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LEGAL MODELS OF IT TAXATION

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Abstract

The article is devoted to analyze legal models of IT taxation in the advanced countries of the world. It is determined that the main way of selling the results of IT-activities is electronic commerce. The article analyzes the basic definition of electronic commerce. The author uses the anthroposociocultural approach in tax law as the basis of the methodology of the study of the problems posed. This approach allows us to see the taxation problems, in particular electronic commerce, including the local level from a new point of view. Author analyzes the model of minimal intervention and the model of hard regulation as two main models of IT taxation. The author pays special attention to the analysis of the legal regulation of electronic commerce taxation in Switzerland as a country-standard of local taxation. The article defines the main levels of taxation in Switzerland and outlines the benefits of using such a system of legal regulation of taxation. The author observes American and European models of legal regulation of electronic commerce. The link of the necessity of taxation of electronic commerce and the observance of the human right to taxes is revealed in the article. The article includes the analysis of the advantages and disadvantages of legal models of electronic commerce taxation used in the advanced countries. The conclusion is drawn about the main advantages of using the experience of the legal model of hard regulation of IT taxation in Ukraine.

Keywords:

Electronic commerce; legal regulation of taxation of IT-activities; legal regulation of taxation of electronic commerce; legal models of taxation; human right to taxes.

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1. Introduction

Tax law, as well as law in general, belongs to a priori systemic phenomena of reality [1]. This is primarily because the law is generated by the same systemic needs of individuals [2: 6-7]. Therefore, it can only be adequately known by means of a systematic approach to its knowledge. As recently noted by R.O. Gavrilyuk, already from the first paradigm of the general theory of systems, which was called the "part-whole" and was arranged by Aristotle, follows that the complex phenomena should be investigated systematically, because in all such cases, "an integer greater than the sum of its parts" [3: 113]. This is the so-called axiom of emergence. In other words, the author cites the above, in the system as integrity there are certain qualities that are not specific to any of its elements in particular. This paradigm has long been used to describe and explain the emergence of system qualities, or, as the creators of the theory of systems express, "effects of the system", and successfully applied in the analysis of any systemic phenomena [3: 114].

2. Theoretical Background

The problem of analyzing and comparing the legal models of taxation of IT activities is not sufficiently highlighted in modern domestic and foreign scientific literature, but some aspects of this issue were researched by scientists. Thus, I. Belik researched the international legal experience of taxation of e-commerce [4], T. Tatarova examined some issues of tax control during the implementation of e-commerce and made conclusions about the necessity of amending the legislation of Ukraine to harmonize the legal framework with international standards [5], H. Boreiko highlighted the experience of foreign countries in the taxation of e-commerce [6]. I. Meleshenko researched the legal problems of international taxation of e-commerce [7]. In the above-mentioned studies and in the field of financial law science in general, however, there was no comparative legal analysis of legal models of taxation of IT activities and no legal model was identified that would be appropriate for Ukraine. In addition, it is worth noting the importance of considering the problems raised from the standpoint of the anthroposociocultural approach and human rights to taxes,
which was thoroughly highlighted by R. O. Havryliuk [8], since, as P. S. Patsurkivskyy notes, the main characteristic of post-Soviet science of financial law is its tradition of a positivist approach to legal science. It finds its most concentrated expression in the etatist doctrine of financial law, which associates the existence of financial law only in the substantive state with its requirements [9: 145]. R. O. Havrylyuk argues an approach that denies the basic constants of the etatist doctrine of financial law and proves that financial law, as well as law in general, has an anthroposociocultural nature [10]. P. Patsurkivsky substantiated the necessity of applying in the study of financial law as a general system and the tax law as a qualitatively separated part in particular, "the general theory of the systems of N. Luman and the philosophical and legal concepts of the internal form of law of J. Spencer-Brown and R. M. Unger" [9: 144]. If we compare the system type of cognition with the elementary type of cognition, it should be said that in the first case, the system is a methodological setting, a research program, the principle of cognition deterministic by specificity of the subject and specific research tasks. L. Bertalanffy wrote about this: "The distinctive features of such a program, - he said, - can be reduced to the following points: ..."). In the second case, the system is no more than an ontological postulate programmed to obtain the expected result.

The consistent use of the system type of knowledge about legal models, in other words, the typical legal constructions of IT taxation, is fundamentally different from all other well-known approaches to the study of tax law in that it does not contradict the taxpayer and the public entity - the recipient of tax revenues, but proceeds from the dialectic unity of the private and public interests of taxpayers, that is, their systemicity, since the carrier of one and another interest is unique - a person (individual), their communities and society as a whole [12: 48]. That is, in this case there is such a concentration and differentiation of social interests at the same time, which, according to the formula of M. Weber, in itself acts as a natural principle, which leads to the origin of the corresponding order and forms its normative structure [13: 196], in our case, the legal models of IT-taxation.

