

Chapter 8

**Taxation of international
e-trade: Russian
particularities**

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Abstract

Tax rates on e-commerce in Russia should remain moderate, given the small size of its digital trade operations (so the rise in tax revenues from higher rates would be small) and substantial growth prospects (so future tax revenues from a developed sector could be quite large). The Russian Federation's (Russia's) taxation of e-commerce activities presents two important challenges. First, consumer goods purchased directly from foreign online sellers enjoy significant tax advantages compared to imports purchased in Russian retail outlets, undermining the profitability of Russian importers and reducing tax revenues. Second, the value-added tax (VAT) levied on foreign exporters of electronic services creates uncertainty because the legal definition of electronic services is unclear and impedes the operations of multinational companies in Russia because VAT is taxed on intra-firm imports of services. Russian authorities are establishing effective automated systems for collecting taxes and customs duties on cross-border e-commerce, calculating VAT compensation to exporters and accounting for receipts from online stores. These systems will help to prevent abuse of the tax system, as well as reduce the cost of compliance by firms.

** The contents of this chapter are the sole responsibility of the authors and are not meant to represent the position or opinions of the WTO or its members.*

Introduction

Issues of tax regulation on international e-trade transactions became relevant immediately following the emergence of the virtual component of international trade at the turn of the 21st century. Over the past 20 years, the most obvious problems in this area have been solved, for example, the remoteness of transactions and the related complexity of determining the jurisdiction of the sales revenues formation, the qualification of sales revenues in the context of existing double taxation agreements, and the application of indirect taxes, especially VAT and sales taxes, to e-commerce transactions. Modern information technologies and the digitalization of the economy contribute to the improvement of tax administration methods and the tax control of electronic foreign trade transactions, including those operating on the basis of intergovernmental cooperation. At the same time, the taxation of cross-border e-commerce transactions in national economies in the current conditions of global economic development is still beset by a number of challenges actively discussed by the academic community.

This chapter analyses features of the tax regulation of international (cross-border) e-trade operations in the Russian Federation (Russia). We note the particularities of foreign trade and its virtual component development in Russia, discuss the intricacies of cross-border e-commerce transaction taxation and consider the tax specifics of international e-trade operations with digital content in Russia, as well as tax administration issues.

The basic idea developed by the authors is that the tax regulation of international e-trade should be implemented very cautiously. Cross-border e-commerce transactions in value terms are still very modest compared to traditional trade in goods and services. At the same time, they have a clear potential for impressive growth. Thus, a large portion of the revenues from taxing international e-trade incomes and operations in the short term could be foregone in the interest of supporting the long-run growth of the sector through low/moderate taxation. We also argue that expansion of international e-commerce in its turn would facilitate overall trade and gross domestic product (GDP) growth (see also Sokolovska, 2016).

Particularities of foreign trade and its virtual component development in Russia

Some of the necessary tools to encourage foreign trade are taxes and duties, which can also be used to obtain the necessary resources for the targeted budget financing of state programmes that support foreign economic operations. With the digitalization of the national economies and the entire system of international economic relations, an increasing number of transactions take place in a virtual form. This is also true for international trade, which firstly can be carried out in the field of export and import of tangible goods and services based on new digital technologies, and secondly gradually includes in its turnover an increasing amount of virtual digital content. Taxation should also adapt to such e-commerce operations by properly

regulating related transactions with tangible goods and digital items, including e-services and virtual content.

Both e-trade as a whole and its cross-border component are small in comparison with retail sales in the domestic market or with the foreign trade in goods and services (Table 1). Nevertheless, while e-commerce is only 4 per cent of Russia's retail trade turnover, cross-border e-trade is already 27 per cent of the total Russian internet trade market (Central Bank of the Russian Federation, 2018, pp. 52-53). Moreover, cross-border e-commerce sales have increased rapidly (by 20 per cent in 2018), as have international parcels related to the delivery of tangible goods ordered in foreign internet stores to Russian buyers (25 per cent in 2018) (IEP,

2019). The rapid growth rate of the cross-border e-commerce segment is obviously an interesting issue for tax regulation in Russia, especially in the context of the stimulating role of taxation (OECD, 2018; Sperling, Orszag and Gale, 2001). That is, maintaining moderate tax rates on e-trade (rather than increasing tax rates) would support its continued, rapid growth. And given economies of scale in this market, encouraging the growth of e-trade could eventually result in large, profitable firms that provide substantial extra tax revenues.

