

The Effect of E-commerce on Tax Evasion: A Brief Overview

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Abstract:

This article offers a comprehensive overview of the impact of e-commerce on tax evasion, exploring the contributing factors in the digital realm and the resulting implications for tax authorities and governments. Where, With the rise of e-commerce, commercial transactions have undergone a significant paradigm shift, presenting challenges in ensuring tax compliance and enforcement. The article delves into the factors that contribute to tax evasion in the online space and highlights the complexities faced by tax authorities. By understanding these challenges, policymakers and tax authorities can develop effective strategies to address tax evasion in the ever-evolving landscape of e-commerce.

Key words: tax evasion, ecommerce, commercial transaction.

المخلص

تقدم هذه المقالة نظرة شاملة حولة تأثير التجارة الإلكترونية في التهرب الضريبي، حيث تستكشف العوامل المساهمة في النطاق الرقمي والآثار الناتجة المتعلقة بالسلطات الضريبية والحكومات. حيث أنه، مع ظهور التجارة الإلكترونية، تغيرت هذه الأخيرة بشكل جذري، مما يشكل تحديات في ضمان الامتثال للضرائب وتنفيذها. ومن هنا تستكشف المقالة العوامل التي تسهم في التهرب الضريبي في الفضاء الإلكتروني وتسلط الضوء على التعقيدات التي تواجه السلطات الضريبية. من خلال فهم هذه التحديات، يمكن لصناع القرار والسلطات الضريبية وضع استراتيجيات فعالة لمعالجة التهرب الضريبي في المناظر الدائمة للتجارة الإلكترونية.

الكلمات المفتاحية: التهرب الضريبي، التجارة الإلكترونية، العمليات التجارية.

Introduction

E-commerce has transformed the way transactions are conducted, revolutionizing convenience and expanding global reach. However, it has also given rise to concerns surrounding tax evasion. This article presents a succinct analysis of how e-commerce impacts tax evasion, focusing on key factors that contribute to tax evasion in the digital realm and the implications for tax authorities and governments.

The digital nature of e-commerce transactions poses challenges to tax compliance and enforcement. Tracking and enforcing tax obligations become arduous in the absence of a physical presence. Cross-border e-commerce transactions further complicate matters due to diverse tax jurisdictions and regulations, providing opportunities for tax evasion.

Digital goods and services, such as software and streaming platforms, present challenges in determining tax liabilities and ensuring proper collection due to their intangible nature. The use of anonymity and crypto currency in online transactions adds to the complexity, making it more difficult for tax authorities to monitor taxable activities.

Recognizing the impact of e-commerce on tax evasion is essential for maintaining a fair tax system. This article aims to offer a concise overview of the factors that contribute to tax evasion in e-commerce and emphasizes the necessity for effective strategies and measures by governments and tax authorities to address this issue in the digital age.

We try through our paper to highlight the relationship between ecommerce and tax evasion.

Hence we divided our paper into three parts

1.Tax evasioion

2. E_commerce

3. Ecommerce and tax evasion

I. Tax evasion

1. Tax evasion definition

as defined by scholars, is an enduring issue plaguing numerous developed and developing nations (Sidani, Ghanem and Rawwas, 2014). It entails deliberate and unlawful tactics employed by businesses with the aim of minimizing their tax liabilities and responsibilities (Richardson, 2008). These illicit practices encompass concealing wealth, income, or sales figures, inflating deductions and exemptions, and neglecting to disclose financial assets (Benkraiem et al., 2021).Despite efforts to combat tax evasion, it remains a pervasive challenge with significant implications for governments and economies worldwide.

2. Deference between tax evasion and tax avoidance

The distinction between tax evasion and tax avoidance is crucial in understanding the different behaviors and legal implications associated with them. Tax evasion is characterized by intentional and illegal actions that directly violate tax laws, enabling individuals or businesses to evade their tax obligations. This includes activities like deliberately underreporting income and inflating tax deductions in order to avoid paying the full amount of taxes owed (Abdixhiku et al., 2017).

On the other hand, tax avoidance refers to the legitimate actions taken by taxpayers to reduce their tax liability within the boundaries of the law). Taxpayers engaging in tax avoidance utilize legal means, such as tax planning strategies and taking advantage of available deductions and exemptions, to minimize their tax burdens. While these practices may adhere to the technicalities of tax legislation, they often push the boundaries of the law's intention (Siglé et al., 2018).

