Influence of E-Commerce on Tax and Accounting Operations in India: An Overview

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Abstract

We looked at the effects of e-commerce since it has been growing steadily over the last several years and because the Internet has become a necessary tool in daily life, creating a rapid and simple link for business. In light of the accelerated growth of Internet transactions, this essay seeks to examine the effects of taxation and e-commerce accounting procedures. The contemporary environment, where social networks are employed more successfully as platforms for electronic commercial marketing, dictates the necessity for this research. Since there is now no worldwide taxation system for income or profits, the study also tries to underscore the need of creating one. To support this strategy, we provided two scenarios of trade in conventional and electronic settings, where e-commerce prospects are emphasised and the significant challenge of identifying the source of revenue is shown.

Keywords: Online shopping, Tax globalization, Finance and Accounting

INTRODUCTION

The economic crisis of recent years has contributed to an increased focus with internet commerce. This may be highlighted by the fact that electronic firms are more effective in the sense of lowering expenses and marketing, as well as in the sense of enhancing client-customer connections.

The practise of purchasing, selling, or exchanging goods, services, or information using computer networks is known as electronic commerce. The exchange of products and services through the internet is an expansion of current trade.

Business-to-business (B2B) and business-to-consumer (B2C) electronic commerce have had a constant, unprecedented growth (Figure 1).It is a system that comprises both transactions that are focused on the buying and selling of products and services as well as transactions that are "underlying" the creation of money, such generating demand for those goods and services and allowing communication between business partners. The growth of e-commerce has led to a number of issues and dangers with the taxes and accounting of such businesses. Locations of the server and billing systems, the corporation that controls the e-commerce system, and the place where the items are actually delivered to customers are among the trouble areas. In this work, we performed research on the effect of tax and e-commerce accounting operations in the context of rapid expansion of Internet transactions, taking into consideration these issues and the necessity to design an acceptable accounting and fiscal treatment.

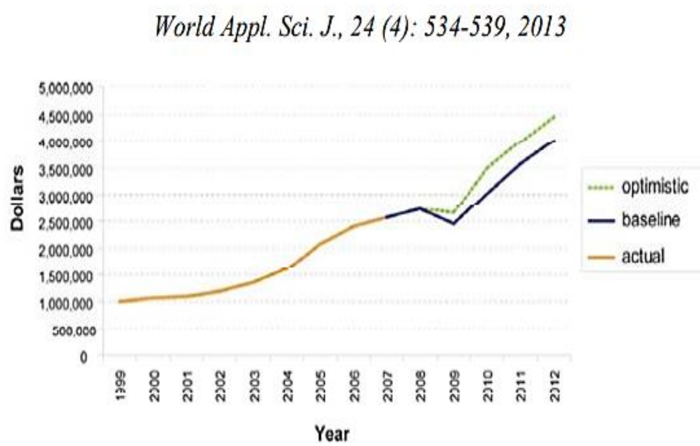


Fig. 1: Evolution and forecast of e-commerce

Review of the literature

Numerous research articles and studies discuss the effects of electronic commerce on the social and economic environment, but relatively few address the fiscal and accounting concerns as well as the potential dangers of transactions on the economies of different nations. In research on how e-commerce affects SMEs in underdeveloped nations Nejadirani et al. (2011) highlighted the value of e-commerce development for SME's and the elements that make this strategy successful. This research demonstrates the dynamics and possibilities of the growth of e-commerce in most nations. Another research by Sajjad et al. (2011) examined the impact of product type on customer behaviour in online purchasing as it related to the possible growth of e-commerce. Although the United States and Canada are leaders in terms of commerce, other nations are beginning to catch up, and it is predicted that by 2014, more than 90% of all purchases will be made online. The growth of e-commerce in Latin America, where it is predicted that the percentage will double, accounts for a significant portion of this percentage. Thus, the following purchases are anticipated to be made yearly in billions of dollars in 2014: Western Europe: $166.5; North America: $202.8; Asia-Pacific: $93.2 Eastern Europe:

$27.1, Latin America: Africa and the Middle East get $3, Australia gets $4.9, and Russia gets $27.

According to Roland Paris (2003), the presumptions that underpin state tax systems, such as the presumption that transactions must take place physically, are challenged by Internet commerce. Since the state won't give these transactions much time to escape default taxation, their further expansion will necessitate the creation of a worldwide taxation system.

Additionally, it will be necessary for nations to work closely together in order to build a system that is effective enough to tax online business activity. These fiscal pressures will change how modern states interact with one another without implying that there is a fiscal crisis and that setting up a supranational taxing authority is necessary. Instead, they highlight the need for a shift from a purely national perspective to an international and institutional one because electronic commerce has significantly crossed national borders (obviously based on the assumption that the development and growth of e-commerce).