The small size of e-commerce in Russia is roughly in line with international trends. Currently, less than 1 per cent of the value of world exports and imports are digital products, and their share has in fact decreased: in the early 2000s, it exceeded 2 per cent (WTO,

Table 1: Key characteristics of cross-border e-trade in Russia

	2017	2018	2019 (estimated)
Sales (in billions, RUB)	262	316	360–380
Sales (in billions, US\$)	4.5	5.0	–
Share in total e-commerce sales in Russia	25%	26%	27%
Share in total retail sales in Russia	3.5%	4%	–
Share in total export and import goods and services trade of Russia	0.60%	0.61%	–
Share in GDP	0.35%	0.44%	–
Volume of international parcels of Russian Post (in millions)	264	330	–
The main country of departure of international parcels to Russian recipients (share of all countries)	China (91%)	China (94%)	–
Average declared value of an international parcel to the Russian recipient (RUB, with equivalent in (EUR))	–	564 (7.6)	–

Source: The Gaidar Institute for Economic Policy; Bank of Russia, available at: http://www.cbr.ru/collection/collection/file/5913/bulletin_18-03.pdf.

2018, p. 93). E-trade accounts for a relatively small proportion of the total amount of retail operations. The share of e-commerce in global retail sales is just over 10 per cent (Amasty, 2018). Thus, for all its potential attractiveness, e-commerce – especially cross-border – is not yet a significant component in the business-to-consumer (B2C) segment.² At the same time, it is necessary to consider its high growth potential; the growth of sales in global e-commerce transactions in 2018 was 21.6 per cent (Merehead, 2018), significantly outstripping both the growth of the world economy (3.1 per cent in 2018) and the growth of global exports in goods and services (4.3 per cent in 2018).³

All of the above suggests that, at present, due to the limited importance of e-commerce, including cross-border, the fiscal effect of its taxation on national budgets (including the Russian one) is insignificant. Thus, the tax regulation of cross-border e-commerce should not focus on increasing the collection of direct and indirect taxes, but rather should seek to support the rapid growth of e-commerce activities.

Features of taxation of cross-border e-commerce transactions

The United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Commerce provides for the inclusion in the relevant transactions of any sales carried out through an electronic data interchange (UN, 1999). Accordingly, if the order, payment or delivery of products (tangible goods, virtual content and services) is carried out through the channels of information

exchange using the internet, then such operations can be characterized as electronic commerce (e-commerce or e-trade). Thus, any purchase of both material goods or services and virtual digital content, if carried out using a computer or a mobile device connected to the internet, can be characterized as e-commerce in a broad sense of the word. In view of the rapid spread of relevant technologies, many worldwide trade operations – as interpreted by UNCITRAL in 1996 – are based on electronic channels of data exchange between the seller and the buyer. Major components of the process include the search for goods, services and digital products; their order; order confirmation by the seller; non-cash payment by the customer of the purchase using electronic bank payments; and issuance of an electronic cash receipt to inform the buyer of the delivery of the paid goods.

From the point of view of our discussion, e-commerce transactions should be divided into two components:

1. Remote purchase of material goods through virtual stores or platforms, where the delivery of goods is carried out through the sales channels mechanically with electronic payment or cash to the courier (representative of the seller); and
2. Remote purchase of digital content (including electronic services) and its order, payment and delivery, which is carried out virtually using modern information and communications technologies.

