
E - COMMERCE AND TAXATION

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ABSTRACT:

Obaidat, M. S., & Lorenz, P. (2016). Short form of electronic commerce is e-commerce, it is a type of innovative business model where individual or group or a firm can buy and sell on electronic network with support of internet. Another name of e-commerce is online commerce, web commerce, e-retail, e-tail and e-comm. But e-tail refers to any transactional processes around retail.

Keywords:

e - commerce, e - tail, network, firm, innovation

DEFINITIONS:

(1) Kotler P, and Keller K.L (2009) defined E-commerce an offering of the products and services are intangibles but main advantages of marketing are to maintain the direct contact between Ecommerce provider and customers. In the recent trend of Ecommerce, the success strategies lie on customer relationship. It means providing the superior value to the target customers than building the process to the customers. The organisations provide the services to the satisfaction through this customer are really satisfied from consuming the product. In addition to the higher level of service support is provided to the higher level of satisfaction.

(2) Role of Social Media to E-Commerce Elizabeth Aguirre , Dominik Mahr , Dhruv Grewal de Ruyter , Martin Wetzels , Ko (2015) Stated that retailers gather data about online customers 'behaviour to improve personalized service offers. Personalization increases service relevance and customer adoption, but inconsistent, it may increase customers 'feel of vulnerability and lower adoption rates.

The study on Facebook and secondary data about a personalized advertising activities for collecting the personal information from social media websites without the consent. The firms undertaken covert information strategies because the consumers 'feelings of vulnerability. The trust-building marketing strategies are transfer trust to another website or trust of signal with informational cues can offset this negative effect.

(3) Gartner Inc - E-commerce report (2014)E-Commerce Industry In India Worth\$13.5 Billion In 2014, Gartner Inc. forecast reported the Indian E-commerce sales is \$ 6 billion sales in the year of 2015 that was 70% growth increase compared in 2014 ecommerce sales was \$ 3.5 billion. The Internet and Mobile Access of India (IAMAI) and International Market Research Bureau (IMRB) reported the Indian E-Commerce sales growth is 33 % or one lakh crore (US \$ 16.3 billion) in 2015. The investors are preferred to invest in Indian e-commerce sectors because India is the world second huge market in Asia Pacific. Flipkart –Co-founder SachinBanshal estimated the Indian E- Commerce sales will grow approximately \$ 50 – 70 billion in 2020 because people are accessing the smart phone and there is an increase of internet penetration in e-commerce. It will reach to high market share in forthcoming years.

(4) E-Commerce features E-commerce Purchase behaviour features by Shalini, G. R., &HemaMalini, K. S. (2015) The Online shopping features are as follows (i) Person Interactivity (ii) Physical Telepresence (iii) Social Telepresence (iv) Perceived Behavioural Control (v) Attitude in E-commerce Purchasing (vi) Trust in E-commerce Purchasing (vii) Intention to purchase E-commerce

(5) Effects of Perceived Interactivity, Perceived Web Assurance and Disposition to Trust on Initial Online Trust - Wu – (2010) Examined the three factors are how online consumers' perceived interactivity, perceived Web assurance and disposition to trust affect their initial online trust. Perceived interactivity means interpersonal-based on antecedent (existed before), disposition to trust means personality-based on antecedent, and perceived Web assurance means institution-based on antecedent to initial online trust. The results indicated that bothconsumers 'perceived interactivity and perceived Web assurance significantly impact their initial online trust. In addition to, suggested e-vendors to increase online consumers' perceived

interactivity of their Web sites and build the trust are used to adopt the third-party Web assurance security.(6) Darley, W. K., Blankson, C., &Luethge, D. J. (2010) This study stated the online consumer behaviour and decision-making processes, the more number of studies reviewed the relationship between the external factors and components of the decision-making process.

(7) Internet banking acceptance model: Cross-market examination. (2017) & Bander Alsajjan, Charles Dennis 2010) This study conducted the survey among 618 university students in the United Kingdom and Saudi Arabia to evaluate the measure of consumers' acceptance of Internet banking through revised a technology acceptance model. The result combined the both attitude and behavioural intentions denoted as

—attitudinal intentionsI (AI). In addition to, the perceived usefulness and trust directly impact to subjective norms and perceived manageability on Attitudinal Intentions (AI). The trust and system usefulness significantly influence on Attitudinal Intentions (AI) that varied (80% of AI) in both countries.