One can agree with R.O. Gavrilyuk is when, from the point of view of the etatist or human centered doctrines of the tax law, his quintessence is reduced to the attempts of an eclectic association, and in fact the opposition of inconsistent principles - the interests of the public subject and the individual, or vice versa [12: 49], that is, they implicitly present asymmetry and antagonism [14], then the position of his egalitarian concept, the
meaning of tax law is to normalize and combine the attributes of a single principle - the natural needs of the individual, their individual for each and common to all, that is, the common part. This is the nature of the system of legal models of taxation.

We support the position of R. O. Gavrilyuk and in that assumption by some post-Soviet theorists of the law that "the appointment of a systematic approach that reflects the specifics of the scientific study of real phenomena and processes is a certain schematization, and hence simplification reality" is reasonably attributed to be "too controversial", if not false" [15: 7]. "The real purpose of the systematic approach in cognition, including in the legal knowledge, according to the second paradigm of the general theory of systems," - summarizes R.O. Gavrilyuk - there is, firstly, the distinction between a certain phenomenon and its external environment, in our case, the legal construction of the tax and the tax as a qualitatively distinct phenomenon of the reality of public finances; and secondly, the elucidation of the internal form of this phenomenon, or, in other words, its boundaries with the external environment; and thirdly, the clarification of the whole set of internal and external horizontal and vertical links and their system groups among themselves and with the external environment" [3: 114].

In addition to the above-mentioned methodological approaches and tools, we also used the methodological nature of the study, which is contained in the articles of D.V. Kostya [16] and A.M. Khudyk [17], concerning the consideration of the institutional features of legal models.

Specific tasks of this article are to find out the common features and features of legal models of taxation of IT activities.

3. Argument of the paper

The Internet and e-commerce are the realities of the so-called “new economy”, which makes to be the actual problem not only the modernization of existing tax systems, but also their harmonization. Today, active work in this area is carried out both at the national and international level [4].

The results of IT activities (software, e-books, videos and audio recordings, computer games, etc.) are most often realized through e-commerce. E-commerce - profit-sharing relationships that arise when entering into, changing or terminating civil rights and obligations arising
from the remote use of information and telecommunication systems, resulting in the property character rights and obligations of participants of such relationships [18].

There are two fundamentally different approaches to legal regulation of taxation of IT activities in the world. The first legal model of taxation involves state non-interference in the electronic segment of the economy (the USA), the other involves strict state regulation of e-commerce taxation (European countries).

First, let us consider the legal model of taxation of IT activities in the United States. The Internet Tax Freedom Act introduced a moratorium on the taxation of incomes derived from e-commerce. This has become a major factor contributing to the rapid growth of the e-economy. The moratorium proposed by the United States government protected users from paying taxes for connecting to the network, forbade double taxation of purchases made online, companies that sell goods on the network, were classified into a preferential category. However, the moratorium does not exclude the payment of sales tax, the subject of taxation of which is the retail sale of goods through online stores [19: 153]. The exception was only for states that were able to introduce such taxes before the enactment of the mentioned law (8 states) [6: 59].

Initially, states began to slowly introduce load taxes, but with recent tax cuts caused by consumers who buy more digital downloads, many states were looking for ways to apply taxes to purely digital transactions. There are several ways of collecting taxes. Some states regulate digital goods, relying on general tax legislation (Alabama, Arizona, Utah, West Virginia). States that have laws that specifically deal with the taxation of digital goods - Colorado, Idaho, Tennessee, and others. States that do not directly tax digital goods - North Dakota, Washington, DC [20].

Therefore, a diametrically opposed legal model of taxation of IT activities used by European countries should be considered. The EU is based on value added tax (VAT), and electronic goods and services are subject to VAT at an appropriate rate. Each Member State may set its own VAT rate. If an enterprise is located within the EU member state and its sales through the Internet or otherwise exceeds the VAT of that Member State, the company must register for VAT. Then the company is obliged to collect VAT from its sales (outputs) and transfer it to the tax authorities, deducting the VAT it pays for its purchases (expenses). If the business sells physical goods to the Member State that exceeds the threshold distance price
Member State (normally EUR 30 000 or EUR 100 000), it must register for VAT in that State and pay VAT at the VAT rate of that Member State. If sales are below the distance selling distance, VAT must be paid at the rate of VAT in the host country [21].

