Growth of E-Commerce and Expanding Profits in India

Ved Prakash Bansal

Associate Professor, Satyawati College (E), University of Delhi, Delhi
Email Id: vedbansal1958@gmail.com

Abstract. Business transactions through electronic medium conducted over internet is one of the most expanding and profit making market in India. With the expansion of e-commerce, most businesses are making online transactions including trading, on-line buying, on line payments, funds transfer and electronic data exchange. This paper aims to explain the concept of e-commerce, growth and taxation rules governing online transactions and the government policy to promote online business.

Keywords: e-commerce, taxation, India, taxation laws

Introduction

According to Greenstein and Ferman "Electronic commerce (e-commerce) is described as the usage of electronic transmission medium (telecommunication in the exchange process, including buying and selling of commodities requiring transportation logistics either digitally or physically from one place to another."

E-commerce is a negotiation that is conducted using computer-based network which involves the ownership transfer or the right to consume goods or services. According to the study of European Commission, E-commerce comprises of, purchasing online products and much more. It consists of a loosely defined attribute such as, browsing on the Internet for goods and shopping as well as a set of defined behaviors, collecting data/information about items to be purchased and finalise the purchase transaction. This whole process comprises of collecting information about consumers and maintaining consumer databases for various marketing and promotional activities via consumer satisfaction surveys. A new business terminology consisting of various combination of business and consumers was brought up by the first phase of e-commerce. Just as with traditional business models, it has its own advantages and disadvantages. Nevertheless, we can conclude that e-commerce has changed the world economy into a more dynamic and interactive pattern.

.

Journal of Business Management and Information Systems©2014 QTanalytics
2394-3130 electronic ISSN

With the growing acceptability and accessability of internet connections, e-commerce transactions may include consumers who are resident/citizens of more than one country. This may result in the income from such transactions being taxed in more than one country. The policies framed by the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development ("OECD") emphasised neutrality, efficiency, effectiveness and fairness; certainty and simplicity; as well as flexibility as the guiding principle for the taxation of e-commerce based transactions.

The High Powered Committee ("HPC") constituted by the Central Board of Direct Taxes, In India, submitted a report in September 2001. The report studied and examined upon the requisite pertaining to the introduction of a separate taxation structure (regime) for e-commerce based transactions. The report submitted by the HPC took into consideration the principles laid down by the OECD albeit with some exemptions. Although E-commerce sector is abuzz with deals and sales but when it comes to taxation policy, the sector shows little enthusiasm, especially on the day of the Budget presentation. Nonetheless, based on the principle of 'neutrality', the HPC maintained that the existing laws are adequate to tax e-commerce transactions and no separate regime for the taxation of e-commerce transactions is needed.

Taxation for Internet Transaction

The fundamental changes have come in traditional ideas of direct and indirect taxes with the advent of Internet technology. Government is struggling and need to establish artificial intelligence system to tackle the various issues of taxation arriving from the e-commerce transactions. Government lacks understanding of:

- The new information and communication technologies
- The complexity in the business transactions as an outcome of online transactions etc.
- The internet business operations are making tax legislations more challenging.

E-commerce transactions are governed by the Information Technology Act, 2000, which is the silent about taxation policy. The state loses substantial sum of revenues due to loss of direct and indirect taxes that need to be levied on internet based transactions. A robust solution need to devised to solve the complex nature of taxation.

`Taxation policies and structure varies from countries to countries and that what caters towards the complexities in measurement of these transactions'. There are certain basic principles of the taxation policy in any country. These principles are efficiency, equality, certainty and positive economic effect. Some of the principles of 'good tax' are presented in the figure below:

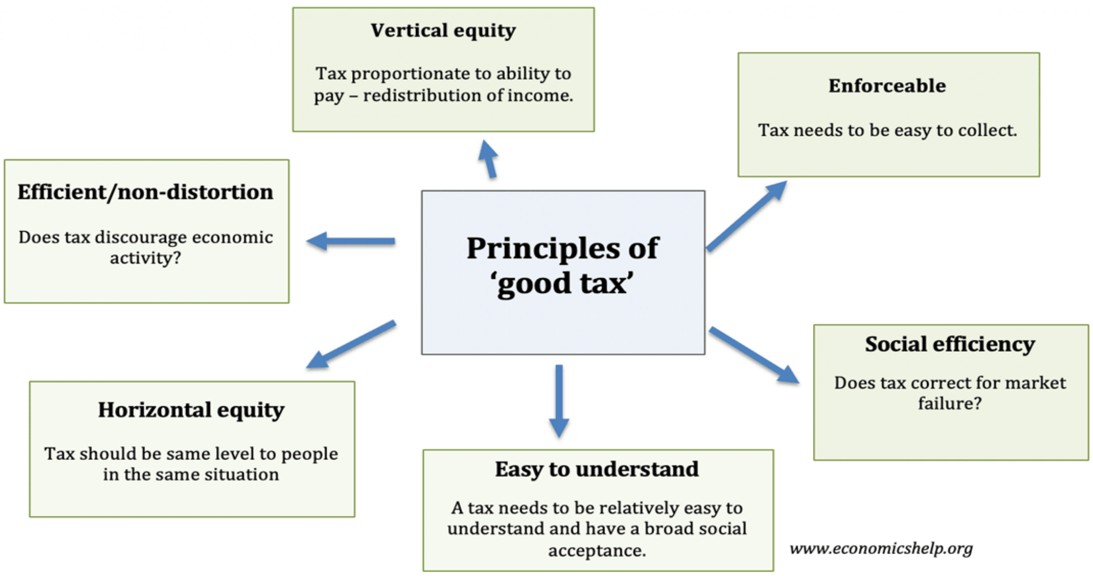


Figure: Principles of 'good tax'

Internet activities are categorized as "access service - access to the Internet will be provided to the individuals" and the "content service - content consisting of information are delivered electronically". The Internet encompasses traditional retail transaction to an electronic commerce involving digitization of the products.

Specifically, online transactions describe delivery of products through digital mode. The various problems faced by the tax authorities in handling these transactions are like:

- Complex nature of online transactions
- Security and encrypted transactions
- Difficulty in collecting taxes due to increased number of end users and intermediates.
- Difficulty in indentifying raw, finished or consumable items.
- Difficulty in indentify the kind of services

Since the transactions are carried out online, it is difficult to identify the online transactions made within and outside the country. The taxes are different for the services provided within the country and export of services to outside a country.

Encryption of Transaction

With the availability of powerful encryption technologies to internet users, it is difficult for the government to unfold the online transactions and its nature. These technologies restrict the other parties to open the transactions so that only the owners can decrypt the information. This implies that the tax officials will not be able to decipher transactions happening online. The authorities are not able read, open or understand its content to identify the transactions. It has become the safe haven for the tax evaders. However, the Indian government has well planned taxation policy and is categorized between the Central and State Governments.

- Direct taxes like personal, corporate tax are collected by the central government
- Local and sales tax are collected by the respective state governments.