	2010	2011	2012	2013	2014	2015	CAGR
UK	$91.5	$102.0	$113.0	$123.4	$134.1	$143.6	9.4%
Germany	$33.7	$37.7	$42.0	$46.3	$49.9	$53.5	9.7%
France	$24.4	$28.5	$32.0	$35.5	$38.7	$41.8	10.5%
Spain	$12.3	$15.0	$17.8	$20.7	$23.6	$26.4	16.5%
Italy	$9.4	$12.4	$15.5	$19.0	$22.9	$26.7	23.3%
Others	$33.6	$39.7	$44.1	$46.7	$49.0	$51.6	7.1%
Western Europe	$208.8	$235.2	$264.4	$291.6	$318.1	$343.5	10.5%

Table 1: Sales projected in billion of dollars in Western Europe in terms of B2C Ecommerce

MATERIALS AND METHODS

Research Problem:

In this research, two key topics are addressed:

What impact does internet commerce have on the country's taxes system?

What effect do e-commerce activities have on the global accounting system?

Research Design:

The study is exploratory and is based on a documentary analysis. The key concerns surrounding the deployment of electronic commerce, as well as its financial effect, accounting impact, and economic advantages, were highlighted.

Research Data:

Data from IFRS (International Financial Reporting Standards), European regulations, and the Romanian accounting and tax system (also accessible globally) served as the foundation for our documentary investigation and analysis. The IFRS and European Directives are in line with the Romanian accounting framework.

Given this, we think that our research, which focuses on these rules and regulations, will have a big effect on the majority of IFRS-using nations.

Results

The first issue, "How does electronic commerce affect the national system of taxation?," is related to the fiscal impact of internet commerce. Authors in the fields of taxes, accounting, and politics have discussed it in literature and empirical study.According to the requirements of the Romanian fiscal code (regulations that are also available internationally), it is necessary to conduct business activities at a physical location, known as a permanent establishment, in order to apply taxation to the work done using the appropriate methodology for the state where the event is taking place. Because transactions are made via websites housed on servers in different places (apart from the company owners), e-commerce has the difficulty of being unable to pinpoint a specific location. Law No. 571/2003 contains the following provisions governing the Tax Code and the manner of application: "The server is a device that has a physical location," according to the statement: "the physical location might be a permanent place of business of the firm that runs the server. The location of the server is regarded as a permanent office of the society, making it possible to achieve profit taxation and levy fees if the company that activates in a website has the server at its disposal, owns or leases the server where the website is stored and used, and also operates on it. The trader and the consumer's electronic contract is considered as a distance contract since it does not call for the simultaneous presence of the two parties. For a better understanding of the rules governing online sales to foreign nations, it is presumed that the business purchasing the goods would pick it up from the Post Office or have it delivered by courier. In these circumstances, the issues presented often centre on attempting to identify the VAT, the duties of the relevant society, and the nature of these transactions. The equal treatment of paper and electronic invoices is outlined in Council Directive 2010/45/EU of July 13, 2010, which amends Council Directive 2006/112/EC on the single system of value added tax in terms of the regulations on invoicing. Invoices sent or received electronically are referred to as electronic invoices. The concept, which is relevant to both electronic and paper bills, states that the invoice must be given with authenticity of the source, content integrity, and legibility from the time it is issued until the end of its archiving term.

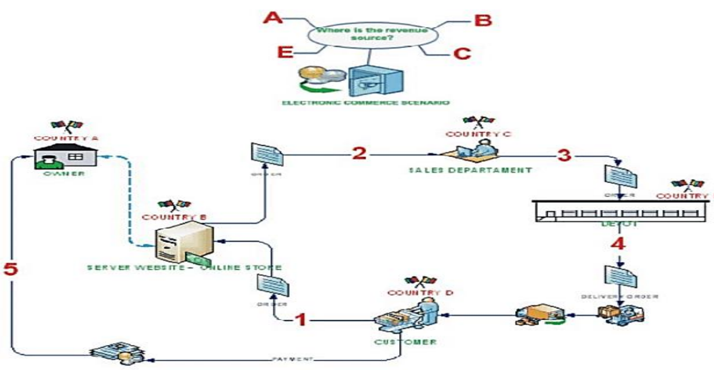
E-commerce accounting operations' effects:

Given the nature of e-commerce, several particular sorts of revenue and costs are often encountered: income from the sale of products; income from mailing services; bank interest earnings; Costs associated with acquiring information systems, developing a website presentation, purchasing items, packing them, paying for postage and advertising, paying for bank commissions, using electronic payment protocols, and getting electronic signatures. The recording of income from the sale of products and the collection of value added tax (if the merchant is registered for VAT reasons) provide the accounting's biggest challenge. Gross inflows of economic benefits from ongoing business operations that will increase equity instruments, aside from increases attributable to owner or other equity participant contributions, are referred to as "incomes" and are included in the definition of current activities. The term "revenues from ongoing operations" refers to total (income) and excludes sums obtained on behalf of third parties. IAS 18 states that revenues from the sale of goods are only recognised when the following criteria are met [8]: the seller transferred to the buyer the risks and benefits of using the goods; the seller is no longer managing the goods sold at levels that would have been made if they were still his property; the seller, no longer, has control over the goods; sales revenue and transaction costs can be measured with reasonable accuracy; and it is likely that following this operation the buyer will be better off. In sales, it's common for the risks and benefits to be transferred together with the ownership of the items. The concept of content over form must be used in those instances when this activity is not observed. Therefore, even if the transfer of legal title occurs, income cannot be recognised if the aforementioned requirements are not completed.

