

# Table of Contents

Preface	xix
List of Abbreviations	xxi
PART I	
Introduction and Overview	1
CHAPTER 1	
Introduction	3
§1.01 The Growth of Global Digital Commerce and Corresponding Tax Challenges	3
§1.02 Evaluating Tax Law and Technology Change	5
[A] Examining the Impact of Technology Change on Cross-Border Digital Tax Laws	5
[B] Regulating Technology Change for Tax Purposes	9
§1.03 Outline of Book	10
CHAPTER 2	
Technological Change and Digital Commerce	11
§2.01 Background	11
§2.02 Description of the Internet and World Wide Web	12
§2.03 Digitization	13
§2.04 Development of the Hardware Infrastructure	14
§2.05 Software Infrastructure	14
§2.06 Technical Aspects of the Internet	16
[A] Protocols	16
[1] High Layer Protocols	16
[2] Low Layer Protocols	17
[B] Routers	17
[C] Client/Server Architecture and Cloud Computing	17
[D] World Wide Web	19
§2.07 Digital Commerce	20

[A]	Efficiency-Enhancing Impact	21
[B]	Payment Systems	22
[C]	Security Issues	24
§2.08	Tax Implications of the Hardware and Software Infrastructure of the Internet	27
[A]	Global Forum	28
[B]	Digital Goods, Services, and Intangibles	30
[C]	Anonymity	32
[D]	Rapid Evolution	34
[E]	The Nature of Cyberspace	35
CHAPTER 3		
	International Tax Framework	37
§3.01	Guiding Principles of International Tax Policy	37
[A]	Neutrality	37
[B]	Equity	38
[C]	Inter-Nation Equity	39
[D]	Administrative Efficiency	40
[E]	Non-discrimination	40
[F]	Other Guiding Principles	41
§3.02	Sources of International Tax Rules	41
[A]	Domestic Law	41
[B]	Treaty Law	42
[C]	European Union Law	43
§3.03	International Income Tax Framework	45
[A]	Jurisdiction to Tax Income: Residence and Source	45
[B]	Residence	46
[1]	Individuals	46
[2]	Corporations	47
[C]	Source Jurisdiction	47
[1]	Historical Background	48
[2]	Source Rule for Business Income	49
[3]	Source Rule for Services Income	50
[4]	Source Rule for Capital Income	50
[D]	Division of Income	51
[1]	Arm's-Length Principle	51
[2]	Formulary Apportionment	52
[a]	The Apportionable Tax Base	53
[E]	Double Taxation: Causes and Methods of Relief	54
[1]	Causes of Double Taxation	54
[a]	Residence-Source Conflicts	54
[b]	Residence-Residence Conflicts	55
[c]	Source-Source Conflicts	55
[d]	Inconsistent Views of the Relevant Facts	55
[e]	Inconsistent Attribution Rules	55

[2]	Methods of Relief	56
[F]	Relief of Double Taxation Provided Through Tax Treaties	56
[1]	Dual Residence	57
[2]	Classification and Assignment of Income	57
[3]	Uniform Source Rules	57
[4]	Uniform Classification of Facts	58
[G]	Avoidance of Taxation	58
[1]	Overview	58
[2]	Transfer Pricing	59
[3]	Anti-tax Haven Measures	59
[a]	'Tax Havens'	59
[b]	Controlled Foreign Corporations	60
[c]	Foreign Investment Funds	60
[4]	Harmful Tax Competition	60
[5]	International Tax Evasion	61
§3.04	International Consumption Tax Framework	62
[A]	VAT/GST and Other Terminology Issues	64
[B]	Basic Design Features of VATs	64
[C]	Assertion of Jurisdiction to Tax Consumption	67
[1]	Substantive Jurisdiction and Enforcement Jurisdiction	67
[2]	Substantive Jurisdiction to Impose VAT	69
[3]	Destination and Origin as Justifications for Taxing Consumption	69
[a]	The Destination Principle	70
[b]	The Origin Principle	71
[c]	Supplier Location Contrasted with the Origin Principle	72
[d]	Origin and Destination Contrasted with Source and Residence	74
[e]	Why the Destination Principle?	75
[D]	Implementing the Destination Principle	77
[1]	Connecting Consumption to the Taxing Jurisdiction	77
[2]	Identifying the Destination of a Supply	78
[3]	The Influence of VAT Design Features on Jurisdictional Rules	81
[a]	VAT as an Indirect Tax on Consumption	81
[b]	VAT as a Multistage Transaction Tax	84
[c]	VAT as a RST	85
[d]	The Effect of Exemptions	87
[e]	Complex Transaction Chains	89
§3.05	Comparing International Income Taxes and Consumption Taxes	91
PART II		
	Applying Current Tax Rules to Digital Commerce	95