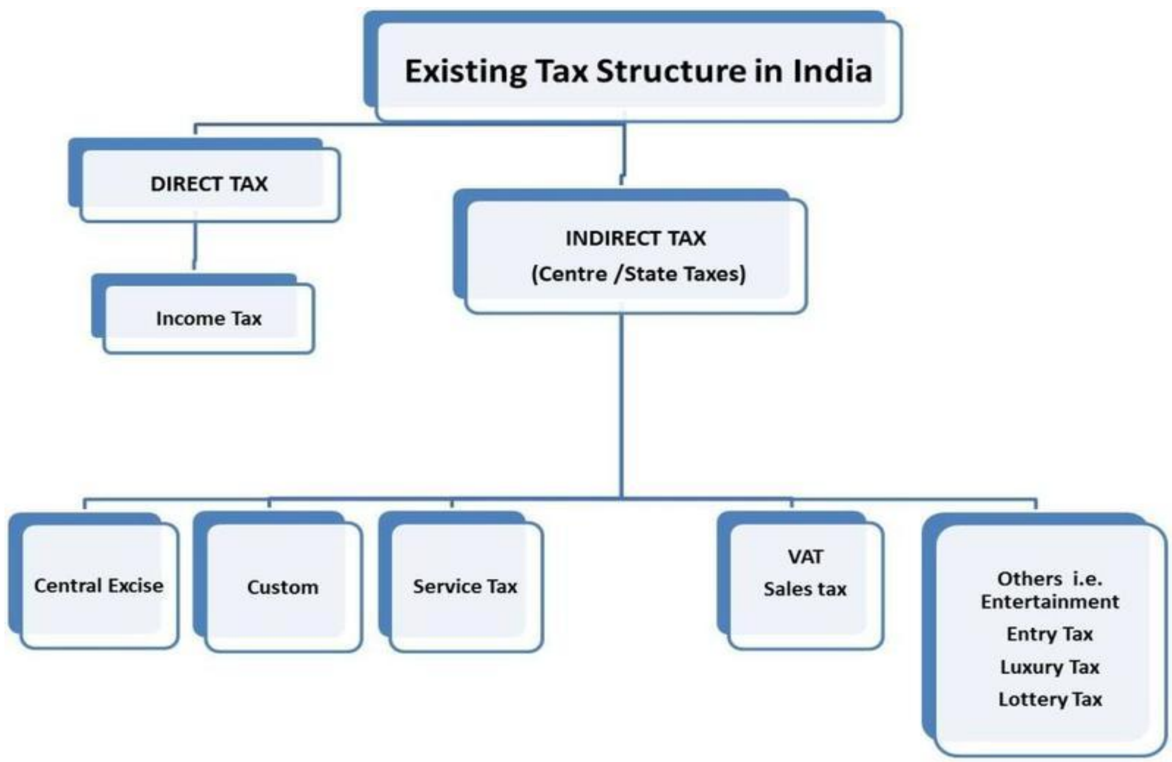


Figure 2: Tax Structure in India

E-commerce and technological challenges

E-commerce has an advantage over the traditional form of buying and selling activities of the market and the customer and suppliers are closely connected. It is difficult to determine the appropriate transfer pricing model for the business functions provided the existence of e-commerce transactions which has made a significant change in the business supply chain models. It can be noted that both the tax payers and collectors are facing challenges in identifying significant business transactions.

There is a need to balance the legislation of intellectual and equitable framework and at the same time considering enforcement barriers and the administrative functioning. Implementation of action in the e-business world of transactions by the tax authorities is based on information by the taxpayers and the related parties. However, tax evasion is an inherent problem in online business transactions. There is a need to find solution of the following questions:

i) How can one keep the transactions safe and secure?
ii) What records and details are required to be maintained?
iii) How to ensure tax compliance without affecting the privacy and personal data loss?
iv) How to ensure impartial treatment for the new online business merchants?

Figure 3: Challenges in E-commerce

2394-3130 electronic ISSN

Challenges before Tax authorities

The major challenges faced by the tax authorities regarding e-commerce are:

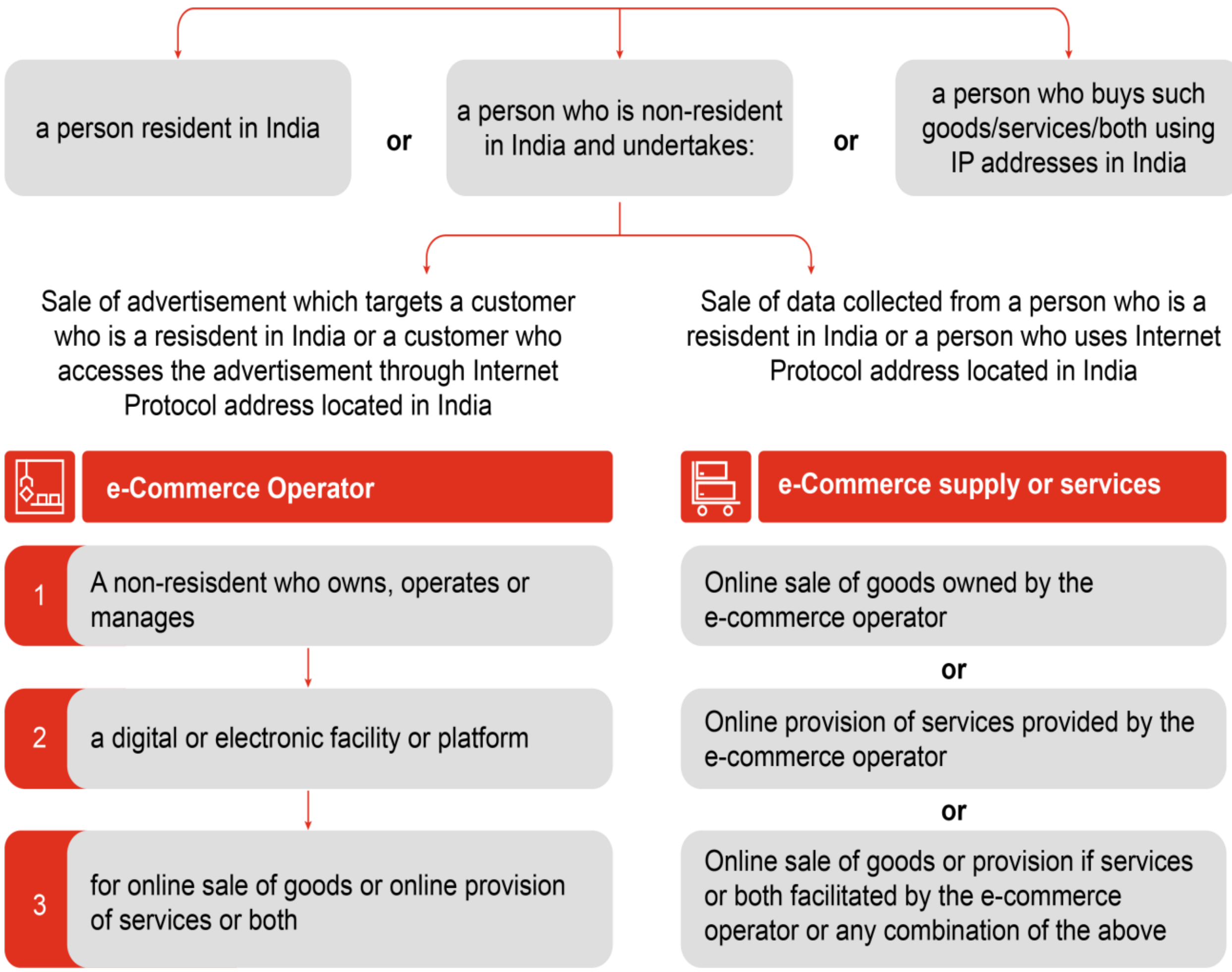
i) Identify the audit risk and ensure tax compliance