Scenarios of Traditional and Electronic Commerce:

The proprietor of a clothes manufacturing company is located in Country A. On a server in Country B, the owner maintains a website that serves as a kind of online shop for his company. While the storage facility for the complete apparel line is in Country E, the sales department is in Country Cand. As a result, a client from Country D visits and puts the order online. The data is downloaded from the website and entered into the sales department database, where the deposit manager is instructed to carry out a delivery order with items for the client. who will afterwards compensate the owner. Even while this example can look intricate, it is really rather straightforward when compared to other computerised transactions. By connecting to the Internet network from various places (such as the waiting area of an international airport), customers may download various software programmes on their laptops. Therefore, the issue that arises from this situation is: Where is the source of income? Is it in Country A, where the firm is headquartered, in Country B, where the company's website is housed, in Country C, where orders are processed by the sales department, or in Country D, the location of the delivery, if it is known? The definition of a company's "permanent establishment"—the location where revenue should be taxed—determines the answer to this issue under the present conditions (Figure 2).

Fig. 2: Electronic commerce scenario



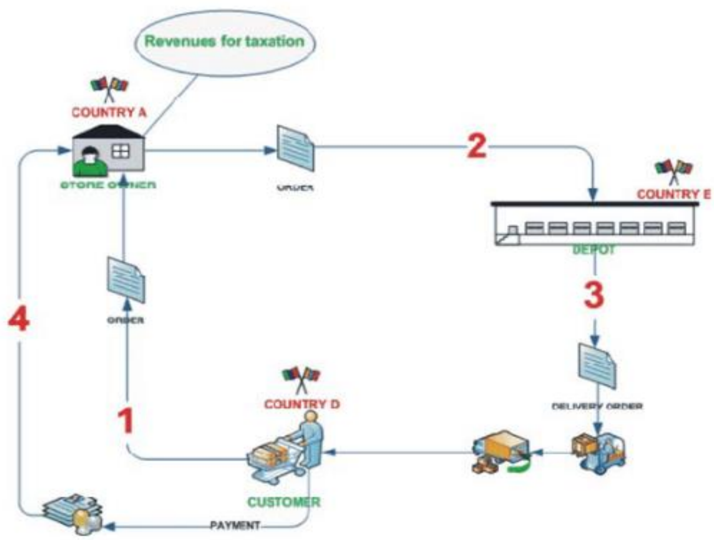


Fig. 3: Traditional commerce scenario

We also assume a more sophisticated than typical scenario in the case of conventional trade (Figure 3), with the products depot situated in a different nation. The owner receives the instruction from the client, who then passes it on to the depot manager so that the customer may get the items and then pay the owner. Therefore, there is no doubt as to where taxes will take place—it will be in the nation where the corporation has a physical presence and a permanent base. Why would we decide to use e-commerce if doing business as usual wouldn't ordinarily complicate our lives? since it has far lower expenses than a conventional store, and since it offers an ideal environment for both small and big enterprises as long as there is no legislative solution to the taxes of e-commerce.

CONCLUSIONS

Our research's findings demonstrate that e-commerce, as it is now practised, has a major influence on taxes and accounting transactions, in contrast to most studies that focus on the impact of e-commerce on international trade relationships.

The fast rise of internet commerce challenges national tax systems, hence it is imperative to harmonise the global taxation system. Any business owner would want to carry out all of their operations there if a nation was unable to participate in such an agreement due to the application of a unilateral tax system, as it would transform the nation into a paradise for electronic transactions (a claim supported by the main benefit of electronic trade: simple deployment anywhere in the world). The establishment of the ideal system to satisfy various state jurisdictions over the flowing action of e-commerce is still a challenge for economic researchers worldwide, even if a Standard that could easily identify the physical location of economic transactions would be adopted (the impediment on which taxation and charge of income/profit depends). New kinds of electronic commerce need new methods in terms of accounting and taxation in light of these advances and the growth of social networks.

In order to reduce the danger of tax evasion, fraud, and financial statement mistakes, we suggest developing e-commerce models based on fiscal and accounting integration as future research objectives. In order to improve transparency and the fiscal and accounting integration of e-commerce activities, we also want to investigate how financial information standards (such as XBRL—eXtensible Business Reporting Language) might be represented.

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