

E-COMMERCE TAXATION

A KEY TO RESTRUCTURING THE INCOME TAX SYSTEM

A THESIS

SUBMITTED TO THE

STANFORD PROGRAM IN INTERNATIONAL LEGAL STUDIES

AT THE STANFORD LAW SCHOOL,

STANFORD UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF

MASTER OF THE SCIENCE OF LAW

by

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2001 May 14

Abstract

E-commerce has a variety of impacts on international and domestic income tax systems. Although many legal or economic analyses of e-commerce taxation have been published to date, there seem few interdisciplinary studies of how international and Japanese e-commerce tax systems interact with international and domestic politics and social pressures. This thesis focuses on the interaction between tax law, society, and politics in order to find feasible and practical ways to accomplish fundamental reform of the Japanese domestic and international tax systems. It goes on to examine the difficulty in applying current international tax rules to global e-commerce activities and the risk of double taxation or no taxation. This paper analyzes these problems from economic, political, and social viewpoints. Political processes and social pressures may limit the range of possible e-commerce tax schemes; more specifically, the general public or specific political processes may prevent tax reform that results in the most efficient e-commerce tax system from the viewpoint of economic theory. Furthermore, change in current international tax rules is likely to alter the international allocation of tax revenue among nations. This possibility makes it difficult for many nations to reach a consensus. In addition, each country's domestic tax system also faces the difficulty in

taxing e-commerce justly and efficiently, but a feasible solution may vary among nations because differences in their economic conditions and social and political features. This thesis analyzes the functions and limitations of international tax rules to explore a feasible and practical method to successfully reform the international tax regime. It proposes a case-by-case approach to find realistic rules acceptable to many governments, which may result in slightly enlarging the current permanent establishment definition and modifying current source rules.

With regard to Japan, an information collection system is indispensable to effectively prevent tax evasion where e-commerce is conducted globally without physical indicia; thus, traditional tax enforcement methods seem to be ineffective. However, current politics and people's preferences may impede accomplishment of this goal. This thesis analyzes the processes of past Japanese tax reforms to explore feasible methods to successfully implement Japanese income tax reforms. From these analyses, it presents several conditions for accomplishing tax reform in Japan, such as the comprehensiveness of tax reform, the necessity of a promising forum of tax reform debates, support by the general public, and a booming economy.

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