CHAPTER 4		
Applying Cross-Border Income Tax Rules to Digital Commerce		97
§4.01 Overview		97
§4.02 Applying Tax Rules to Cross-Border Business Profits		98
[A] Digital Commerce Hypothetical		98
[B] Problems Presented		99
[1] Where Is Income Generated		99
[2] What Costs Are Attributable to Includible Income		101
[3] Enforcement Concerns		102
[C] National Law		104
[1] United States		104
[2] Canada		112
[D] Treaty Law		116
[1] Traditional Permanent Establishment Rule		116
[2] OECD Global Digital Commerce Reforms and Guiding Principles		118
[3] The Server/Permanent Establishment Rule		123
[4] Attributing Profits to a Server		130
[5] Government Reactions to Server/PE Rule		133
[6] BEPS Reforms to Permanent Establishments		139
§4.03 Applying Tax Rules to Cross-Border Services		141
[A] Problems Presented		141
[1] Service Versus Other Types of Income		141
[2] What Are Services?		143
[3] Where Are Services Rendered?		145
[B] National Law		146
[1] United States		146
[2] Canada		150
[C] Treaty law		153
[1] Independent Services		153
[2] Employee Services		154
§4.04 Applying Tax Rules to Cross-Border Royalties		158
[A] Problems Presented		158
[B] National Law		159
[1] United States		159
[2] Canada		163
[C] Treaty Law		167
[1] Traditional Treaty Rules		167
[2] OECD Reforms		171
§4.05 Applying Traditional Residence Rules to Digital Commerce		174
[A] Problems Presented		174
[B] National Law		175
[C] Treaty Law		177
§4.06 Transfer Pricing		179
[A] Problems Presented		180

[B] National Law		183
[1] United States		184
[C] Treaty Law		186
§4.07 Controlled Foreign Corporations		194
[A] Problems Presented		196
[B] National Law		197
[C] Treaty Law		200
§4.08 Taxing Apple: A Case Study		200
[A] Setting Up Foreign Subsidiary in Low Tax Jurisdiction for Digital Sales		202
[B] Using Commissionaires to Sell in Overseas Markets		202
[C] Shifting Profits to Low Tax Countries		202
[D] Taking Advantage of Research and Development Tax Breaks		203
[E] EU Response		204
Appendix A		204
Select Government and OECD Digital Commerce Tax Policy Reports		204
CHAPTER 5		
Applying Cross-Border VAT Rules to Digital Commerce		207
§5.01 VAT Key Features, Origin and Spread		208
[A] Key Features		208
[B] Origin and Spread		208
§5.02 The Role of the OECD in the Coordination of VAT/GST Systems Around the World		211
[A] Coordination at the International, Regional and Sub-national Levels		211
[B] First Discussions at the Level of the WTO		212
[C] OECD Seminal Work Towards the Coordination of VAT/GST Systems Globally		216
[1] The Role of the OECD in the International Coordination of Tax Systems		216
[2] The 1998 Ottawa Framework		216
[a] The creation of a Business-Government Forum for Discussion and the Adoption of the Ottawa Framework		216
[b] Summary of the CFA Conclusions Regarding the Ottawa Framework		217
[c] TAGs Reports		219
[d] Follow-Up Reports by the OECD WP9, the OECD CFA and the OECD CTPA		221
[3] The International VAT/GST Guidelines		224
[a] Expanding the Scope of the OECD Work on VAT/GST Coordination		224
[b] The Neutrality Guidelines		225