(8). G.R.Shalini, K.S. HemaMalini 2015) Stated the E-trust is the main factor for E- commerce. The feeling of trust means reassured the company will take care of the users 'orconsumers 'interests and protect them in all aspects. Trust is a form of meta guarantee, that is beyond a

product guarantee for the online shopping experience. The trust is very important because major consumers 'credit card security problem or privacy could be damage to a company's reputation. To handle this type of issues, firms are enhancing e-trust strategies are explicit policies of credit card security and privacy issues are maintained.

(9) Hernández, B., Jiménez, J., & Martín, M. J. (2010) Analysed the perceptions of customers to purchase over the Internet and effect of e-purchasing experience. We differentiate between two groups: (1) potential e-customers means who are making their first e-purchase, and (2) the experienced e-customers, who have made more than one e-purchase and continuous e-purchase. The perceptions were different from first time online purchase than continuous experience the repurchasing behaviour. The results found at the customer behaviour and perceptions are not the same for first time online purchase and experienced e-purchases. The perceptions of e-commerce changed on purchasing experience that influence to internet experience is stable for all users.

(10) Benefits and challenges: (The E-commerce report 2015) Xiao, B., & Benbasat, I. (2007). The online shoppers in India will finally reduce the direct cash transaction, improves credit card penetration and increase cash on delivery for e-commerce market. The Indian markets are very big markets in Asia-Pacific so global players are investing in India that leads to market potential and commit to markets for many years. Brands are major role to each market and most brands are following one-region, one-strategy approach in the Asia-Pacific market.

(11) Kraeva, V., & Emilova, P. (2013), Problems of Researching the Phenomenon of —e-Commerce— ProQuest. (2017) Efraim Turban Jae K. Lee David King Ting Peng Liang Deborah Turban 2010) Stated the Electronic Commerce about what EC is, how

it's being conducted and managed, assess its major opportunities, limitations, issues, and all types of risks in the social-computing business environment. overview of Electronic Commerce; Impacts of E-Commerce; retailing in Electronic Commerce, B2B ECommerce, E-Commerce fraud and security; electronic commerce payment systems; fulfilling E-Commerce orders and other EC support services; collaborative commerce, E-Commerce strategy, economics and justification of electronic commerce; E Marketplaces: products and services; market research, innovative EC systems, consumer behaviour, E-Learning to consumer-to consumer commerce; mobile computing, commerce and pervasive computing; and social networks compliance issues in EC; dynamic trading: Building E-Commerce applications and infrastructure market.

(12). Tax is a financial payment imposed on an individual by a governmental organization for collecting the fund for various public spending and expenditures, that is agreed national needs and government functions.

(13) The escaping mechanism from the taxation is punishable by law. It consists of direct or indirect tax in money by a governmental organization. Some tax is personal annual income or a flat percentage

rate of taxation or annual income amounts. The majority of the countries 'tax on an individual's income, corporate income and other tax are sales taxes, wealth taxes, property taxes, payroll taxes, estate taxes inheritance taxes and gift taxes. The taxation is from households or businesses to the government and mainly used for both increase and reduces economic growth and economic welfare in the country. Purposes and effects the purpose of taxes is to increase the fund revenue governing that are using for many expenditures on economic infrastructure (education, health-care systems, public safety, sanitation, public transportation, roads, legal systems) and the operation of government public utility services itself- military, scientific research, culture and the arts, public dissemination. works,

