the Regional Comprehensive Economic Partnership (RCEP), also have e-commerce as a major component. Accordingly, the purpose of this paper is to get an understanding of the expansion of ecommerce throughout the world and in India, the WTO, and India's position in relation to these issues. The report presents policy suggestions on India's WTO approach based on secondary data and information and one-on-one consultations with 30 stakeholders.

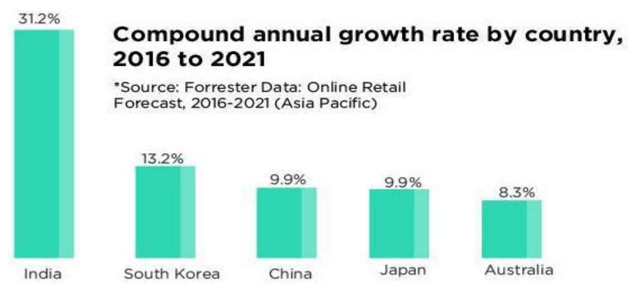
Pandey P.K. (2017) As per GST legislation, E-Commerce implies provision of goods or services or both including digital products through digital or electronic network and E-Commerce operator has been defined to mean any person who owns, runs or manages such digital or electronic platform for E-Commerce. Any e-commerce operator and every supplier that sells products or services through e-commerce must be registered under the GST system, regardless of the threshold limit for their business. It is also necessary to collect tax at source (TCS) on the net value of taxable supplies after reducing the value of taxable supplies returned during a month when consideration is paid to operator by supplier. TCS cannot exceed 1 percent on net value.

RESEARCH METHODOLOGY & DESIGN

Extensive academic literature on taxes, including the Goods and Services Tax (GST), was scoured for information using an exploratory research method based on previous publications in academic journals, reports, newspapers and magazines. The study's aims need a descriptive research approach. In order to conduct the research, the study relied heavily on secondary data that was readily available. The purpose of this research is to better understand the rapid rise of e-commerce, as well as the issues that tax authorities confront, with a focus on the Indian context.

Growth of E-Commerce in India

Indian business processes have been fundamentally altered by the rise of E-Commerce. The e-commerce business in India has grown tremendously since the launch of many government programs in 2014, including Digital India, Make in India, Start-up India, Skill India, and the Innovation Fund. There is a close correlation between E-Commerce and India's MSME sector. To help thousands of Indian tribal craftsmen get access to worldwide markets, the Indian government has developed an E-commerce platform called TRIFED and an M-commerce portal named "Tribes India". Prepaid Payment Instruments (PPIs) including digital wallets, prepaid cash coupons, and prepaid telephone top-up cards are now "interoperable" with one another, according to the Reserve Bank of India.

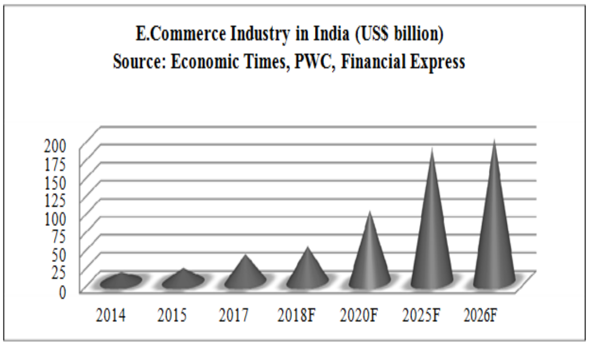


Inventory based model, marketplace based model, and a hybrid of the two are the three most common E-commerce business models in India. In B2B E-Commerce, 100% FDI is permissible in India. The revised FDI in E-Commerce rules allow for 100% FDI via the automatic route in the marketplace model of E-Commerce, but not in the inventory-based model. There are no rules preventing marketplace owners from owning inventory, influencing the pricing of things, or selling products on their site..

Leading E-Commerce Companies under Different Business Models:

E-Commerce models	Leading companies
B2C E-Commerce marketplace	Snapdeal.com, Amazon.com, Flipkart.com
B2C E-Commerce inventory led	BigBasket.com, FirstCry.com, Zovi.com
B2C E-Commerce aggregator	Uber.com, olacabs.com
C2C E-Commerce	Cloudacar.com, quickr.com, olx.in
B2B E-Commerce	mjunction services limited, power2sme. Com
Omni-channel Retailers	Shoppers Stop Ltd., Infiniti Retail Limited Croma, Raymond Ltd.

India's e-commerce business is predicted to reach $200 billion in 2026 from $38.5 billion in 2017, thanks to rising smartphone use, 4G network launches, and rising consumer income. India's E-commerce market.