	[c]	The 'General' and 'Specific' Place of Taxation Rules for B2B and B2C Supplies of Services and Intangibles	227
	[i]	The Key Question: How to Implement the Destination Principle	227
	[ii]	The General Place of Taxation Rule for B2B Supplies of Services and Intangibles and Related Collection Method	228
	[iii]	The General Place of Taxation Rules for B2C Supplies of Services and Intangibles and Related Collection Method	232
	[iv]	The Specific Place of Taxation Rule for B2B and B2C Supplies of Services and Intangibles	235
	[v]	Mechanisms to Support the International VAT/GST Guidelines in Practice	237
[D]		2017 Report on the Mechanisms for the Effective Collection of VAT/GST Where the Supplier Is Not Located in the Jurisdiction of Taxation	239
[E]		BEPS Report on Action 1: Tax Related Challenges to the Digital Economy	240
[F]		Report on the Role of Digital Platforms in the Collection of VAT/GST on Online Sales	243
[G]		Impact of the OECD Work and the Global Forum on VAT	244
[H]		Conclusion on the OECD Work Towards the Coordination of VAT/GST Systems Globally	245
§5.03		The EU VAT Treatment of Cross-Border Digital Commerce	246
	[A]	Introduction	246
	[1]	<i>Harmonization v. Coordination</i>	247
	[2]	Context of the Adoption of a Harmonized VAT System in the EU and Legislative Process	247
	[B]	Rules	250
	[1]	Overall Structure of the VAT Directive	250
	[2]	Categorization (and Sub-categorization) of Taxable Supplies	251
	[a]	Goods Versus Services	251
	[b]	The Sub-categories of Electronically Supplied Services	252
	[c]	Reduced Rates and Electronically Supplied Services	255
	[d]	Summary of the Rules Concerning the Categorization of Supplies under the VAT Directive as Applied to Digital Commerce Transactions	256
	[3]	Place of Supply and Collection Rules for Cross-Border Digital Commerce Involving Digital Supplies	256
	[a]	VAT Directive Rules	256
	[i]	Place of Supply	256

	[ii]	Collection	258
	[b]	Implementing Rules (Customer Status and Location)	259
	[i]	Customer Identification	259
	[ii]	Customer Location	262
	[c]	Conclusions Regarding the EU VAT Place of Supply and Collection Rules That Apply to Digital Commerce Transactions Involving Digital Supplies	280
[4]		Place of Supply Rules for Cross-Border Digital Commerce Involving Physical Supply of Goods	280
	[a]	Rules Applicable to B2C Intra-EU Supplies of Goods until 31 December 2020	281
	[b]	Rules Applicable to B2C Intra-EU Supplies of Goods as of 1 January 2021	281
	[c]	Rules Applicable to B2C Imports until 31 December 2020	282
	[d]	Rules Applicable to B2C Imports as of 1 January 2021	283
	[e]	Rules Applicable to Intra-EU B2B Supplies until the Adoption of the Definitive VAT System	284
	[f]	Rules Applicable to Intra-EU B2B Supplies after the Adoption of the Definitive VAT System (If Ever Adopted)	285
	[g]	Rules Applicable to B2B Imports	287
[5]		Specific Provisions Concerning Marketplaces	288
	[a]	First Step: E-commerce Transactions Involving Intangible Supplies (2015)	288
	[b]	Second Step: Digital Commerce Transactions Involving Tangible Goods (2021)	290
	[c]	Conclusions Regarding the EU VAT Place of Supply and Collection Rules That Apply to Digital Commerce Transactions Involving Tangible Goods	293
[C]		Examples	293
	[1]	Intra-EU Digital Supplies	293
	[2]	Inbound Digital Supplies	295
	[3]	Outbound Digital Supplies	296
	[4]	Marketplaces Facilitating Intra-EU Digital Supplies	296
	[5]	Intra-EU Supplies of Goods	297
	[6]	Imports	298
	[7]	Exports	300
	[8]	Marketplaces Facilitating Supplies of Goods in the EU (as of 2021)	300
[D]		Conclusion on the EU VAT Treatment of Cross-Border Digital Commerce Transactions	302

