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Cross-border E-commerce Tax Challenges and Policy Empowerment: Mechanisms, Cases and Prospects

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Abstract: In the digital era, e-commerce has significantly grown, becoming integral to the global economy, yet posing complex taxation challenges. This paper explores e-commerce taxation issues, focusing on tax authorities' difficulties with cross-border transactions, intangible goods, and the absence of a unified global tax framework. It also addresses tax awareness problems among e-commerce stakeholders. Case analysis, such as the Wei Ya tax evasion in live-streaming, highlights challenges in transaction data, tax entities, and policies. The study finds e-commerce taxation plagued by high collection costs, tax fairness issues, and inter-regional tax competition. However, tax policies like export rebates and preferences for returned goods are crucial for cross-border e-commerce development, reducing enterprise tax burdens and guiding strategies through economic incentives and risk-sharing. The research underscores the urgent need for tax system reform to align with e-commerce, emphasizing enhanced tax supervision and policy improvement for fairness and healthy economic growth. Future research should optimize tax policies, boost international tax cooperation, and utilize technological advances like electronic invoices for efficient e-commerce taxation.

Keywords: E-commerce Taxation, Tax Policy Mechanisms, Cross-border Transactions, Tax Supervision Challenges

1. Introduction

The taxation of e-commerce faces several significant challenges. First, the complexity of cross-border transactions makes it difficult for tax authorities to establish jurisdiction over taxable events. As Smith points out, the digital nature of e-commerce greatly facilitates cross-border transactions, making it hard for tax authorities to determine the correct location for tax purposes[1]. Second, the anonymity and information asymmetry in e-commerce transactions further complicate tax administration. E-commerce platforms often allow transactions to occur with limited transparency, making it difficult for tax authorities to obtain accurate information, which increases the risk of tax evasion[2] Additionally, the rise of intangible goods like digital content complicates tax collection, as traditional systems focus on physical goods. The absence of a global tax framework causes inconsistencies in e-commerce taxation, enabling companies to minimize liabilities. This underscores the need for tax system reform to address e-commerce complexities. Additionally, low tax awareness among stakeholders leads to evasion and underreporting, making taxation a critical issue for governments and international bodies. This paper examines e-commerce taxation challenges and offers policy recommendations for a comprehensive digital-era tax framework.

2. Literature Review

E-commerce's cross-border nature and diverse models challenge traditional tax systems. Platforms host numerous SMEs and individual sellers, complicating tax administration and entity identification. The lack of a unified international tax framework results in revenue losses and poor monitoring. Moreover, the global reach of e-commerce exacerbates jurisdictional issues, complicating international policy coordination.

According to the World Information Technology and Services Alliance (WITSA), foreign and local sales taxes significantly hinder e-commerce growth. Taxation challenges include inconsistent VAT regulations and potential double taxation, as highlighted in enterprise interviews. Furthermore, three key e-commerce characteristics exacerbate these taxation issues.

E-commerce possesses three key traits. Firstly, it features an electronic tax basis, where transaction data is stored electronically, diverging from conventional accounting records. This leads to challenges in data collection and authenticity verification, complicating tax management. Secondly, the virtualization of e-commerce taxation involves shifting from traditional actual entities as taxable subjects to a digital environment. In this context, consumers engaging in transactions via online platforms become the taxable objects. Verifying the business location, capital, personnel, and entity qualifications poses challenges, heightening transaction risks and complicating tax collection and management.[3]

Thirdly, the cross-regional aspect of e-commerce taxation complicates jurisdiction due to the Internet's elimination of geographical boundaries, making it challenging to assess tax authority during cross-border transactions.