A peculiar model-country of taxation in Europe is Switzerland, where the focus is on local taxes. Taxes in Switzerland are paid at three levels - federal, cantonal, and municipal. Moreover, the tax usually occurs immediately at three levels [22]. Since Switzerland does not fundamentally distinguish between online and offline transactions, sales made online are taxed with customary taxes such as VAT and income taxes. The VAT is now 8% and should be included in the price of the product [23]. VAT is exclusively federal tax, while the income tax is levied both at federal and local levels. In spite of the multi-level taxation, in general, in Switzerland, one of the lowest tax burdens in Europe. R. O. Gavriluk notes that the Swiss constitutional-legal model of fiscal municipalisation is based on the principle of subsidiarity, according to which the fundamental powers, including the powers in the field of taxation, are in municipal communities and cantons, and only certain, specifically stipulated in the Constitution of Swiss Confederation competencies, are delegated to a federal state [24: 174].

The main source of tax revenues in the cantons is the income tax on incomes of individuals and legal entities. According to the Swiss Constitution, three-tenth of the gross amount of taxes come to the cantons, at least one-sixth of which is used to finance equalization of the availability of public financial resources between the cantons [24: 177].

For all tax levels only one tax return is provided. Usually in Switzerland a single tax return is filed for a family (husband and wife, children under the age of 18 if they also earn). There are different tax rates, restrictions and exemptions that apply to each individual situation. The income tax is levied by the Confederation and the cantons and its rate may be progressive or proportional to the income of an individual. It is important to know that income below CHF 14 500 is exempt from income tax. At the federal level, the income tax is levied on a progressive basis, ranging from 0.77% to 11.5% of the total income of an individual. The profit tax is established at Confederation level and it is proportional or progressive at a flat rate of 8.5%, or at canton level which varies. It is based on the net profit as accounted for in the corporate income statement and adjusted for tax purposes. There are also provisions that limit double taxation according to tax treaties, such as “participation exemption” for
companies that own 20% or more of the shares of other companies, a “holding privilege” for companies that are exempt from cantonal corporate profit tax, and “domicile privilege” for companies based outside Switzerland and only administered in Switzerland [25]. The income tax that is eventually paid depends on the particular place of residence - there are quite large variations in its size, depending on the canton. Taxes levied in Canton Zug are the lowest in Switzerland, while Neuchâtel is the most expensive place to pay taxes in Switzerland. Therefore, it is not surprising that Zug in the Zurich region is a home for many international companies and has a large number of emigrants among the population [26].

According to R. O. Gavrilyuk, the lion's share of tax revenues - more than fifty percent - remains in the communities that have their own financial resources for them. And in accordance with the Constitution, community autonomy is guaranteed in accordance with cantonal law. Not a federal state gives the communities their autonomy - they create it in their own right with the cantons, and the state only guarantees communities their autonomy, “in its actions takes into account their possible influence on the communities”, “takes into account the special situation of cities and agglomerations, as well as mountain areas” [24: 178]. Such an approach stimulates the productive work of all levels of public authority, and most importantly, it encourages the highly productive work of producers of gross domestic product and national income of the country, the only ones that are the basis of aggregate tax revenues of the respective levels of public authority [24: 179].

Thus, the tax system of Switzerland focuses on local taxes as the main source of revenues for local public funds. Such tax decentralization, in our opinion, is progressive and favors the most complete satisfaction of public needs of citizens. The emphasis on local taxation in the rapidly evolving IT industry will make it possible to better enforce the human right to taxes, since proper enforcement of the above-mentioned human right is directly dependent on the filling of public funds, the funds of which create the public good.

Some of the most economically developed countries in the European Union are calling for tax reform throughout the block, which is appropriate for where technology platforms receive revenue, and not just where they are making profits, - arguing that the current system allows digital giants to minimize tax liabilities; using subsidiaries located in countries such as Ireland. Most of the 28 EU countries agree in principle on more effective taxation of digital companies, but there are divergences as to how
to move forward [12]. Europe also offers some variants of short-term solutions, among which: the tax on the equivalent of the turnover of digital companies; tax on deduction from digital transactions; taxation of income derived from the provision of digital services or advertising activities [27].