The problems in the first case are related to the tax regulation and control

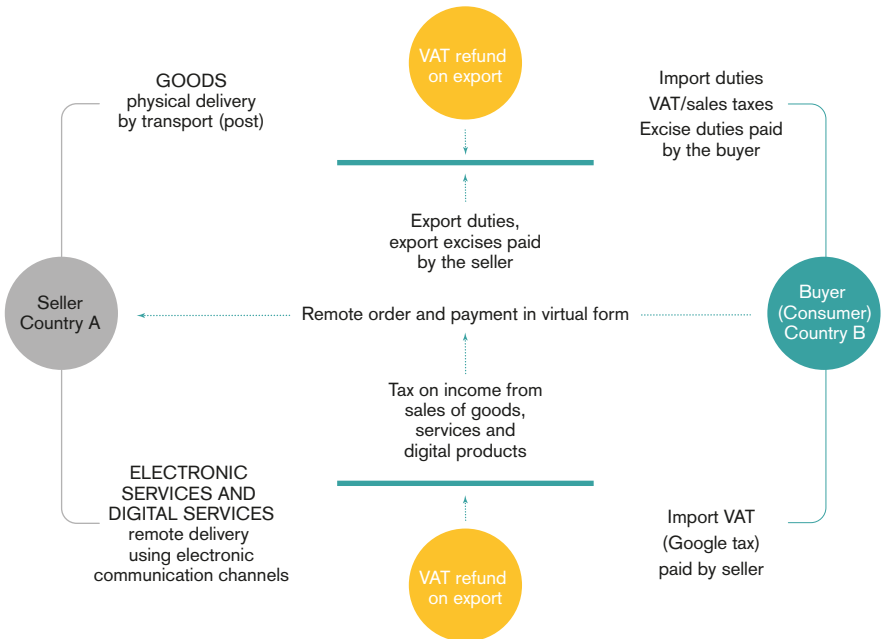
of sellers' activities, but the movement of goods can be tracked and subject to indirect taxes. In the second case, the digitalization of trade complicates external controls of the receipt of payments by sellers, as well as the fact of delivery of virtual content to consumers.

Figure 1 presents the main tax implications for cross-border e-commerce transactions in goods and digital content (including e-services). As is evident from the scheme, cross-border e-trade may affect revenues from the income tax (corporate profit tax), the VAT/sales tax, export and import customs duties, and excise taxes.

From the international tax law perspective, cross-border operations of e-commerce are notable for the fact that indirect taxes and duties

(VAT/sales tax, customs duties and excise duties) are involved as the main tools of regulatory impact on the movement of tangible goods, electronic services and digital content. This is not typical for international tax law, the object of which is usually only direct taxes. At the same time, VAT (sales tax) payers also can have cross-border fiscal consequences, which are particularly unusual in international tax law. Indeed, the already established world practice for remote sales of electronic services and digital products requires the seller from country A to register as a VAT payer in destination country B. Thus, the seller from country A will pay VAT on its intangible products imported by the buyer from country B to the budget of the destination country B. Thus, in addition to the two generally accepted principles of international taxation, the residence principle and source

Figure 1: Tax consequences of cross-border e-commerce transactions



principle, the sphere of international tax regulation has gradually included a third principle – the destination one. This principle was formerly applied for VAT imposition in international transactions with tangible goods. Previously VAT was used only as an incoming tax for importers of commodities to equalize domestic prices in comparison with foreign ones. Now VAT is applicable both for commodities and services plus virtual context in e-trade.

In the process of cross-border e-commerce transactions, the movement of tangible goods between countries can be tracked and the payment of the relevant indirect taxes and duties can be controlled. At the same time, the country of the buyer location does not claim to tax the income of the remote seller – a resident of a foreign jurisdiction. However, the jurisdiction in which the goods are finally consumed may require remote retail exporters to pay VAT as well as excise duties, which are based on the customs value of the goods in their budget. This is done to equalize the conditions of competition. In the case of the cross-border supply of digital content, which is closely related to intellectual property rights, as well as taking into account the rapid digitalization of services, it is also difficult to control the fact of delivery of such virtual products (crossing the border of the destination country). That clearly complicates taxation.

In the case of remote order and virtual payment via electronic communication channels, the seller, as an exporter, is reimbursed for the value of VAT upon delivery of tangible goods. Meanwhile, the seller will have to pay export duties (if any) and excise taxes.

