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EXPERIENCE IN KOREA AND CHINA ON TAX MANAGEMENT FOR CROSS-BORDER E-COMMERCE ACTIVITIES

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Abstract

Cross-border trade in products and collecting goods taxes are familiar practices. However, as science and technology, particularly information technology, advance quickly, e-commerce operations become more thrilling and sophisticated. Since then, the aim has been that the tax legal laws be completed to contribute to the regulation of cross-border e-commerce activities that are developed stably and safely for stakeholders while not causing tax revenue loss for the State. This paper examines the lessons from Korea and China on this topic and gives suggestions for Vietnam.

Keywords: *tax, e-commerce, goods, cross-border*

1. Introduction

E-commerce has continued to grow globally in 2021. Although COVID-19 has significantly impacted the economics of several countries, the epidemic has resulted in a substantial increase in e-commerce. In terms of e-commerce penetration, Asia-Pacific remains the fastest-expanding area. E-commerce sales in South Korea have increased from nearly a fifth of all transactions in 2019 to more than a quarter in 2020. During 2020 and the first quarter of 2021, India, the world's third largest shopper, had a 25% increase in e-commerce, driven mainly by online sales in major urban regions. China continues to be the undisputed leader in the world's largest e-commerce consumer market. Although Chinese consumers spend roughly twice as much on online purchases as consumers in important Western European and Japanese markets, the United States continues to lead e-commerce sales per capita, closely trailed by the United Kingdom (Sindrestean et al., 2021).

2. Experiences of Korea and China in combating tax loss for e-commerce activities

2.1 Korean experience

South Korea is one of the world's most fantastic e-commerce markets, with 93% of the population accessing the Internet. According to industry data, retail e-commerce volumes will continue to rise, partly due to the influence of COVID-19. Internet shopping is trendy among those under 40, with over 97% of Koreans aged 20 to 39 utilising it. Food and beverages and home appliances will be the top online shopping categories in terms of sales in 2021. Because of increased time at home and travel constraints, the cost of online trip booking and organising services has decreased dramatically in recent years. Clothing, shoes, sportswear, and accessories were the most popular online purchases last year, with a high-profit margin. Because of the COVID-19 epidemic, online shopping has grown in popularity worldwide. Many South Koreans have increased their internet shopping due to safety concerns. According to a survey, most respondents increased their internet shopping compared to traditional shopping behaviour before the

pandemic. Food and consumables were the most popular internet purchases during the pandemic (Jobst, 2022).

The Korean tax agency has implemented steps to combat tax evasion through e-commerce, including (Hue, 2017):

First, the tax agency has to check for incorrect revenue declarations when paying via a bank account.

Many firms falsify their revenue when filing tax returns when payments are made through a bank account in online transactions. To avoid this issue, the Korean tax agency checked the account number displayed on the website or produced a fake order and verified the financial transaction, allowing the tax authority to establish whether the revenue was erroneously claimed.

Second, the tax agency must determine revenue using bank data.

Unlike traditional commerce, orders and contracts are made online and delivered via a shipping business. The Korean tax agency will compare the e-commerce sales company's data with the shipping company's to determine whether the revenue was improperly stated.

Third, make use of customer analytics data.

E-commerce enterprises create a database of all transactions, using personal information about consumers such as gender, age, address, quantity information, purchase history, and purchasing trends as marketing data and customer rewards depending on purchases. As a result, the Korean tax authorities can use bonus points and discount prices to calculate taxes.

Fourth, use data stored on the server (database server).

Currently, most businesses that trade items via e-commerce have a server with a database that connects information about inventories and goods consumed via online databases and database administration. The server integrates and manages the entire tax calculation database, which includes information about e-commerce users, purchase history, and payment information such as credit cards, inventory, and shipping details. Korean tax authorities require businesses to provide this data and combine it with other information to determine their tax liability.

The tax investigation process is uniformly applied to enterprises doing other types of commercial business for e-commerce transactions; however, this investigation process can be supported by information technology applications such as: collecting computer data using digital crime investigation techniques; recovering deleted files in computers; reading lock files; collecting email; collecting the accounting database of the accounting management system; and collecting and analysing member data (Sung et al., 2015).

2.2 China's experience

According to statistics, China's Internet population climbed by 35 million individuals in December 2022 compared to December 2021. More than a billion people in the country have internet access, resulting in a rapidly developing mobile app market. China will account for almost one-fifth of the world's 5.3 billion internet users by 2022. The number of mobile internet users in China has consistently expanded over the years, laying the groundwork for the growth of e-commerce transactions in China. Online shopping has become a popular way for people worldwide to find their favourite products, thanks to the rapid development of the Internet and international transportation services. Cross-border e-commerce in China is also rapidly expanding. According to China's Ministry of Commerce, the import and export value of China's cross-border e-commerce will reach 6.5 trillion yuan by 2020, with an annual growth rate of more than 30% (Thomala, 2023).

The National Development and Reform Commission (NDRC), the People's Bank of China, the General Administration of Customs (GAC), and five other ministries jointly issued the Circular on Promoting the Fast and Healthy Development of E-Commerce in 2012 for local E-commerce pilot programmes (Tsang, 2016a). Shanghai, Hangzhou, Ningbo, Zhengzhou, Chongqing, Guangzhou, Shenzhen, Tianjin, Fuzhou, and Fujian have been chosen as Comprehensive Pilot Areas (CPA) to develop cross-border e-commerce operations (Tsang, 2016b).

