

Traditional taxation principles and e-commerce taxation: challenges and developments

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Tax is usually levied according to the world income principles, which are the important Source rule and residence principle. This means that a taxable natural person or a taxable entity is to be assessed with its entire income, regardless of the place of generation. The e-commerce on the internet will create new demands on taxation, regarding the adaptation of tax regulations, as well as its enforcement. Electronic commerce transactions and the development of Internet networks challenge even the most efficient tax collection and enforcement regime, both under direct and indirect taxation. The network forces economic globalization, while fiscal sovereignty mainly remains on the national level taxes on income generation.

The tax administrations could benefit from the new information technologies because they will increase efficiency, opening up new possibilities to exchange information in a more timely and secured manner, and improving the quality of their dealings with taxpayers. However, it is evident that the nature of electronic commerce on the internet provides the opportunity for tax evasion. Further, the fiscal concept of permanent establishment is ill adapted to electronic commerce, because the rule based on physical presence is meaningless in the electronic commerce environment. The results are distortions of competition, unfair tax impacts and loss of revenue. Therefore, the current study aims to review the challenges and developments of e-commerce taxation with regard to the traditional tax principles. Hence, the study addresses the problem of the involvement of e-commerce taxation in Sri Lankan tax law regime and how the current legal regime should be strengthened with new dimensions. This research is based on both library and field. The mode of this research is qualitative. The necessary information will be gathered from secondary sources accessible and available in the library such as journal articles, textbooks, government publications and electronic databases.

Keywords: e-commerce, source rule, residence principle, permanent establishment

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