Furthermore, after the goods cross the border of the buyer's jurisdiction, the obligation to pay the import duty for remote deliveries (without the participation of resellers in the country of destination) is assigned to the buyer. In certain instances, especially in wholesale deliveries for resale, the buyer will also have to pay VAT (sales tax) and excise tax (for excisable goods).

When providing remote cross-border services, the seller (exporter) in its jurisdiction is exempt from VAT but will have to pay VAT ("Google tax"⁴) in the country of the services' final destination. The delivery of digital content largely resembles the export of electronic services. In addition, of course, the seller pays tax on the income from the cross-border sales of goods, services and digital products in its own jurisdiction.

The issues concerning taxation in the cross-border supply of digital content have been resolved by the Organisation for Economic Co-operation and Development (OECD). Since 1998, the OECD has defined criteria for the classification of the place of origin of income from a sale transaction and the interpretation of existing tax agreements, taking into account e-commerce transactions with digital products. Accordingly, the main problems in the area of the taxation of cross-border e-commerce transactions currently relate to the movement of tangible goods ordered through electronic channels of data exchange between sellers and buyers, as well as the application of destination-based VAT to the remote seller upon delivery of electronic services and digital products. Now, let us consider the

relevant features of the taxation of cross-border e-commerce transactions in Russia.

Tax consequences for international e-commerce operations with tangible goods in Russia

The main taxes applied in the field of cross-border electronic trade in goods in Russia are as follows:

1. Transactions in which a Russian remote retail seller delivers goods purchased in an online store to a foreign buyer (consumer) – B2C export transactions:

- Russian profit tax of 20 per cent of the seller's income from sales of goods.

2. Transactions in which a Russian remote wholesaler delivers goods purchased in an online store to a foreign wholesale buyer (reseller) – B2B export transactions:

- Russian profit tax of 20 per cent of the seller's income from sales of goods; and
- Russian export duties (rates 0–80 per cent (Garant, n.d.)) apply mostly for raw materials and mineral oils and export excises paid by the seller.

The Russian remote wholesalers that export excisable products (such as tobacco, alcohol, mineral oils, etc.) of their own production are exempt from the payment of excise taxes. In addition, the wholesaler receives a VAT refund on export (VAT rates in Russia are 0, 10 or 20 per cent).

3. Transactions in which a Russian personal buyer (consumer) receives a parcel of goods ordered in a foreign online store from a foreign retail seller – B2C import transactions:

- Russian import duties according to the rates shown in Table 2; for postal items weighing less than 31 kg and a declared customs value of less than EUR 500 during one calendar month, import customs duties in Russia are not applied (starting in 2020, the cost limit becomes EUR 200 while removing restrictions on time and number of received parcels).

4. Transactions in which a Russian wholesale buyer purchases goods online from a foreign wholesaler for resale – B2B import transaction:

- Russian import duties according to the rates shown in Table 2; and
- Russian import VAT (rates of 10 or 20 per cent) and excise taxes for excisable products.

One of the problems of e-commerce development in Russia is the tax competitive advantages of foreign remote sellers of goods sold through internet platforms. Indeed, differences in taxation in cross-border and domestic online sales often put Russian online retailers in a less advantageous position. For instance, Russia currently has a very high share of cross-border e-commerce transactions with China: more than 90 per cent of foreign orders of Russian retail customers come via parcels from Chinese online stores (Lenta, 2019). Given the low value of most purchases (usually less than EUR 200), customs duties are not charged

when sending goods to Russia by mail. Import VAT (standard rate is 20 per cent) is also not charged to retail buyers in the case of purchase for personal consumption. Accordingly, the final price of foreign goods for the Russian buyer is only the cost of their production plus a small profit for the manufacturer and distributor of the goods, as well as the constantly decreasing cost of postal delivery. After crossing the Russian border, the price of Chinese goods will not change in any way in comparison with the cost of the internet order (moreover, a remote exporter/Chinese seller can even return VAT, the amount of which in China is 17 per cent). The price of goods imported from China by a legal Russian wholesale importer is at least 25 per cent higher than the price of goods purchased from the Chinese online store (the import customs duty equals 5–20 per cent plus 20 per cent for VAT, which can be offset by the compensation of Chinese export VAT). In other words, e-commerce makes direct retail purchases from Chinese manufacturers with the delivery of goods to the final consumer by mail more lucrative. At the same time, the Russian budget suffers both from the loss of potential import customs duties and import

VAT, and from the reduction in tax revenues from the incomes of large importing companies and individuals employed in the import-oriented sector of the national economy.