## CHAPTER 6

Applying the United States Retail Sales Tax (RST) to Cross-Border Digital Commerce	303
§6.01 US State and Local Sales Tax: Overview	303
[A] General Nature of US Subnational Retail Sales Tax (RST)	304
[1] Overall Structure of Sales Tax	305
[2] The Exclusion of Services from the Sales Tax Base	306
[3] The Inclusion of Business Purchases in the Sales Tax Base	307
[B] Harmonization and the US State and Local Sales Tax	309
[1] Historical Diversity in State Sales Tax Regimes	309
[2] Efforts to Harmonize State and Local Sales Tax Regimes	311
[3] The Streamlined Sales Tax	313
[4] The Streamlined Sales and Use Tax Agreement (SSUTA)	316
[a] Purpose and Scope	316
[b] Structure	316
[i] Tax Base Simplification	317
[ii] Tax Rate Simplification	318
[iii] 'Place of Taxation' or 'Sourcing' Rules	318
[iv] Administrative Simplifications	320
[v] Consumer Privacy	320
[vi] Governance	321
[C] Application of Sales Tax to Multijurisdictional Transactions	321
[1] Place of Taxable Transactions	321
[a] Taxation of Goods	321
[b] Taxation of Services	321
[2] Federal Constitutional Restraints on State Sales Taxation of Multijurisdictional Transactions	323
[a] The States' Incompetence to Tax Interstate Sales and the Development of Complementary Use Taxes	323
[b] Constitutional Restraints on the States' Power to Require Out-of-State Vendors to Collect Use Taxes on Interstate Sales	326
[i] The Rise and Fall of the Physical-Presence Nexus Standard for Requiring Out-of-State Vendors to Collect Use Tax on Interstate Sales: 1967–2018	327
[ii] Constitutional Nexus after <i>Wayfair</i>	330
[iii] Post- <i>Wayfair</i> Nexus Rules for Remote Sellers	331
[3] Summary of Use Tax Applications to Interstate and International Transactions	333
[D] Summary Comparison of the VAT to the US Retail Sales Tax (RST)	335
[1] Taxation of Services	336
[2] Taxation of Business Inputs	336
[3] Concept of 'Taxable Person' and 'Taxpayer'	337

[4] Harmonization of Consumption Tax Regimes: The EU and the US	337
§6.02 US State and Local Sales Tax: Cloud Computing	338
[A] What Is Cloud Computing?	338
[1] Cloud Computing and State Sales Taxation: Preliminary Caveats	340
[B] Sales and Use Taxation of Cloud Computing	341
[1] Jurisdiction to Tax the Parties to the Transaction: Nexus	342
[a] Overview	342
[b] Internet Tax Freedom Act Restraints on Nexus	343
[c] State Guidance	344
[2] Taxability	345
[a] Tangible Personal Property, Service, or Intangible?	346
[i] Historical Background: Taxation of Software	346
[ii] Distinguishing Between Sales of Tangible Personal Property and Sales of Services in the Cloud Computing Context	348
[iii] Cloud Computing as Canned/Prewritten Computer Software	349
[iv] Cloud Computing as a Taxable/Non-taxable Service	351
[b] Does Cloud Computing Involve a Taxable 'Sale' or 'Use'?	354
[c] Where Does the Sale or Use Occur?	356
[i] Location of the Server	357
[ii] Location of the User	358
[C] Conclusion	360
§6.03 Digital Marketplace Platforms	361
[A] Overview of the Role of Digital Marketplace Platforms	361
[B] Digital Marketplace Platform Controversies Arising under General Sales and Use Tax Provisions	362
[1] Arizona	362
[2] Colorado	363
[3] Indiana	363
[4] Louisiana	363
[5] South Carolina	364
[6] Utah	366
[C] Digital Marketplace Platform Legislation	366
[1] Overview	366
[2] Platform Legislation in Individual States	368
[a] Alabama	371
[b] Arizona	372
[c] Arkansas	373
[d] California	373
[e] Colorado	375