The decisions taken on December 5, 2017 in Brussels will significantly improve the situation. New rules should help to accelerate the growth of online business, in particular start-ups and small and medium-sized enterprises. The measures include: new rules that allow companies selling goods online to assume all their VAT obligations in the EU through the One Stop Shop, posted by their own tax administration and in their own language. These rules already exist for online e-services retailers (e-services); for the first time, large Internet markets will be responsible for collecting VAT on sales on their platforms, produced by non-EU companies for EU consumers. This includes the sale of goods already stored by non-EU companies in warehouses (so-called "implementation centers") within the EU, which can often be used for the illegal sale of goods without VAT to EU consumers; to support new businesses and micro enterprises, the introduction of an annual VAT threshold of 10,000 euros, according to which cross-border sales to other countries within the EU are treated as domestic sales for online companies, with VAT being paid to their own tax administration. This is due to other initiatives such as one-time billing rules. The goal is to make trading in the single market as close as possible to trading at these businesses at home. In addition, companies that carry out cross-border transactions with a price less than €100,000 will benefit from simplified rules; lifting the current exemption from VAT for small consignments worth less than EUR 22 outside the EU, which leads to unfair competition and distortion of EU companies. These new rules will have a great effect on companies selling products and services on the Internet, which will now be able to use fairer rules, reduce compliance costs, and reduce administrative burden. Member States and citizens will receive additional VAT revenues of 7 billion euros a year and a more competitive market in the EU [7].

Another important step for the introduction of proper taxation of e-commerce is the implementation of the action plan BEPS (Base erosion and Profit Shifting), proposed by the OECD [28]. The plan envisages 15 steps, the first among which is to solve the problems of taxation of companies in the digital sector of the economy. The rules and implementation mechanisms are aimed at VAT collection, depending on the country of the
customer's location in the case of B2C cross-border transactions. These actions are necessary to balance the situation of domestic and foreign suppliers, as well as the proper collection of VAT from such transactions. Technical capabilities to address broader tax problems in the digital economy, such as communications and data, were discussed and analyzed. As both problems and potential variants raise systemic issues regarding the existing framework for taxing cross-border activities that go beyond the BEPS challenges, OECD and G20 countries agree to monitor events and analyze data that will become available over time. On the basis of future monitoring work, it will also be determined if the options discussed and analyzed should be continued. This determination should be based on a broad study of the ability of existing international tax standards to address the tax problems that arise in connection with the development of the digital economy [1].

4. Arguments to support the thesis

A legal model of strict state regulation of taxation of IT activities can lead to the reduce of the size of foreign investment, but its use has its advantages from the standpoint of anthroposociocultural approach and human right to taxes. R. Havrylyuk defines human right to taxes as a universal non-native (congenital) right of people to co-operate with each other in order to meet their own, common with other, public needs (the fundamental way of defending individuals in the society to ensure the reciprocity of their rights to the requirements and obligations of sharing their transcendental opportunities for securing their own public needs and obtaining public goods) [8: 616]. Taxation of such a progressive sector of the economy as IT activity creates conditions for the participation of a significant number of citizens in the creation of public goods, which is the basis for meeting public needs.

5. Arguments to argue the thesis

The legal model for the non-interference to the electronic economy, which is used in the United States (such an approach to e-commerce is applied by such leading countries that take leading positions in new information technologies such as Japan, Canada, South Korea, Australia),
contributes to economic development and inflow of foreign investments the best way. Representatives of companies that carry out economic activities on the Internet (e-companies or Internet companies) claim that the stiffness in this part of the tax legislation and the lifting of the moratorium will hinder the further development of this important sector of US economy [4: 51]. In our opinion, the use of such a model is appropriate only as a temporary means of stimulating the national economy, taking into account the technical complexity of tracking online transactions. The timeliness of its use is related to the lack of funds received by public funds and, consequently, to the reduction of resources for meeting the public needs of citizens.

6. Dismantling the arguments against

The legal model of IT taxation used in the USA contributes to the development of the e-commerce sector and the growth of foreign investment, as it creates a favorable tax climate for them. However, the budgets do not receive significant amounts of money, which, in our opinion, can become an obstacle to the proper observance of the human right to taxes. The reason is that a significant part of business entities does not participate in creating a common good - filling public funds, and therefore such public funds may not be sufficient to adequately meet public needs of citizens.

6. Conclusions

Consequently, each of the legal models of taxation of IT activities has advantages and disadvantages. In our opinion, it would be more appropriate to use the legal model of strict regulation practiced in the European countries. Such a model allows to fill in public funds more effectively, which allows to meet the public needs of citizens. In other words, the proper taxation of the rapidly evolving IT sector will contribute to the proper enforcement of human right to taxes. In addition, it is worth paying particular attention to the legal regulation of taxation in general and IT activities in particular, which applies in Switzerland. Since the emphasis on local taxation, which is most closely followed in this state, allows the best use of funds accumulated in public funds to meet public needs of citizens. The ability to prioritize among such needs is ensured precisely through
decentralization. As a consequence, such a system creates conditions for ensuring the implementation of the human right to taxes. At the same time, the tax burden in this country is one of the lowest, and the level of satisfaction of public needs of citizens is high, which testifies to the effectiveness of such legal regulation of taxation.

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