In contrast, if the Russian online retailer supplies goods to China, then almost 70 per cent is added to the original price of goods when crossing the Chinese border – import VAT (17 per cent), consumption tax (its rate varies between 1–56 per cent depending on the type of commodity products, on average about 42 per cent) and customs duty (about 10 per cent). Considering the previously withheld and included in the customs value Russian VAT of 20 per cent (which is impossible to compensate for when exporting through electronic trading platforms in retail format), the price of Russian goods intended for the Chinese market is almost twice the price of those for the domestic Russian market. As a rule, these products cannot compete with similar goods made in China.

Thus, the task of the tax regulation of e-commerce operations in Russia with tangible goods is to create equal competitive conditions for domestic and foreign internet sellers by levelling

Table 2: Rates of customs duties on imports delivered by post in Russia in 2019

Customs value (RUB)	Standard rate customs duty (RUB)	Customs duty rate for electronic declaration (RUB)
Less than 200,000	500	375
200,000.01–450,000	1,000	750
450,000.01–1,200,000	2,000	1,500
1,200,000.01–2,500,000	5,500	4,125
2,500,000.01–5,000,000	7,500	5,625
5,000,000.01–10,000,000	20,000	15,000
More than 10,000,000.01	30,000	22,500

Source: <https://www.glavbukh.ru/art/97949-tamojenny-sbor-import-2019>.

the low tax burden of remote retailers from countries that actively stimulate their exports. At the same time, increasing the fiscal burden on imports through online stores should be a goal approached with caution, as higher prices due to higher taxes would have a negative impact on consumers, reducing their disposable income.

Most Russian purchases in foreign online stores are of relatively low-cost goods (the average declared value of an international parcel to the Russian recipient in 2018 was less than EUR 8 – see Table 1). Since consumers are turning to foreign online stores to save money, any attempt to tighten tax and customs control over imports in the field of e-commerce instead of increasing tax collections and protecting the domestic market from foreign competitors could lead to opposite results. In contrast to that, a large volume of mail at low customs tariffs will bring additional revenues to the budget. Therefore, it is necessary to increase the fiscal burden on consumers and operators of e-trade very carefully, and in some cases this should be completely avoided, taking advantage of the economies of scale from the growth of trade in goods through internet platforms with low taxes.

Another important problem with the participation of Russia in the cross-border e-trade in goods relates to the framework of the Eurasian Economic Union (EAEU). The difference in VAT

and excise rates between the EAEU countries could stimulate cross-border e-commerce but significantly distort tax revenues for the budgets of the member states, especially Russia.

For example, the excise duty on beer in Russia is twice the duty in the Republic

of Belarus, and almost two and a half times the duty in Kazakhstan (Table 3). In addition, there is a noticeable difference in the standard VAT rate, which in Russia and Belarus is 20 per cent, and in Kazakhstan only 12 per cent. Accordingly, beer ordered in Belarusian or (especially) Kazakhstani online stores delivered to the Russian consumer will, due to differences in national tax rates, be

significantly cheaper compared to the retail price in Russia.

The solution to this problem lies in the tax harmonisation (coordination) process in the EAEU. This process has already begun: from 1 January 2019 in the EAEU countries, a single customs tariff for imported parcels has been introduced (Pro2019god, 2019), and the harmonisation of VAT and excise duties is the next step.

Tax consequences for international e-commerce operations with electronic services and digital content in Russia

The main types of taxes and their rates in Russia in the implementation of

“Two main directions should be distinguished in contemporary cross-border e-commerce activity in Russia: transactions in tangible goods and transactions in digital goods and services.”