distribution, data collection and An Effects of tax in two ways: Taxes cause an income effect(reduce purchasing power) Taxes cause a substitution effect(between taxed goods and untaxed goods) Types of Tax (i)Income tax(the income of individuals or business entities) (ii)Negative income tax(amount receive supplemental (iii) Capital gains tax(gain on sale of capital assets) (iv) Corporate tax(income tax, capital tax, net-worth tax or taxes on corporations) (v)Social security contributions(publicly funded retirement or health-care systems) (vi) Payroll or workforcetax (employers' total payroll) (vii) Wealth tax(total value of personal assets) (viii) Recurrent property taxes(immovable or real property) Property taxes (ix)Property tax and Land value tax(value of property and unimproved value of the land) (x) Inheritance tax(personal deceased) estate tax, and death tax (xi) Expatriation tax(individuals citizenship or residence). (xii)Transfer tax(a percentage of the value of the transaction) (xiii) Wealth tax (balance sheet (assets and liabilities) (xiv)Value added tax (Goods and Services Tax (G.S.T) (xv)Sales tax(commodity is sold) (xvi)Excise duty (indirect tax on manufacture, production or distribution of goods) (xvii) An import or export tariff (customs duty)(xviii) Occupational taxes or license fees(tax on individuals' businesses) (xix)Poll tax(per capita tax or capitation tax) (xx)Some types of taxes - Bank tax, (xxi)Consumption tax(tax Financial transaction taxes on non-investmentspending) (xxii)Environmental tax(natural resources consumption tax)(xxiii) A progressive tax(tax rate increases) (14)(15)(16) (xxiv)Direct tax and Indirect tax (income tax is "direct", and sales tax is "indirect"(xxv)Fees and effective(user fees, tolls, exchange of specific goods, services, or use of property) (xxvi) Inflation tax: (economic disadvantage by holders of cash and cash equivalents) (xxvii)• Financial repression: Government policies(interest-rate on government debt)and financial regulations-capital controls, and barriers to entry in markets)(17) Summary The taxes are differing in some ways such as many transfers to governments that is public universities tuition fees, utilities provided by local governments. Governments 'creating money and coins (printing bills and minting coins), voluntary gifts (museums), and tax penalties (traffic fines). Now a day 's taxation systems are governments are collecting the taxes in money through different governmental agencies. If taxes are not paid fully, facing the consequences are civil penalties (fines) or criminal penalties (Jail) on an individual. The support of modern taxation systems for revenue mobilisation to growth of the nation and enhancement of design tax system leads to administrative effectiveness in the nation.

A PROPOSAL FOR SOUTH AFRICA

In order to find a suitable proposal for South Africa it is important to consider all the aspects, ranging from how individuals and companies are taxed at present to prevailing political views, in order to ensure that a new proposal will work smoothly. As previously discussed, it is important to maintain tax neutrality and ensure that every country gets the amount of tax revenue to which it is entitled. Finally, it needs to be ensured that the chosen proposal can actually work within South Africa's infrastructure without creating too many problems.

One of the major sources of tax revenue in South Africa is VAT, which contributes just less than one-third of the total tax revenue of South Africa (<http://www.sars.gov.za>; 2007). With this in

mind it seems clear that the proposal to be adopted in South African needs to integrate VAT, as it would be too difficult, if not impossible, to change the VAT tax system to a sales tax system in order to suit a new e-commerce taxation proposal. This means that the proposal chosen needs to incorporate VAT as well as the sales tax applied in other countries in order to maintain equity between countries and to guarantee that every country gets its correct share of tax revenue.

South Africa is a developing country with high costs for the Internet (Olaf Hesselmark: 2003). This might slow down the growth of e-commerce in South Africa, but does not mean that it is

not necessary to find a suitable proposal because Internet rates will decrease and more businesses will see the advantages in e-commerce. It would be an advantage to have proper e-commerce tax legislation set up by the time e-commerce begins to boom in South Africa, to ensure that the government receives the correct tax revenue at the correct time.

For this proposal to work in South Africa the government has to pass legislation to ensure that every resident seller withholds the right amount of tax and pays the taxation agency in time. Rules should also be set out to insure domestic compliance issues are dealt with in the appropriate professional manner. The proposal would address VAT problems in South Africa effectively, but certain amendments will have to be made to the VAT Act, for example: the definition of a “financial service”, which is exempt from VAT, includes the provision of credit (section 2(f)): the sale of an e-commerce card appears to fit this description and the definition will have to be amended; the time-of-supply rules will need to clarify that the time of supply is when the e-card is purchased, not when the goods or services are purchased; the provisions relating to the tax periods used for the payment of VAT would also need to be amended, as the payment of VAT would occur almost immediately after the purchase of the credit card; the definition of a “representative vendor” would need to include the sellers of the e-cards as well as the agency that administers the VAT collections and payments.