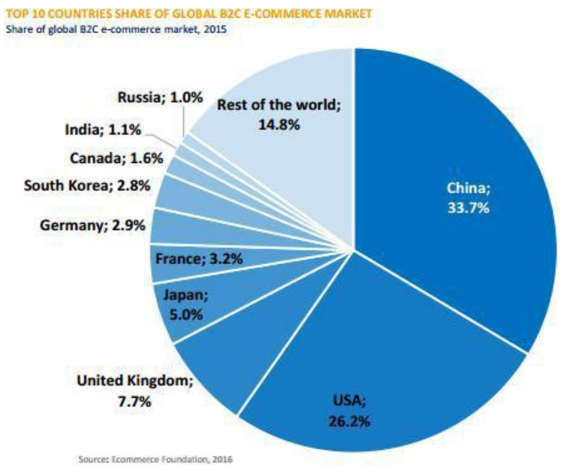


India has a 38.02 percent urban, an 84.74 percent rural internet penetration rate in Q1 2018, and a 16.41 percent rural internet penetration rate. A 2011 census projected the population of urban India at 444 million, and as of March 2018, there were already 348.13 million people accessing the internet, whilst rural India had 145.83 million internet users, based on the same census estimate.

Customers from Tier II and Tier III cities, who have limited access to brands but great expectations, are enthralled by E-Commerce in India. According to Snapdeal and Flipkart, tier 2 and tier 3 cities in India are increasingly turning to online shopping, with 60% of Snapdeal's purchases coming from these locations and Flipkart's sales of branded items across categories.

E-Commerce and Taxation – An Overview

E-commerce is allowing for a wide range of creative business methods that have a significant impact on both the economy and society. In barely a decade, the Internet has shown its wide-ranging potential, attracting millions of customers in a virtual retail mall.



EC may be categorized into four key market segments: business to business, business to consumer, consumer to consumer, and consumer to business. EC can be categorized into four major market categories. In contrast to B2C (Company to Consumer), B2B E-Commerce focuses on the online selling of goods and services between businesses rather than between a business and its consumers. B2C transactions tend to have set pricing, but B2B transactions tend to have significantly variable costs. When it comes to the business-to-business (C2B) paradigm, clients are now the ones who want a service and wait for a company (or freelancer) to fill in the blanks. C2C (Consumer to Consumer) is the business paradigm that makes it possible for private persons to do business with one another directly. Online auction site eBay and Amazon are two of the most well-known instances of a C2C marketplace. Many of the core principles of direct and indirect taxes have been challenged by the Internet. All across the world, governments are having a difficult time dealing with the problem of taxing E-Commerce. In part, this is due to the lack of complete knowledge, communication technology, and the business's complicated structure and method of operation.

A thorough understanding of the e-commerce business is required in order to create an effective tax policy. There are a few oddities to the Internet;

- A network of networks that can't be controlled by a single individual is what it is.
- Speed of data transmission is unrivaled.
- A graphical user interface that is easy to use.
- One click to get a massive amount of information.
- There are no regional or territorial restrictions.
- Payment system that is fully automated.
- One machine linked to the Internet can re-route the Internet itself.

With the Internet's unique characteristics in mind, it's easy to see the problems associated with taxes on e-commerce. After Turku, the OCED ministerial summit on "A Borderless World - Realizing the Potential of Electronic Commerce" in Ottawa, a worldwide action plan for electronic commerce was produced by industry with suggestions for governments.

Challenges of Taxing E-Commerce

It is difficult to tax E-Commerce transactions because of the lack of physical borders and the fact that the products and services are exchanged electronically.

Tax Jurisdiction

Individuals and/or transactions taking place inside a country's borders are subject to the jurisdiction of its courts under customary principles for determining where a dispute arises. Finding out which nation or countries are in charge of taxation is an important administrative problem. It is possible to do many transactions with consumers in various nations from afar without ever having to speak to one another. As a result of the supplier's lack of presence in the customer's jurisdiction, identifying the location of supply would be a challenge. As a result, the development of WAP (Wireless Application Protocol) has integrated mobile phone with the Internet, obscuring the location of origin of company and raising serious questions about domestic law.

Permanent Establishment

Permanent establishment in E-Commerce is difficult to identify because of the transactions' intangible character. The physical location and ownership of web servers complicate matters even more based on the established rules for defining a permanent business. "permanent establishment" status is needed by hosting providers in order to tax E-Commerce transactions conducted on their web servers (a rule for determining the right of a state to tax the profits on an enterprise of another state). Databases and software on websites aren't considered "real property," hence they don't have their own permanent establishments. Owning or leasing a webserver is a requirement for an Internet-based firm to be held tax-responsible. Internet enterprises with worldwide operations may be difficult for governments to tax because of the ease with which a website and its database can be transferred between webservers in different countries.

Tax Collection

As a result of web-based enterprises, small firms may thrive with less capital investment since they have an enormous reach into the world of clients. Estimated costs of compliance for small firms are expected to be close to 87 percent of the sales tax they receive, compared to only 14 percent for big enterprises, according to Ernst & Young, a famous accounting company located in the US.

Tax competition

Electronic commerce's geographic advantage and mobility have both been shown to exacerbate tax competitiveness that is damaging. Many of the websites offering aggressive tax preparation were found to be linked to promotional groups and headquartered in tax havens. This might be due to bandwidth issues or the availability of dependable telecommunications infrastructures. The need of limiting detrimental tax competition is being underscored by the rapid growth of technology in every country.