ii) Access and validation of information and documents

iii) Identify the tax payer, especially who are engaged in online transactions

iv) Restrictions on encrypted data

v) Developing a quick response system of e-cash transactions and efficient procedure for collecting taxes from NRIs.



Judicial Approach to Taxation Issues

The judicial system is also overburdened with the increasing cases of conflicts in online transactions. Moreover, they are facing challenges to interpretations from the different software used in online systems and results in the incompatible standards of tax policy and treatment by the tax authorities. Legislature structure of India is authorized to make the policy for the public good. Accordingly, judicial system alongwith the administrative functionaries follow a principle-based approach and ensure the capability of civil courts of taking decisions in tax disputes.

Conclusion

E-commerce is still in nascent stage and soon would become a major economic force in future in the field of international commerce. There exist no concrete tax rules to the direct taxation of e-commerce transactions and is long way to develop new standard protocols for taxation policy. A broad taxation system need to be put in place for internet based transactions. It should also be simple in nature to enable ease of handling by the government administration. The government has the opportunity to enhance the tax revenues although consumers are always averse to such tax increase. Therefore, the policy makers need to balance the revenue generated from the tax collected from the consumers without adding excessive burdens on the tax payers. Any kind of exclusive taxes not a positive reflector to the growth of the country's economy but also restricts people entering the online transactions.

References

White paper on "E-Commerce", OECD, 1997

Vakul Sharma "E-commerce; new business paradigm" in S.K verma and Raman Mittal(ed.) Legal Dimensions of Cyber space p.no.51, www.gartenner.com last visited on 4September, 2008. http.//Europe.eu.int, last visited on 04-09-2008.

Introducing Electronic Commerce and EDI-ED and the business cycle at http://www-106.ibm.com

ChetanNagendra ,"The Net and the Tax Net". The Indian Tax Structure and the challenges posed by E-Comerce, in Nandan Kamath (ed) Law relating to computers, Internet and E-Commerce, p.349.

http://www.ecomerce tax.com/official dos/India %20 e-commerce % 20 report % 2009 pdf.

Henrich H. Henry "A general Theory of Tax Structure change during Economic Development", Harward Law School, Cambridge, 1966

Alchian, A& H Demistez: " Production information coasts and Economic Organization" American Economic Review, 62 (1972)

Brodersen. "C.**Taxation** of Cross-boarder Electronic Commerce Germany", 25 Intertax - International Tax Review, issue (1997).

Nimmer Raymond T. and Patricia A .Krauthaus "International Taxes - Internet use for Tax avoidance under investigation", Daily Tax Report, February, 1996