

**GLOBAL BUSINESS DIALOGUE ON
ELECTRONIC COMMERCE**



TAXATION AND TARIFFS

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Introduction

The business community in general and the GBDe in particular is committed to working with governments and regulators in identifying and implementing solutions to the taxation of electronic commerce. The message from business is that there is a need for a clear, simple and predictable tax environment which provides a level playing field for all operators. A priority must be to resolve uncertainty about tax obligations that might prove a major impediment to the development of electronic commerce.

Concerning the indirect taxation of electronic commerce (such as value-added taxes or VAT), the Issue Group believes that this topic raises questions which concern not simply the external interface of the common VAT system, but will also involve legislative and operational changes in the existing VAT system which will have fundamental implications for the way in which this system functions in the future.

Electronically-delivered services should be considered as a single and homogeneous category for tax purposes. Complex rules about categorisation will have to be avoided. The type and nature of the services which can be supplied by electronic commerce will continue to grow and a single clear rule is necessary.

The GBDe will stay in contact with governments and regulators around the world which deal with the taxation of electronic commerce, and will continue the dialogue within the business community to identify problems and work toward a common solution.

Recommendations

General Principles

- A new tax regime to deal with electronic commerce is totally unwarranted.
- Techniques for applying existing taxation principles in the electronic medium must be built upon tools that businesses already use or are required to develop to meet their market needs.
- Simplicity and clarity must be promoted in national tax regimes, in order to allow for the global trading potential of the new communications media.

Direct Taxation

- There is no compelling need to promote a wholesale adoption of new permanent establishment rules for purposes of electronic commerce.
- New rules to govern the classification of income are unnecessary.

- Transfer pricing should not be considered in a discussion of the tax consequences of electronic commerce, since transfer pricing issues are not affected by the development of electronic commerce.
- There is a need for clarification of the existing OECD – Master Agreements on double taxation as they affect electronic commerce.

Indirect Taxation

- It is important to design rules that foreign and domestic business can understand and administer. The incidence of non-compliance, particularly for foreign businesses, increases significantly as rules become unreasonably complex and burdensome to administer.
- Electronic commerce transactions should not be treated less favorably than non-electronic forms of commerce, and complex compliance regimes requiring service providers or banks to act as collection agents should be avoided.
- To provide consistency with non-electronic commerce, the responsibility for compliance should remain with the vendor/supplier unless and until the individual consumer can be made responsible at the place of consumption in a convenient manner.
- Solutions that may work well on a purely local basis, such as voluntary registration schemes or unilaterally reclassifying such products as services, should be refocused towards globally-acceptable rules.
- Special attention should be given to the extent to which the extension of international co-operation in the area of taxation has already had positive results on electronic commerce.

Customs Tariffs on Electronic Commerce Transmissions

- The WTO's current practice of not imposing customs duties on electronic transmissions should be made permanent and binding.