On December 30, 2013, the Chinese Ministry of Finance collaborated with tax administration authorities to produce Circular No. 89 on tax policy for cross-border e-commerce retail exports, which became effective on January 1, 2014. As a result, e-commerce retail exporters who meet the following conditions may be eligible for refunds of value-added tax and consumption tax (White, 2023).

First, a cross-border e-commerce retail export company registered in the comprehensive e-commerce pilot area (CPA) and registered the export date, goods description, unit of measure, quantity, unit price, and amount on the cross-border e-commerce online service platform at the company's registered location (1 in 10 of the CPA).

Second, the cross-border e-commerce retail export declaration processes with Customs at the CPA site have been completed.

Third, the Ministry of Finance (MOF) and the State Taxation Administration of China (STAC) do not list export items as free from export tax refunds.

According to the State Tax Administration of China's tax policy No. 36 of 2019, any company with e-commerce activities in the region and CPAs that meet specific criteria will be subject to a corporate income tax review plan, where the taxable income percentage can be as low as 4%, as opposed to 25% in general cases; to get such the tax preferences businesses must meet the following requirements (Li, 2020):

First, the firm is registered at the CPA, and the date, name, unit of measurement, quantity, unit price, and quantity of the exported items are recorded on the cross-border e-commerce online service platform where the company is registered (i.e., the CPA's location).

Second, the cross-border e-commerce retail export declaration processes with Customs have been completed at the CPA's location.

Third, the exported items lack an official invoice (i.e., legal proof of purchase), and the export is under tax policy, which states that the exported products are exempt from value-added tax and excise duty.

Furthermore, if organisations with cross-border e-commerce activities meet the parameters for preferential policies for low-profit small businesses, they will benefit from preferential corporate income tax policies. As a result, if the money enterprises receive is tax-exempt by Article 26 of China's Law on Corporate Income Tax, firms can take advantage of preferential policies for tax-exempt income.

According to China's experience, one of the contents of tax management for e-commerce activities is to concentrate on resolving the issue of executing the right to tax by country. Boundaries bind each country and have its own taxation system, whereas e-commerce is a transaction in a virtual space that transforms the entire world into a large market. As a result, allocating taxing rights between countries is critical (Xie, 2012). However, to achieve the goal, criteria for determining permanent establishment in e-commerce transactions must be developed, as well as a mechanism for information sharing and cooperation between countries to avoid conflicts with other countries worldwide and double taxation on e-commerce transactions (Zeng et al., 2012).

China has signed international tax cooperation agreements with countries worldwide, typically a network of more than 100 bilateral double taxation avoidance agreements with provisions allowing tax

authorities in the two countries to exchange information for tax administration (Li, 2020). Suppose the tax authorities need to verify information about foreign suppliers in general and specifically suppliers of e-commerce goods and services. In that case, the Chinese tax authorities will propose that the tax authorities of the agreement partner country coordinate verification, thus best serving the domestic tax administration (Han, 2020).

3. Conclusion

Korea has implemented legislation requiring the provision of technology products and services in Korea to go through enterprises established in Korea (for example, Google must provide products and services in this market through Google Korea). In terms of value-added tax obligations, this country is also studying and amending in the direction of learning from the tax authorities of European countries so that when calculating value-added tax, it will be collected based on the geographical location of consumers rather than the location of the company's headquarters. Between 2008 and 2014, the Korean tax administration collected 314.7 billion won (\$277 million) in corporate income tax from Oracle, a US database management software business, through harsh manoeuvres. Cisco, a South Korean network equipment supplier, is also accused of tax evasion by forcing tiny distribution partners in other countries to deal directly with suppliers at lower tax rates (Suk-ye, 2017). Furthermore, the National Assembly of Korea passed a bill in August 2021 that prohibits large app store operators such as Google and Apple from compelling software developers to use their payment systems, effectively barring them from taking commissions for in-app purchases. It is the first major economic constraint on Apple Inc. (AAPL.O) and Alphabet Inc's (GOOGL.O) Google, which has been chastised worldwide for requiring proprietary payment methods that charge up to 30% commissions. This new legislation is also expected to protect software developers and users and prevent tax evasion through e-commerce transactions (Yang, 2021).

According to Chinese experience, it is necessary to clarify and strengthen the legal responsibility of third-party intermediaries and financial institutions that provide information related to businesses operating in the field of private e-commerce to tax authorities because, according to other countries' regulations, the collection of information from third parties by tax authorities is still minimal due to issues related to customer information security (Digwatch, 2023).

According to the Tax Administration Law terms, business organisations operating on Vietnamese territory must declare tax before engaging in business activity. Foreign enterprises without permanent establishments in Vietnam that provide goods and services to domestic business organisations and individuals doing business in Vietnam, as well as domestic business organisations and individuals who are buyers, will be required to declare and deduct and pay tax on behalf of foreign enterprises. In theory, the buyer is not a taxpayer for VAT and corporate income, but because the seller is located outside of Vietnam, the registration need remains limited. As a result, the management agency must study and supplement the regulation. Before providing cross-border services to domestic consumers, foreign service providers must register for tax (via electronic method) with the Vietnamese tax authority and pay tax on income generated when buyers pay for arising services under Vietnamese regulations (Hue, 2017). Suppose this regulation is adopted and successfully executed. In that case, it will aid in effective tax administration for foreign e-commerce service providers, creating a level playing field comparable to domestic service providers. As a result, supporting e-commerce activities in general, and cross-border e-commerce in particular, to establish a healthy and safe environment for all stakeholders.

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978-604 79-3782-0

ISBN: 978-604-79-3782-0

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