The way Internet transactions are taxed at present may change slowly to a more computer-based system. Many problems that arise today may be fully automated in just a few years' time. This will allow e-commerce to grow rapidly, due to the fact that it is made so easy for customers and suppliers alike. The crucial requirement for such a system to work is that all the governments adhere to the rules and therefore a high level of trust will be ensured.

HOW THE SYSTEM WILL WORK

To show how the new proposal will work, one company that sells goods online and one company that renders its services online, namely Amazon.com Inc and Skype Technologies S.A. Limited, will be used as examples.

Amazon.com Inc.

Amazon.com Inc (Amazon) is described by Business Week as follows:

Amazon.com, Inc. operates retail Web sites, as well as provides programs that enable third parties to sell products on its Web sites. The company sources and sells a range of products to its customers. It offers Amazon Marketplace and Merchants programs, which enable third parties to sell their products on its Web sites; allow customers to shop for products owned by third parties using its features and technologies; and enable individuals to complete transactions that include multiple sellers in a single checkout process. The company, together with third parties, sells various product categories, such as books, music, DVDs, unbox video downloads... Its retail Web sites include amazon.com, amazon.ca, amazon.de, amazon.fr, amazon.co.jp, amazon.co.uk, joyo.com, shopbop.com, and endless.com. The company also provides merchant services for third-party retailers; marketing and promotional services; and Web services comprising Amazon simple storage service, Amazon elastic compute cloud, Amazon simple queue service, Amazon mechanical turk, and Amazon e-commerce service for developers. In addition, it operates other Web sites, including a9.com and alexa.com that enable search and navigation; and www.imdb.com, a movie database. The company was founded in

1994 and is headquartered in Seattle, Washington.

After the introduction of both the e-card and software proposals, from the company's point of view, nothing will change in the way it advertises or charges prices - the product's market price, less the sales tax. The company will not need to change anything until the full new proposal has to be integrated. The new software will be installed on the website and properly maintained, which will be required by legislation. The major change does not lie within the company but rather with the government. It is much easier for the company to charge the required taxes and pay them over to the taxation agency as the amounts are transferred automatically. Any problems encountered can be solved by referring to the agency. The company faces a risk from competitors such as EBay. In Business Week online, (www.businessweek.com/1999/99_22/b3631001.htm; 2007) it was held that with the new e-commerce strategies one of the two companies will become the new leading online store in the future. This will depend upon which business will be more flexible in its product range and pricing as well as availability to customers all over the world and its customer service. Because it is more cost efficient and therefore more profitable to have an e-commerce store, Amazon should increase their sales. The new e-commerce tax system will enable a company to reduce its compliance costs and gain a competitive advantage.

If the proposal should be adopted in South Africa, the customer would purchase an e-card from a bank, with a certain credit amount. When purchasing the book online from Amazon, the price of the book will automatically be deducted from the e-card. Due to the fact that the e-card was purchased outside America, Amazon's system would recognise that no sales tax is to be included in the total price of the book. The exchange rate used will be the spot rate at the time of the purchase. From the customer's point of view, it is similar to a normal credit card transaction.

Once the software proposal is incorporated, nothing else changes, except the price at which the book is offered online. The software automatically recognises the place of residence of the customer. The program will check online which tax-based system the government is using, either sales tax or a VAT-based approach, and it checks the applicable customs duties due. The program automatically calculates the full cost of getting the product from door-to-door. Instead of the customer having to pay the customs costs when the book is collected from the post office, all the costs are paid up front. Not only can the book now be delivered to the door, but also the South African government will receive its share in the tax and customs duty (where applicable) on the international transaction much earlier, as the taxable amount due will be transferred immediately to the tax agency's account. Here, the amount is checked to ensure that it is correct and compared to latest tax rates and legislation to determine the amount actually due to South Africa. Once this is done the outstanding amount could be transferred to the rightful government on a weekly if not a daily basis.