Just as WITSA's research shows, specific types of taxes pose significant challenges to the growth of e-commerce. At the same time, investigations targeting enterprises highlight various problems in the field of e-commerce taxation. These problems jointly indicate the complexity of taxing e-commerce in the current global environment. And the above three characteristics of e-commerce further exacerbate this complexity and the negative impact on taxation.[3]

3. A Case Analysis

As a major e-commerce host, Wei Ya commands high viewer traffic and financial influence in the fast growing live-streaming market. She was determined to have dodged taxes from 2019 to 2020 by concealing personal income, creating business operations to change income, and making fake tax declarations. This was a major tax violation in China.The event sparked social attention and became a landmark case in live-streaming regulation.Wei Ya's team formed sole proprietorships to utilise regional tax benefits for live-streaming sales, avoiding taxes through incentives and regulations. They also used bogus business operations and transaction contracts and documents to commit fraud. Wei Ya founded Shanghai Weihe Enterprise Management Consulting Centre and Shanghai Dusu Enterprise Management Consulting Partnership, treating personal labour as business operating income.

Due to the differences in tax rates and calculation methods between personal labor remuneration income and the operating income of sole proprietorships (personal labor remuneration income is taxed at an excess progressive tax rate of 3% - 45%, while the operating income of sole proprietorships is subject to a five-level excess progressive tax rate of 3% - 35%)[4]. Tax evasion strategies included converting live-streaming sales into operational income without real business activities to reduce tax liability. Additionally, they exploited tax policy loopholes where sole

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proprietorships' taxes are based on fixed amounts, disregarding actual costs and profits, allowing Wei Ya's enterprises to lower their taxable amounts.

4. Challenges Faced by Tax Supervision

Tax supervision faces numerous difficulties in the live-streaming industry.

In terms of transaction data, the transaction data in the live-streaming industry is vast and complex, with diverse sources of income, such as platform remuneration, private payments from brand owners, and fan tips, and scattered fund flows. Coupled with the participation of online payment platforms and third-party institutions, the transaction information is concealed, making it difficult for tax authorities to obtain complete and authentic transaction data, increasing the difficulty of tax supervision.

In terms of taxpaying entities, their diversity and the virtuality of their identities provide opportunities for tax evasion. The live-streaming sector encompasses a variety of stakeholders, including presenters, streaming services, intermediary firms, and brand proprietors, characterized by intricate collaborative interactions. There is a lack of unified standards for defining and dividing tax obligations, which easily leads to confusion in tax collection and management. In addition, the virtuality of the host's identity allows both parties to communicate online and conduct transactions offline, making it difficult for tax authorities to verify the authenticity of transactions and the identity of taxpaying entities.

In terms of tax policies, as an emerging industry, the live-streaming industry develops rapidly, and the existing tax policies have difficulty adapting to its business innovation and changes in development models. There are deficiencies or ambiguities in delineating the characteristics of host income and the methodologies for tax collection and administration. For example, there are no detailed regulations on how to accurately classify and tax the income in this new business model of live-streaming sales, making tax supervision lack a solid policy basis.

5. Problems with E-commerce Taxation

There are some problems with e-commerce taxation. E-commerce collection costs are extensive due to the proliferation of transactions and trading entities. Tax authorities must allocate significant manpower, resources, and technology for effective data collection and analysis, incurring elevated expenses. In terms of tax fairness, some e-commerce enterprises or hosts take advantage of policy loopholes to avoid taxes, while small e-commerce enterprises or individual operators lack professional knowledge and resources and have difficulty enjoying preferential policies. Tax imbalances challenge fairness and disrupt market competition. Regional tax incentives for e-commerce can skew the tax framework, affect national revenue, and lead enterprises to prioritize tax benefits over strategic decisions. Effective e-commerce taxation requires policy enhancement, improved collection systems, and stronger oversight.

6. Tax Policies and the Digital Economy

Certainly, there exists an interdependent relationship between taxation frameworks and the digital economy. Subsequently, it will present a series of cases along with specific policy measures to elucidate how tax regulations generate new prospects for cross-border e-commerce.