In summary, tax evasion involves intentional and illegal actions to evade taxes, while tax avoidance refers to the legal actions taken to minimize tax liabilities. The line between the two can sometimes be blurred, as tax avoidance practices may be seen as pushing the limits of what is considered ethical or within the spirit of the law. Understanding this distinction is crucial for policymakers and tax authorities in their efforts to combat tax evasion and ensure a fair and effective tax system.

3. Determinants of tax evasion

Tax evasion, a longstanding issue with severe global implications, has gained significant research attention in the past four decades. Its detrimental effects extend across multiple sectors and have an adverse impact on economies at large. Previous studies have identified several key determinants of tax evasion. Economic factors play a crucial role, including the tax burden imposed on individuals, income levels, the source of income, and tax rates (Allingham & Sandmo, 1972 ; Alm et al., 1992). Administrative factors, such as the frequency of tax audits, the effectiveness of the tax system, and the severity of penalties, also contribute to the prevalence of tax evasion (Braithwaite et al., 2009 ; Slemrod & Yitzhaki, 2002).

Demographic factors have also been found to influence tax evasion patterns, with gender, age, and educational attainment playing a role (Blaufus et al., 2014 ; Cullis et al., 2002). Additionally, social factors, including marital status and involvement in public service, have been linked to tax evasion behavior (Frey & Torgler, 2007 ; Martinez-Vazquez & Rider, 2005). Moreover, individuals' attitudes and perceptions towards taxation, known as tax mentality

and tax morale, have been identified as behavioral factors influencing tax compliance (Kirchler et al., 2008 ; Torgler, 2003).

Understanding these determinants is crucial for policymakers and tax authorities to devise effective strategies to combat tax evasion. By addressing economic, administrative, demographic, social, and behavioral factors, governments can develop comprehensive measures to promote tax compliance and ensure the integrity of their tax systems.

II. Ecommerce

E-commerce, short for electronic commerce, refers to the buying and selling of goods and services over the internet. It has become increasingly popular and widespread, transforming the way businesses operate and how consumers shop.

- 1. Online Shopping :** Online shopping refers to the act of purchasing goods or services through the internet from various e-commerce platforms, websites, or online retailers. It allows consumers to browse and select products, make purchases, and arrange for delivery or shipping, all without the need for physical presence in a brick-and-mortar store.¹
- 2. Digital Payments :** E-commerce relies on secure online payment systems that enable consumers to make transactions electronically. This includes credit and debit cards, digital wallets, and other forms of online payment methods.²
- 3. Mobile Commerce :** With the increasing use of smartphones, mobile commerce (m-commerce) has gained popularity. It refers to the buying and selling of goods and services using mobile devices, such as smartphones and tablets.
- 4. Logistics and Fulfillment :** E-commerce involves efficient supply chain management, including inventory management, order processing,

¹ Online shopping offers convenience, a wide range of product choices, and the ability to shop from anywhere with an internet connection Dictionary by Merriam-Webster: America's most-trusted online dictionary (no date) Merriam-Webster.

² E-Commerce - payment systems (no date) Tutorials Point. Available at: https://www.tutorialspoint.com/e_commerce/e_commerce_payment_systems.htm (Accessed: 25 May 2023).

packaging, and shipping. It relies on reliable logistics networks to deliver products to customers.³

5. **Security and Trust** : E-commerce platforms prioritize the security of transactions and customer data. They employ encryption technologies, secure payment gateways, and robust privacy policies to ensure the protection of sensitive information.⁴
6. **Personalization and Customer Experience** : E-commerce utilizes data analytics and personalized recommendations to enhance the shopping experience. It enables businesses to tailor offerings to individual customers, leading to increased customer satisfaction and loyalty.⁵
7. **Global Reach** : E-commerce enables businesses to transcend geographical boundaries and reach customers worldwide. It provides opportunities for international trade and expansion into new markets.⁶
8. **Entrepreneurship and Small Business Growth** : E-commerce has lowered barriers to entry, allowing entrepreneurs and small businesses to start and operate online businesses with lower costs compared to traditional brick-and-mortar stores. It has created a platform for innovative startups and independent sellers.⁷
9. **Future Trends** : E-commerce continues to evolve with advancements in technology. Trends such as AI-powered chatbots, voice commerce, virtual reality, and augmented reality are shaping the future of e-commerce, providing immersive and personalized shopping experiences.⁸

³ Available at: <https://www.merriam-webster.com/> (Accessed: 25 May 2023).

⁴ 12 dimensions of Ecommerce Security: Secure your business & customers (no date) purchasecommerce.com. Available at: <https://www.purchasecommerce.com/blog/ecommerce-security-dimensions> (Accessed: 25 May 2023).