Table 3: Differences in level of excise duties on beer in Russia, Belarus and Kazakhstan (2018)

	Russia	Belarus	Kazakhstan
Excise duty per 1 litre of beer with a volume fraction of ethyl alcohol up to 7%	RUB 21	BYN 0.35 (RUB 10.9)	KZT 48 (RUB 8.6)

Sources: <http://znaybiz.ru/licenzirovanie/otdelnye-vidy-deatelnosti/akcizy/na-pivo.html#i-2>; <https://nalogikz.kz/taxcode/2018/51.html>; <https://www.gb.by/novosti/nalogi/kakie-stavki-aktsizov-deistvuyut-segodny>.

cross-border e-commerce with e-services and digital products are as follows:

1. Transactions in which a Russian remote seller delivers electronic services and digital products to a foreign buyer (consumer), both individual and corporate – B2C and B2B export transactions:
 - Russian profit tax of 20 per cent for the seller's income from sales of e-services and intangible products; and
 - VAT refund on export operations (excluding e-services and digital products initially exempt from VAT under Article 149 of the Russian Tax Code: medical intangible products and services, educational and financial e-services, licences and exclusive rights for software, data bases etc.).
2. Transactions in which a Russian buyer (consumer), both individual and corporate, receives e-services or digital products ordered online from a foreign seller – B2C and B2C import transactions:
 - VAT at the appropriate rates of 0, 10 or 20 per cent imposed on the foreign remote seller that has to be registered as a VAT payer (using corresponding tax accounting) in the Russian jurisdiction.

Currently, one of the serious tax problems in Russia for cross-border e-commerce in terms of trade in digital content is VAT levied on foreign exporters of electronic services and products, the so-called "Google tax". This tax has a clearly expressed fiscal orientation: after the introduction of the "Law of Google tax" in 2018, foreign internet companies in Russia paid RUB 12 billion VAT on sales of electronic content (digital products and services) to individuals (B2C segment), and the amount of VAT paid to the Russian budget after the appearance of the Law (1 January 2017) increased in 2018 by 28 per cent.⁵ "Electronic services" in accordance with Russian tax legislation include the transfer of rights to use programmes, advertising, website support, storage and the processing of information. At the same time, the definition of electronic services in the Russian legal field is blurred; many documents, including licences and technical contracts, come under the law. Therefore, due to the current uncertainty, large parts of Russian subsidiaries suspended payments for services to foreigners provided via electronic communication channels.

From 1 January 2019, the provisions of the Tax Code came into force, according to which foreign companies that remotely supply electronic services to Russia must pay VAT when working with corporate customers (B2B segment). The problem is that

even transactions related to the provision of cross-border electronic services within the same corporate structure fall under the Russian “Google tax”. In particular, the German company Siemens bears additional tax costs when working in the Russian market, a point emphasized by its representatives. In addition, many foreign companies delivering their digital products and services in Russia (including Cisco, IBM, Qiwi, Opera Software, Siemens and NokiaSolutions) via the mode of remote access from abroad had to register with the Federal Tax Service of Russia (FTS) to pay the “Google tax” (Vesti Ekonomika, 2019). Under the circumstances, transnational companies will be reluctant to establish subsidiaries in Russia, with a resulting loss in investment and technology transfer. Presumably the imposition of VAT on B2B services will reduce Russian firms’ access to new technologies.

In total, approximately 1,500 foreign companies that are suppliers of electronic services and products in Russia were registered with the FTS as “Google tax” payers by the end of spring 2018. The first 200 of these began paying the “Google tax” back in 2017 for selling online games, music, e-books and other digital content as B2C transactions. In the first year of the introduction of the “Google tax” (2017), the FTS managed to collect RUB 9.4 billion in VAT, and it collected RUB 12 billion in 2018 (Finmarket, 2019).

Tax administration issues in Russia related to cross-border e-commerce

The FTS and the Federal Customs Service of Russia have already created and are successfully testing fairly

effective automated systems for collecting taxes and customs duties in terms of cross-border e-commerce incomes and operations. In Russia, there are digital platforms on which the accounting of VAT revenues, the control of the movement of excisable goods and the payment of customs duties are built. In addition, special electronic algorithms are used to identify possible abuses by companies and individuals engaged in foreign economic activity.