6.1. Export Tax Rebate Policy Promotes the Development of Overseas Warehouse Business

The "Operation Guidelines for Export Tax Rebate (Exemption) of Cross - border E - commerce Export via Overseas Warehouses" issued by the State Administration of Taxation in 2024 [5]

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provides clear tax - handling guidance for cross - border e - commerce enterprises exporting via overseas warehouses. This guideline clearly states that the overseas - warehouse - based export model is one of the cross - border e - commerce trade modes, and enterprises can apply for export tax rebates if they meet the requirements. For example, different export tax rebates are detailed by types of overseas warehouses and sales models. If sales are realized at the time of customs clearance, tax rebates can be declared per current regulations. If not, enterprises may declare rebates in a lump sum or batches after sales are realized, based on actual sales. [5]. This flexible tax rebate method effectively reduces the pressure of capital occupation on enterprises, enables enterprises to arrange their funds more flexibly, and promotes the vigorous development of cross - border e - commerce overseas - warehouse business.

6.2. Approved Collection Policy Eases the Burden on Enterprises

Under relevant policies since January 1, 2020, approved cross-border e-commerce retail export enterprises lacking valid purchase vouchers can benefit from exemptions on value-added and consumption taxes, with a uniform enterprise income tax rate of 4%. [5]. Hangzhou Zhixingbian Supply Chain Co., Ltd., a cross-border e-commerce firm exporting to Japan, faced challenges with dispersed procurement sources, complicating pre-tax deduction voucher acquisition. This issue aligns with policy concerns in enterprise operations. The Xiaoshan District Tax Bureau provided guidance, enabling it to become the first in the Hangzhou Cross-border E-commerce Pilot Zone to apply approved enterprise income tax collection, benefiting from tax incentives and reducing its operational burden, thus promoting growth.

In cross - border e - commerce comprehensive pilot zones, cross - border e - commerce retail export enterprises subject to approved collection can also enjoy other preferential policies. Eligible small and micro-enterprises can benefit from preferential income tax policies. Additionally, income classified as tax-exempt can avail relevant tax exemption policies. For those lacking valid purchase receipts, a pilot "tax exemption without invoices" policy may apply if the goods meet specified criteria. [6]. These policy measures further simplify the operations of taxpayers and tax authorities, reduce the tax burden on enterprises, and provide a good policy environment for the development of cross - border e - commerce enterprises in comprehensive pilot zones.

6.3. Tax Preferences for Returned Goods Reduce Enterprise Risks

In 2023, the Ministry of Finance, General Administration of Customs, and State Administration of Taxation announced the continuation of the tax policy for cross-border e-commerce export returns. Goods exported under specific customs codes between January 30, 2023, and December 31, 2025, and returned in their original condition due to slow sales (excluding food) will be exempt from import tariffs, value-added tax, and consumption tax. Additionally, tariffs collected at export will be refunded. [7]. This policy enables cross - border e - commerce enterprises to reduce losses due to taxes when facing goods return situations, stabilizes the expectations of enterprises, reduces the operational risks of enterprises, and thus encourages enterprises to carry out cross - border e - commerce business more actively.

Through the analysis of multiple cross - border e - commerce cases, it can be seen that tax policies play a crucial role in the development of cross - border e - commerce. Policy measures in aspects such as export tax rebate policies, approved collection policies, tax preferences for returned goods, and tax services and guidance promote the future development of cross - border e - commerce enterprises.

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7. Evolving Tax Policies for E-Commerce and some Mechanisms

As the cross-border e-commerce sector evolves, tax policies must be continually refined to align with industry needs and foster growth. Key elements such as economic incentives, risk-sharing, and information-guidance mechanisms are crucial for empowering cross-border e-commerce.