⁵ Edwards, K. and Edwards, K. (no date) The benefits of personalization in e-commerce, E. Available at: <https://ecommercegermany.com/blog/the-benefits-of-personalization-in-e-commerce> (Accessed: 25 May 2023).

⁶ Business news (no date) SMEs: How SMEs can transcend international boundaries with ecommerce - The Economic Times. Available at: https://m.economictimes.com/small-biz/sme-sector/how-smes-can-transcend-international-boundaries-with-ecommerce/amp_articleshow/95315066.cms (Accessed: 25 May 2023).

⁷ Nolan, P. (2022) Advantages and disadvantages of e-commerce businesses, The Balance. Available at: <https://www.thebalancemoney.com/ecommerce-pros-and-cons-1141609> (Accessed: 25 May 2023).

⁸ How e-commerce fits into retail's post-pandemic future (2021) Harvard Business Review. Available at: <https://hbr.org/2021/05/how-e-commerce-fits-into-retails-post-pandemic-future> (Accessed: 25 May 2023).

Understanding these aspects of e-commerce will give you insights into the fundamental principles, opportunities, and challenges associated with conducting business in the digital marketplace

III. Ecommerce and tax evasion

The emergence of e-commerce has transformed the manner in which enterprises and individuals participate in commercial transactions. With the ease, worldwide accessibility, and growing appeal of online platforms, e-commerce has emerged as a substantial driver of the global economy. However, this digital environment has also presented difficulties in terms of taxation. Tax evasion, the illicit act of purposefully evading or underpaying taxes owed to the government, remains a persistent problem in numerous nations. This article delves into the intricate connection between tax evasion and e-commerce, shedding light on the elements that contribute to tax evasion in online transactions and the measures implemented to tackle this issue.

1. Factors Contributing to Tax Evasion in E-commerce:⁹

a) Cross-Border Transactions: E-commerce facilitates transactions that transcend national borders, creating a complex landscape of tax regulations and loopholes that can be exploited for tax evasion. Varied tax jurisdictions, differing regulations, and challenges in international cooperation all contribute to the potential for individuals and businesses to evade their tax obligations.

b) Digital Goods and Services: The sale of intangible digital goods and services, such as software, e-books, music, and streaming platforms, presents unique challenges for tax authorities. Determining tax liabilities and enforcing tax collection become difficult due to the intangible nature of these products.

c) Complex Supply Chains: E-commerce has enabled intricate supply chains involving multiple parties, including suppliers, intermediaries, and online marketplaces. These complex networks can be exploited to manipulate transactions, underreport income, and evade tax obligations.

d) Anonymous Transactions: Some e-commerce platforms allow for anonymous transactions or the use of cryptocurrencies, which can facilitate tax evasion by enabling individuals to conceal their identities and income.

2. Addressing Tax Evasion in E-commerce: (Argilés-Bosch et al., 2020)

⁹ (No date) Home - Uni Global Union. Available at: https://uniglobalunion.org/wp-content/uploads/syndex_uni_e-commerce_taxation_report_2021_final.pdf (Accessed: 25 May 2023).

a) International Cooperation: Governments worldwide recognize the need for increased international cooperation to combat tax evasion in the digital realm. Collaborative efforts are underway to establish common standards, exchange information, and enhance cross-border enforcement to ensure fair taxation.

b) Legislative Reforms: Governments are introducing or revising tax laws to adapt to the evolving nature of e-commerce. Measures are being taken to close legal loopholes, expand the tax base, and establish clear guidelines for taxing digital goods and services.

c) Collaboration with E-commerce Platforms: Governments are engaging with e-commerce platforms to encourage tax compliance among sellers. Cooperation between tax authorities and these platforms can help enforce tax regulations, facilitate information sharing, and provide education to sellers regarding their tax obligations.

d) Public Awareness and Education: Increasing public awareness about the significance of tax compliance in e-commerce is vital. Governments are launching campaigns to educate consumers and businesses about their tax responsibilities, the consequences of tax evasion, and the advantages of a fair and transparent tax system.

Conclusion

Tax evasion in the realm of e-commerce poses substantial obstacles for governments aiming to uphold an equitable and streamlined tax system. The distinct attributes of online transactions, including their cross-border nature, absence of physical presence, and intricate supply chains, contribute to the intricacies involved in tackling tax evasion. Nevertheless, governments are taking proactive measures to combat this issue through international cooperation, legislative reforms, technological advancements, partnerships with e-commerce platforms, and public awareness initiatives. By establishing fair taxation practices in the e-commerce sector, governments can safeguard public revenues, promote a level playing field for businesses, and cultivate trust in the digital economy.

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