

TAX ADMINISTRATION OF E-COMMERCE BUSINESS IN HANOI

Assoc. Prof. Dr. Nguyen Thi Thanh Hieu

hieunt@neu.edu.vn

Faculty of Political Theory, National Economics University, Hanoi, Vietnam

MA. Doan Cao Minh

minhdc@gmail.com

Master's Student of National Economics University, Hanoi, Vietnam

Abstract

Due to the development trend of the digital economy, many business models and activities are carried out on e-commerce platforms. In recent years, the Hanoi Tax Department has had many solutions to tax administration of this business activity, so the tax revenue in 2020 will increase nearly 5 times compared to 2019. On the basis of the development of e-commerce in Hanoi and the results of tax administration in the e-commerce business of the Hanoi Tax Department in recent years, the authors propose recommendations to strengthen the tax administration of this sector in Hanoi in the coming time.

Keywords: *e-commerce, tax administration, the Hanoi Tax Department*

1. Introduction

In Vietnam, the trend of e-commerce business has been developing very strongly since 2010 with the emergence of many new types of e-commerce businesses. The development of e-commerce not only creates great benefits to the economy, but also brings many challenges in researching and promulgating policies to all of e-commerce activities.

There have been a number of studies on tax administration of e-commerce business. Typically, OECD (2001), *Taxation and Electronic Commerce - Implementing the Ottawa Taxation Framework Conditions*, recognizes that the mobility of e-commerce and its geographic sensitivity to tax differentials may exacerbate harmful tax competition. While a large number of web sites facilitating aggressive tax planning were identified, many of these appeared to be associated with a few promoting organisations, often based in tax havens. Most sites were physically located on servers in OECE Member countries, most likely due to bandwidth considerations and the availability of reliable telecommunication facilities. The ongoing development of e-commerce underlines the importance to all countries, both Member and non-member of curbing harmful tax competition.

According to Jing He (2015), *Chinese E-commerce Taxation*, China still lacks system e-commerce tax policy theory, so this blank makes a serious tax loss. Although China neither has a new e-commerce tax, the current tax system is still effective in B-B (business

to business) mode and B-C (business to consumer) mode because these two modes mainly calculate and collect taxes in accordance to the existing turnover tax rules. However, everyone seems to ignore the taxation of the most widely used e-commerce C-C (user to user) mode. The comprehensive implementation of e-invoices and the check of electronic account records will help the Chinese tax authorities to monitor all transactions in real time.

While other countries in the world have had a number of studies on tax administration of e-commerce, this topic is still quite new to Vietnam. The author of the thesis "State Administration of E-commerce Business " - Dao Anh Tuan (2017), from the assessment results of state administration of e-commerce in Vietnam in the 2006-2012 period, proposed solutions to improve the state administration in this section: (i) Building a national e-commerce development strategy (ii) Completing e-commerce policies (iii) Completing the law on e-commerce (iv) Strengthening e-commerce training (v) Strengthening e-commerce inspection and examination. It can be seen that studies in Vietnam have mentioned the contents of tax administration or e-commerce, but there are no complete studies on tax administration in the e-commerce sector of the country in general and in Hanoi in particular, especially in the context of online business activities growing strongly.

This article analyzes the current situation of tax administration of the e-commerce sector in Hanoi from 2015 to 2020 in order to find out the causes and propose science-based solutions to strengthen tax administration of e-commerce in Hanoi in the near future.

2. Method

The authors collected secondary data on e-commerce and tax administration of this sector in Hanoi from 2015 to 2020 from reputable organizations such as the Vietnam E-Commerce Association (VECOM), the Hanoi Tax Department, then used the methods of statistical analysis combined with data analysis and processing to assess the current situation of tax administration of e-commerce to analyze the causes and to propose the solutions for strengthening tax administration and avoiding the state budget shortfall.