[f]	Connecticut	375
[g]	District of Columbia	376
[h]	Hawaii	376
[i]	Idaho	377
[j]	Illinois	377
[k]	Indiana	378
[l]	Iowa	379
[m]	Kentucky	379
[n]	Maine	381
[o]	Maryland	382
[p]	Massachusetts	383
[q]	Minnesota	384
[r]	Nebraska	385
[s]	Nevada	385
[t]	New Jersey	387
[u]	New Mexico	388
[v]	New York	388
[w]	North Dakota	389
[x]	Oklahoma	390
[y]	Pennsylvania	391
[z]	Rhode Island	392
[aa]	South Carolina	393
[bb]	South Dakota	393
[cc]	Texas	394
[dd]	Utah	395
[ee]	Vermont	397
[ff]	Virginia	398
[gg]	Washington	399
[hh]	West Virginia	400
[ii]	Wyoming	401
§6.04	Information Provider Hypothetical	402
[A]	Does the State C Sales Tax Base Include the Services Sold by Supplier Corp. to C?	403
[B]	Does the State C Use Tax Include the Services Sold by Supplier Corp. to C?	404
[C]	Does Supplier Corp. Have Constitutional Nexus with State C so That State C May Require Supplier Corp. to Collect the State C Use Tax Due from C on C's Use in State C of the Services Sold to C by Supplier Corp.?	405
[1]	Do Contacts of Third Party ISPs or Telecommunications Companies with Whom Supplier Corp. Deals Create 'Attributional Nexus' over Supplier Corp., Even If Supplier Corp. Itself Lacks Sufficient Contacts in State C?	408
[D]	Would the Foregoing Analysis Change If Supplier Corp. Were Established in State S Rather than Country S?	410

[E]	What Impact Does the Internet Tax Freedom Act (ITFA) Have on State C's Power to Tax Supplier Corp.'s Sale of Services or Goods over the Internet to Consumers in State C?	410
[1]	Taxes on Internet Access	411
[2]	Discriminatory Taxes on Electronic Commerce	412
[a]	Out-of-State Servers May Not Create Nexus	413
[b]	Internet Access Providers May Not Create Nexus over Remote Sellers Based on the Remote Seller's Use of Internet Access Provider's Server	415
[3]	Multiple Taxes on Electronic Commerce	416
[4]	Bundled Services	417
§6.05	Office Furniture Trading Hypothetical	417
[A]	Would Supplier Corp. Have Nexus in State C If Supplier Corp.'s Website Were Hosted on a Server in State C?	419
[B]	Would Supplier Corp. Have Nexus in State C If It Established a Distribution Centre in State C?	420
[C]	Nexus Through Related Corporations: Would the Result Be Different If Supplier Corp. Had a Subsidiary (DC-C Sub) That Had Nexus in State C?	421
[1]	General Rule for Personal Jurisdiction	421
[2]	Application of General Jurisdictional Principles to the Question of Whether a Remote Vendor Has Nexus with the State for Use Tax Collection Purposes	421
[D]	Would Digital Marketplace Platform (P) Have Sales or Use Tax Collection Obligations in State C with Respect to Supplier Corp.'s Sales over P's Platform to Customers in State C?	424
[E]	What Are the Implications of Supplier Corp.'s Internet Sales of Furniture That Is 'Drop Shipped' to Customers in State C by Affiliates with Nexus in State C (Texas)?	425
§6.06	E-CAR Global Design AG Hypothetical	427
[A]	Does the State C Sales Tax Base Include the Services Sold by S-H Corp. to C Corp.?	427
[B]	Does the State C Use Tax Include the Services Sold by S-H Corp. to C?	428
[1]	Will S-H Corp.'s Sale of Services to C Corp. Be Exempt as a Sale for Resale?	428
[C]	Does S-H Corp. Have Constitutional Nexus with State C so That State C May Require S-H Corp. to Collect the State C Use Tax Due from C Corp. on C Corp.'s Use in State C of the Services Sold to C Corp. by S-H Corp.?	429
[1]	Would C Corp. Be Required to Self-Assess a Use Tax under a 'Direct Pay' Permit?	430
[D]	Would the Foregoing Analysis Change If S-H Corp. Were Established in State S Rather than Country S?	431

