

TAXATION AND ENCRYPTION POLICIES

E-commerce And Taxation : E-commerce occurs in various forms and between various entities in the market. One among the question faced by nations is how to tax it. As the internet crosses the boundaries the main challenges are how can the basic requirements of physical presence and substantial nexus criteria of taxation can be met. The article tries to analyses the key issues in the area of e-commerce taxation. Article alarms the nation that if it is left untaxed it will give rise to a parallel economy.

Every industry contributes to the nations economic growth. The communications industry has become very significant and is promising to grow enormously in the near future. Unlike other communication media, Internet is facilitating access to knowledge bank, in competitive market and rendering services of world class standard. E-commerce offers a new way of conducting, managing and executing business transactions using modern information technology. It has redesigned the traditional mode of business. As a whole, it is a business practice that involves use of computers, computer systems or computer networks.

E-commerce occurs in various forms and between various entities in the market. The question is how to tax it. As the Internet has crossed borders (sovereignty) how can the requirements of physical presence and substantial nexus criteria of taxation be met. Due to the uniqueness of e-commerce, taxation faces a number of problems. This articles tries to find out the key issues in the area of e-commerce taxation and tries to analyses the existing regime with regard to the e commerce taxation. It is also alarmed that if this left untaxed, it will give rise to a parallel economy.

Definition of E-commerce

According to Greenstein and Ferman "electronic commerce (e-commerce) is defined as the use of electronic transmission medium (telecommunication) to engage in the exchange, including buying and selling of products and services requiring transportation either physically or digitally from location to location".

E-commerce is any transaction completed over a computer mediated network that involves the transfer of ownership or rights to use goods or services. According to European Commission, e-commerce encompasses more than the purchase of goods online. It includes a disparate set of loosely defined behaviours such as shopping, browsing in Internet for goods and defined behaviours, gathering information about items to purchase and completing the transaction like any other sustained business activity. It also means conducting consumer satisfaction surveys, capturing information about consumers and maintaining consumer databases for marketing promotion and other related activities.

The first phase of e-commerce threw up a new business nomenclature using various combination of business and consumers. It has its own advantages and disadvantages as in traditional business methods. Thus, e-commerce has necessarily changed the world economy in a dynamic and interactive pattern.

Taxation for Internet Transaction

The Internet has changed many of the fundamental and long standing concepts of direct and indirect taxation. Governments all over the World are grappling with the various issues of taxation raised by e-commerce. This is because of lack of comprehensive understanding of:

- The communication technologies
- The complex nature of business offered through Internet business, etc.
- The modus operandi of Internet business, etc. has made the operation of tax legislations more difficult.

The Information Technology Act, 2000, which is the first legislation to deal with e-commerce is quite silent about tax system. Substantial amount of state revenue which is generated through direct and indirect taxes is lost when Internet transaction remain untaxed. A way is to be found to tackle this relevant problem.

Basic Principles of Taxation

Several basic principles form the foundation of taxation policy in any country. The most important of these principles are efficiency, equality, certainty and positive economic effect. If the tax system disregards these principles it is fatally defective. The efficiency principle encompasses notions of both fiscal and economic efficiency. An economically efficient tax system should be neutral and not influence one's economic behaviour simply because of the manner in which the tax is levied. An ideal tax system is also equitable in its application. Not only does it treat taxpayers in similar economic circumstances similarly but also it makes suitable distinctions in its treatment of those in different economic situations. It necessarily raises questions of "similar economic circumstances", certainty in the tax laws is a fundamental principle in the establishment of ideal tax structure because predictability of tax consequences is an essential component of other basic tax principles. Finally, taxation has always been a mechanism for stabilization and regulation of the economy. Recognizing this fact, legislature has emphasized the economic effects of the principle of taxation, with a particular focus on encouraging economic growth.

For the development of rational tax policy one should understand the nature of industry. Some of the peculiarities of Internet are".

- It is a network of networks and it cannot be controlled or owned by one person.
- This network of networks is capable of rapidly transmitting packets from one computer to another.
- No human involvement is necessary to transmit data from one computer to another.
- The Internet can re-route itself if one computer is connected to the net. Content wise the Internet is very rich.
- The world-wide web environment provides a user friendly graphical interface.
- A simple click is sufficient to obtain vast information anywhere in the World.
- It encompasses all territorial and geographical limitations

Keeping these unique qualities of the Internet in mind one should try to visualize the issues concerning the taxes on the net.