



Electronic Commerce and the Irish Tax System

*Norman Gillanders
Revenue*

What is e-commerce?

- *Use internet to order - physical delivery*
- *On-line ordering of traditional services*
- *On-line ordering for on-line delivery*
- *EDI issues*

What is in the report -

- *A general look at the internet*
- *Basic tax issues - international debate*
- *Detailed analysis for specific taxes*
- *Tax administration problems and opportunities*

The basic tax issues

- *Identifying a transaction*
- *Identifying the parties to a transaction*
- *Verifying the details of a transaction*
- *For VAT - applying the right rules and rates and paying the tax to the right country*
- *Generation of an audit trail*

OECD - Tax Principles

- *Neutrality - but what exactly does it mean?*
- *Efficiency - keep compliance costs low*
- *Simplicity and certainty*
- *Effective and fair*
- *Flexibility - tax system must keep pace with technology*
- ***BUT ARE THESE MUTUALLY CONSISTENT?***

EU Principles - VAT work

- *No new taxes on e-commerce*
- *Online supplies are services*
- *Consumption in EU - taxed in EU*
- *VAT rules must be enforceable and compliance burden low*
- *E-invoicing, e-declarations and e-payments will be allowed*

Customs & Excise

- *Increase in imports - fragmentation*
- *Prohibitions and restrictions*
- *Reconfigured goods - a long term issue*
- *Betting duty - a non-issue?*

What is the VAT Problem?

- *VAT is an urgent problem*
- *Most supplies already taxed*
- *Problem is non-EU online supplies to EU private consumers*
- *These supplies made intra-EU are taxed*
- *The sector is small, but*
 - *expected to grow hugely, leading to less tax*
 - *causes distortions between EU and non-EU traders*

VAT - Further issues

- *It is possible to discern a VAT model*
- *Reverse charge for online business to business*
- *Non-EU supplier pays VAT on supplies to EU private consumers*
- *Online registration, accounting and payment*
- *Allow e-invoicing and electronic documents*

What does this model imply?

- *Registration in one Member State of the EU?*
- *VAT at rate of country of consumption?*
- *Does e-commerce need a single rate?*
- *Online return and payment - to the country of consumption OR of registration?*

How might Compliance work ?

- *Compliance largely voluntary*
- *Network of international agreements for enforcement and collection needed*
- *Action against EU based affiliates*
- *The simpler the system the greater the compliance*
- *Why can't all VAT be this simple?*

Direct Taxes

- *Issues emerging in international debate*
 - *PE issues*
 - *allocation of taxing rights*
 - *transfer pricing*
 - *classification of payments for digitised products*
- *First thoughts from Irish viewpoint*
 - *Website not a PE*
 - *Existing rules for taxing rights suit us*
 - *residence rules for e-commerce?*

Business Concerns - Ottawa

- *Don't complicate all for minority*
- *Validating customer residence*
- *Neutrality*
- *Start-ups on the Internet - de minimus tax*
- *Income characterisation*
- *Website and server - not a PE*
- *VAT issues urgent*

Tax challenges

- *Identification issues*
- *Validation and audit*

... .. *and opportunities!*

- *The Revenue online service*
- *Continuing use of the Website*
- *Structured use of e-mail*
- *Telefiling for PAYE taxpayers?*
- *Who knows what else?*