Skype Technologies S.A. Limited

Skype Technologies S.A. Limited (Skype) is described by Business Week as:

... a telephone company, (that) offers Internet communication solutions. The company encrypts calls, chats, and file transfers before sending it through the Internet. It makes and receives calls to and from landline and mobile phones, as well as voicemail and call forwarding. The company was founded in 2003 and is based in Luxembourg ... As of October 14, 2005, Skype Technologies

S.A. is a subsidiary of eBay, Inc.

Skype's service is an online service. Skype offers many services, the main ones are: Skype-to-Skype, SkypeOut, SkypeIn, SkypeVoicemail. The services are fairly self-explanatory. Skype-to-Skype is free global Internet telephone from one "skyper" to another. SkypeOut is the name of the service that allows a member to call a traditional telephone number from a Skypephone. The global going rate currently is around fifteen cents per minute. SkypeIn, on the other hand is a service that allows a member to pick his or her own international telephone number where people can reach them if they don't use Skype. It allows anyone to call the member on Skypephone without the member having to have a Telkom number. The last service offered, SkypeVoicemail, is a voicemail offered by Skype to save messages (www.skype.com; 2007).

According to South African legislation, VAT is payable on imported services (section 14 of the VAT Act) and "VAT is only payable on an imported service when the South African resident is not a VAT vendor or will not be using the service in his (VATable) enterprise" (Huxham and Haupt; 2007:610). From this it is clear that, at present, when a South African resident purchases Skype credit, no VAT is included in the purchase price because his address is not in Europe. The taxpayer who is not a vendor should, once the Skype credit is received, declare to SARS that he is using the service in order to ensure accurate tax payments (vendors would deduct the VAT, so no revenue would be lost). However, there are insufficient controls on such transactions to ensure that the VAT owing is actually paid. How will SARS be able to follow up on such small, undeclared amounts? One might argue that the amount is insignificant but in 2007 5.1 million users are online in South Africa. This is an increase of 112.5 percent in the last seven years. If only one percent of them use Skype, thus fifty-one thousand members, and each member spends a minimum of R100 per month on the service, SARS would be losing R714 000 each month. This might not appear to be much compared to the other tax revenues but it should be kept in mind that this is only one Internet service provider, Skype, and that the numbers will increase from year to year(www.internetworldstats.com/stats1.htm; 2007). It is also important to note that there are other Internet services that cannot be controlled adequately with the present method of taxing VAT on Internet services.

Once the full system operates, the concept of purchasing an online service will be dealt with in the same way as the purchase of a good; the service supplied by Skype will be dealt with in the same way as goods supplied by Amazon. This gives more uniformity to the system and makes it easier to operate. The software will do most of the work, once installed onto the supplier's website. For the customer all that the program does is to take account of the relevant tax rates and add them to the price of the service, including taxes such as VAT and customs duties.

CONCLUSION:

Initially, in introducing the new e-commerce system, there may be a number of issues to be dealt with by governments and e-commerce suppliers. Ultimately, in the opinion of the researcher, with such a proposal the tax revenues will increase substantially over time. The importance of a proper e-commerce regulatory system has been discussed and it has been demonstrated that it is of the utmost importance to integrate a system that does not only suit the South African e-commerce and taxation environment, but is suitable worldwide.

Various systems have been compared and the most suitable one has been recommended. The research indicates that it is necessary to adopt a supervising committee to ensure that taxes on e-commerce transactions are paid to the right government and to ensure the

integrity of the responsible tax agency that will be collecting the taxes. Once such a system is developed and the governments and the committee are satisfied that it is trustworthy, most of the work is done automatically by software.

Certain changes will need to be made to existing legislation to preserve tax neutrality and integrate e-commerce transactions, but these changes are likely to be relatively minor. Once the new system is integrated into the websites of suppliers it will provide great advantages due to the fact that the tax revenues outstanding will be paid on time and that the purchase of even small-value goods and services are taxed, so that every tax amount due to the government is actually paid.

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