Confidentiality

Some countries have laws that ban their tax authorities from sharing information about a taxpayer's tax affairs to another tax authority, in general. As a result, tax administrations throughout the globe are hampered in their efforts to work together and integrate. Even in the absence of confidentiality requirements, authorities refrain from disclosing this information for fear of negative economic implications such as capital outflows.

Intellectual Property Rights

The company has the option of using either original or licensed technologies with E-Commerce platforms. This raises the question of who owns the intellectual property rights (copyrights and trademarks) in the design and functionalities of a website and its content, which might include anything from information to the logos of third parties. As with external connection provision, there are issues to be handled.

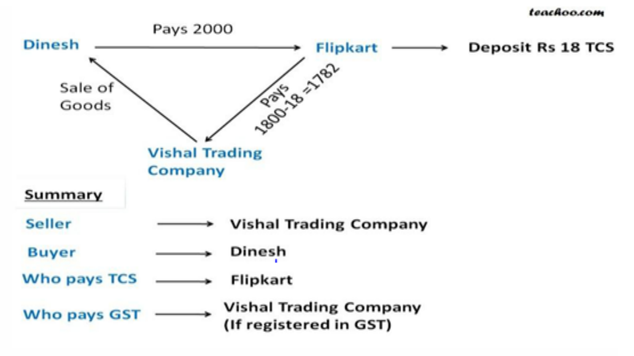
Corrective actions, however, must be taken in order to overcome the aforesaid obstacles and to simplify the international tax code in close cooperation with governments and businesses worldwide. The following are a few possibilities to consider:

- Cross-border electronic invoicing.
- Verification of the declared jurisdiction of residence in B2C transactions.
- Verification of the recipient's (company or consumer) identity made simple and efficient.
- Registration criteria for non-resident providers that are minimally compliant.
- Verification of technology-based collection mechanisms.
- Uniformity in International administrative co-operation.

Tax Incidence on E-Commerce - Indian Perspective

India's e-commerce market, which was only getting started just a few years ago, is already seeing extraordinary development and is expected to become the country's next great business. More than five times, according to Forrester Research19, E-Commerce sales in India would rise from USD 1.6 billion in 2012 to USD 8.8 billion in 2016. The automatic method (i.e., no Foreign Investment Promotion Board clearance is necessary) now allows 100% FDI (Foreign Direct Investment) in enterprises involved in B2B E-Commerce. 20 Since the introduction of the Good and Service Tax (GST) in 2017, India's tax regulations have been more of an impediment than a driver for the E-Commerce industry. In order to reduce the possibility of being taxed in more than one jurisdiction, E-Commerce business models must be carefully structured.

The GST, which will replace India's previous indirect tax system, holds the key to unlocking the challenges facing the e-commerce industry. "E-Commerce operators" or "marketplaces" are obliged under GST to collect tax at source from sellers, and the rate is announced. Marketplaces are middlemen that allow sellers to market their goods to prospective buyers. "E-commerce operator" refers to someone who owns, runs, or manages a digital or electronic platform or facility for electronic commerce. The term "electronic commerce" also encompasses the sale of digital goods through an electronic network. In B2C transactions, the location of the service provider is the place of supply, but in B2B transactions, the location of the service receiver is the place of supply. No exception has been granted to the e-commerce operator in this regard. E-commerce enterprises must register in each state in which they do business, resulting in an increase in the number of regulations they must adhere to. While both online retailers and sellers are expected to disclose their purchases in their tax returns, the GST system will check their records to see if there are any invoice-level discrepancies, and if there are, the seller will be liable for the difference in GST owed as a result. Cascading effects of taxes will be reduced as a consequence of constraints on cross-utilization of credit for the marketplace participants under the GST. It is now mandatory to include an HSN or SAC code on all orders and invoices, depending on the kind of service being provided. Supply location must be identified based on GSTIN for B2B and delivery address for B2C models. This information is provided by the recipient



Even though the majority of the e-commerce difficulties have been addressed by the GST, more has to be done to ensure that the Indian e-commerce business is transparent, accountable, and managed in a way that keeps pace with the industry's rapid growth.

CONCLUSION

In the past two decades, e-commerce has dismantled national borders and made the globe a smaller, more interconnected place. Increasing E-Commerce has not only altered traditional company methods and transformed the globe into a giant global shopping mall, but it has also put to the test whether or not classic international taxation concepts are adequate and still hold up under modern scrutiny. In light of the issues posed by cross-border E-Commerce, the necessity for extensive administrative co-operation and recommendations to be developed by policymakers has never been greater. Countries are still trying to discover a definite and standard answer to issues like tax loss and tax evasion, which is a topic of investigation and study. Although E-Commerce has led to some of the most significant tax reforms that may curb unethical and unlawful tax practices around the world, a lot more needs to be done with the rapid pace of innovative technological and business practices in the form of E-Commerce and M-commerce, which is the need of the hour for the most sensitive sector. There is just one source of income generating in every economy: taxes.

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