7.1. Economic Incentive Mechanism

Tax incentives in export tax rebate policies, approved collection policies, and tax preferences for returned goods directly reduce the tax burden on cross - border e - commerce enterprises and increase their disposable income. Enterprises can use these saved funds for technological research and development, market expansion, supply - chain optimization, and other activities, thereby enhancing their competitiveness and promoting their development. For example, enterprises can invest funds in the construction and operation of overseas warehouses to improve logistics and distribution efficiency, further enhance customer satisfaction, and expand market share.

7.2. Risk - sharing Mechanism

The tax preference policy for returned goods shares, to a certain extent, the risks faced by enterprises when dealing with returned goods. When enterprises encounter slow - moving or returned goods, the tax preference policy can reduce their losses, preventing them from bearing excessive costs due to returned goods. This risk - sharing mechanism makes enterprises more confident when conducting cross - border e - commerce business, daring to explore new markets and products, and promoting the innovation and development of the cross - border e - commerce industry.

7.3. Information - guiding Mechanism

The tax authorities convey tax policy information to enterprises through tax services and guidance. After understanding the tax policies, enterprises can adjust their business strategies according to the policy orientation. For instance, a corporation might prioritize its financial governance and standardize its accounting practices to fulfill the eligibility criteria of the sanctioned collection policy and benefit from tax incentives. Concurrently, throughout the advisory process, tax authorities can gain insight into the challenges and requirements facing businesses, thereby providing a foundational reference for the ongoing enhancement of policies[8].

To conclude, cross-border e-commerce tax policies that promote enterprise, share risks, and make information accessible help the industry thrive. Economic reward helps organisations develop, and risk-sharing makes them robust and receptive to new ideas. Information-guidance helps firms and tax officials to cooperate, improving policies. Electronic ledgers and invoices improve e-commerce taxes. These tools are being pushed throughout regions by the government to speed up tax collection, clarify transactions, increase compliance, and simplify tax management. Online shoppers often transact with persons in other states or countries. The network lets people send and share electronic bills worldwide. E-commerce transactions across borders can be taxed well using electronic invoices. E-invoices make data collection and transmission easier for computers. Labour costs drop and tax administration becomes more accurate and efficient. When sent, saved, and issued, electronic invoices and ledgers are protected by strict electronic signatures and encryption. Any illegal modification of invoice data will leave traces and can be easily detected. On the one hand, this requires e - commerce enterprises to clearly and accurately record their own trading operations; on the other hand, it is convenient for consumers to obtain electronic invoices and verify their authenticity after purchasing goods or services[9]

8. Conclusion

This article closely examines cross-border e-commerce taxes and their major difficulties. Cross-border transactions complicate taxable jurisdiction. Increasing intangible commodities and services hamper traditional tax collecting techniques. Due to the lack of a worldwide tax structure, governments use diverse techniques and businesses avoid taxes. Lack of stakeholder tax awareness leads to evasion and underreporting. Live-streaming e-commerce tax supervision is complicated by complex transaction data, unclear taxpayer entities, and outdated policies, as shown by the Viya case. Fortunately, tax policies such as export tax rebates, approved collection, and return preferences strongly support the growth of cross-border e-commerce[10]. The economic incentive system lowers taxes and funds R&D, market growth, and supply chain optimisation. Return preferences help organisations manage returns and foster innovation by sharing risk. By distributing policies, the information guidance system helps company strategies follow supervision and maximise feedback. This study has flaws. It should explain how business kinds effect taxes and how policies affect the budget over time. Global improvements in digital taxation and concepts from diverse sectors can strengthen the analytical hierarchy in literature. Future research should focus on policy optimisation. Adjust parameters based on business and economic statistics and use international agreements to standardise tax standards. Use blockchain and smart contracts to simplify transactions and automate tax compliance. This will alter tax fairness and efficiency. Tax authorities and platforms should collaborate and encourage tax payment to improve the e-commerce tax environment. This will help cross-border e-commerce grow steadily, promote the industry's long-term success, boost the global economy's digital vitality and competitiveness, follow the digital economic growth trend, and coordinate global economic growth.

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