There are also mechanisms for VAT compensation to exporters and even accounting for receipts in online stores. This prevents abuses in e-trade, making the sale of virtual content similar in its tax transparency to the sale of tangible goods. The future lies in the exchange of data between national specialized VAT and excise control systems, as well as their integration, especially within regional trade and economic communities such as the EAEU. This can be of serious help to the process of tax harmonisation (coordination), contributing to the convergence of tax base calculation methods and the equalization of tax rates and tax benefits.

In modern Russia, the regulator, which often used rather strict methods of tax administration and control during the initial stage of the national tax system formation (in the 1990s), including the demonstrative power to affect taxpayers, has now moved to cooperative methods of working with business and individuals. The FTS currently positions itself as a service structure that convinces businesses and individuals of the importance of the reputation of an honest taxpayer. The activities of the FTS are supported by advanced digital technologies, which on the one hand facilitate the payment

of taxes, including in the field of e-commerce, and on the other hand highlight the possibility of the rapid identification of unfair taxpayers.

Conclusion

Based on the above, we can draw the following conclusions:

- The rather modest share of e-commerce transactions in the total amount of foreign trade operations in Russia does not make e-trade fiscally attractive for the Russian budget. Moreover, the high positive dynamics of cross-border e-trade development and its significant share of internet trade transactions in Russia imply the need for caution in imposing substantial taxes on the sector.
- Two main directions should be distinguished in contemporary cross-border e-commerce activity in Russia: transactions in tangible goods and transactions in digital goods and services. In each case, tax implications will vary – customs duties and excise duties are more important for visible goods, while the VAT on imports is more important for e-services and digital products. This is also relevant to the global trends in e-trade.
- Russia has the necessary practical experience in the taxation of cross-border e-commerce transactions (for example, in terms of VAT collection from international e-trade transactions or via the concept of the friendly interaction of tax authorities, businesses and citizens, which is the basis of national tax policy), and this experience is a useful asset that can be utilized by other countries.

Endnotes

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² According to Statista's preliminary data for 2019, the value of the global business to business (B2B) e-commerce market (US\$ 12.2 trillion) is six times more that of the B2C market (Statista, 2019).

³ The World Bank (<https://data.worldbank.org/> indicator).

⁴ The law of the Russian Federation No. 244-FZ dated 3 July 2016 (Consultant, 2016) obliged from 1 January 2017 that VAT should be paid by foreign companies providing electronic services and selling digital content to buyers in Russia. Since the list of electronic services subject to VAT includes internet search engines, including Google, this law in Russia was unofficially named "the law of Google tax".

⁵ FTS: "Tax on Google" in 2018 brought in RUB 12 billion to the budget. Rambler, Finances, 8 February 2019, available at: <https://finance.rambler.ru/money/41679127-fns-nalog-na-google-v-2018-godu-prines-byudzhetu-12-mlrd-rublej/>.

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Comments



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The growth of e-trade in the past years has done more than revolutionize the way business is done around the globe. It eliminates distance-related barriers to trade increase, while it may also increase the digital divide between technologically advanced and less advanced countries with technological deficiencies. At the same time, it may serve as a tool for many developing countries to further engage in international trade by entering the online marketplace with a global increase in the number of internet users. Traditional tax systems need to be reviewed because the taxation issues of e-trade are more complex and demand new frameworks for fair taxation while at the same time allowing enough room for innovation. Russia, as

discussed in Chapter 8, is an interesting case because the country's budget suffers from tax losses reflected in the fact that despite the growing significance of e-trade as a portion of overall international trade, the fiscal effect of its taxation on national budgets is insignificant. This chapter suggests focusing on the stimulating role of taxes in international trade rather than on increasing the collection of taxes, whereby the emphasis on customs duties and excises is more important for visible goods, while for e-services and products, import VAT becomes more important. This line of thinking may be useful to consider for other countries in their effort to make their tax systems e-trade proof.

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