PART III		
Evaluating Tax Law and Technology Change		433
CHAPTER 7		
Policy Approaches		435
§7.01 Introduction		435
§7.02 Starting Point: How to Share Revenues		436
§7.03 Taxation Based on Source		437
[A] Status Quo		438
[B] Enhanced Source State Taxation		438
[C] Adapting the PE Concept		441
[D] Increased Reliance on Source State Withholding		444
§7.04 Taxation Based on Residence		449
[A] Status Quo		450
[B] Enhanced Residence-Based Taxation		450
[C] Company Residence Based on Other Criteria		451
[D] Full Integration: Taxing Shareholders on Income Earned Through Corporations		452
§7.05 Characterization of Income		452
[A] Categories of Income		452
[B] Consistent Source Rules		454
§7.06 Transfer Pricing		454
§7.07 Formulary Apportionment		457
§7.08 Transactional Taxes		459
§7.09 Minimum Taxes		462
§7.10 Revising Controlled Foreign Corporation Rules		465
§7.11 Administration and International Cooperation		467
CHAPTER 8		
Evaluating Tax and Technology Change		471
§8.01 Introduction		471
§8.02 Evaluating Law and Technology Change		472
§8.03 Evaluating the New Global Digital Commerce Tax Initiatives		473
[A] Usage of Non-traditional International Tax Principles		474
[B] Mixed Evidence on Revenue Losses		475
[C] Applying Non-neutral Tax Treatment		478
[D] Preserving Taxpayer Privacy		479
[E] Increasing Taxpayer Compliance Costs		481
[F] Summary: Moving Away from Traditional Values?		483
§8.04 Usage and Development of Effective Institutions and Institutional Processes		484
[A] Respecting Tax Sovereignty		485
[B] Leveraging Traditional Institutions		487
[C] Need for Adaptive Efficiency		488
§8.05 Harnessing New Technologies to Enforce Tax Laws		490

§8.06 Lessons at the Intersection of Tax Law and Technology Change		494
CHAPTER 9		
The Road Ahead: Supporting Cross-Border Tax Information Exchange		497
§9.01 Introduction		497
§9.02 Examining the Policy Responses		498
[A] Background on OECD Reforms		498
[B] Recent Exchange of Information Reforms		499
[1] Unilateralism via US FATCA		500
[2] Bilateralism Through TIEAs		501
[3] Multilateralism via the Common Reporting Standard		501
[4] Multilateralism Through Country-by-Country Reporting		502
§9.03 Using Technologies to Exchange Tax Information and Enforce Tax Laws		503
[A] Moving from Analog to Digital Technologies		503
[B] Deploying Data Analytics on Exchanged Tax and Financial Information		505
§9.04 Concluding Comments		507
Index		509