3. Results

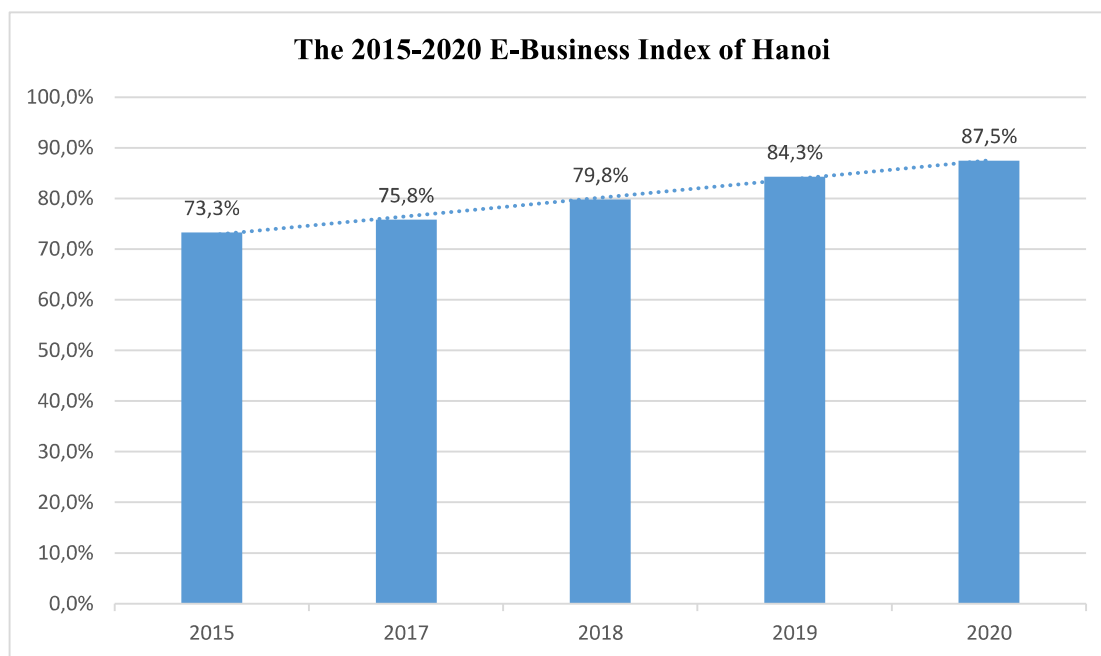
3.1. The growth of e-commerce in Hanoi

According to the report by Google, Temasek and Bain & Company, e-commerce growth in Vietnam was estimated at 46% in 2020. The total transaction value expected for 2020 was 14 billion USD, increasing by 16% over the same period last year. It is expected that the entire digital economy will be likely reach 52 billion USD in value by 2025.

Among 63 provinces and cities, Hanoi is considered one of the most dynamic e-commerce development markets. Over the years, Hanoi has always ranked second or more compared to the whole country in the E-Business Index (EBI).

In 2020, Hanoi ranked second with an aggregate score of 85.7 points, 1.4 points higher than the previous year. It is estimated that Hanoi and Ho Chi Minh City accounts for 70% of the national e-commerce scale. It can be seen that the scale of Vietnam's e-commerce market is still concentrated in these two largest economic centers, which have been ranked first and second in a row during the past years, having great differentials from other localities.

Figure 1: The 2015-2020 E-Business Index of Hanoi



Source: E-Business Index Report for recent years, Vietnam E-Commerce Association (VECOM)

75 percent of the total internet users in Hanoi have already made online purchases, increasing by 7% compared to that of 2019. 90 percent of the modern retailers, distributors; electricity, water, telecommunications service providers; and 25% of petrol stations have accepted cashless payments when buying or selling goods and services; up 5% compared to that of 2019.

3.2. Current situation of tax administration of e-commerce business in Hanoi

3.2.1. The organizational structure of Hanoi Tax Department

The Hanoi Tax Department has 3421 civil servants in total, which is divided into 24 divisions, 30 sub-departments and 312 tax administration teams.

It does not have a dedicated force of tax administration for individuals doing e-commerce business, which are naturally considered a type of household businesses monitored and managed by tax sub-departments (tax administration teams of communes,

wards or inter-communes). According to Section 9 of Decision No 245 / QĐ-TCT dated March 25th, 2019 defining the functions and tasks of the teams of the tax sub-department:

Tax administration teams of communes, wards or inter-communes help the Head of the Tax Sub-Department in tax administration and collection from organizations (if any), individuals paying taxes in the assigned communes and wards (*including household businesses of industrial, e-commerical and service sectors; or including households paying personal income tax, non-agricultural land use tax, agricultural land use tax, natural resource tax ...*); and in making tax estimation for those whose they manage.

3.2.2. Information assistance and giving advice to taxpayers

In order to prevent tax revenue loss in e-commerce business, since 2017, the Hanoi Tax Department has actively reviewed individuals doing business activities through social networks. The tax department has sent text messages to subscribers who have sales addresses on social networks with 13,000 messages. As a result, more than 2,000 traders on social networks have registered for tax filing.

Table 2: The activities of information provision and tax advice to taxpayers

Forms of information provision and support	2018	2019	2020
Number of training sessions / number of participants	120 /22,335	194 /83,074	65 /11,335
Number of emails sent to enterprises, taxpayers	36,952	38,278	18,545
Number of seminars with enterprises and taxpayers/ number of participants	23/4,211	35/7,069	35/3,156
Number of direct responses to enterprises and taxpayers	18,373	7,065	49,480
Number of accepted recommendations	173	95	174
Number of radio broadcast sessions	20,472	18,155	32,125
Number of television broadcast sessions	42	98	104
Number of published articles on tax	670	1,199	1,606

Source: The Hanoi Tax Department

In order to make organizations and individuals know and proactively fulfill their tax obligations, the Hanoi Tax Department also holds propaganda in various forms, helping taxpayers to grasp tax laws.

3.2.3. Administration in tax declaration and accounting

Tax registration of organizations doing e-commerce business has been complied with the Circular No. 95/2016/TT-BTC of the Vietnam Ministry of Finance about guidance in tax registration.

Specifically, the Hanoi Tax Department has issued an official letter instructing individuals doing e-commerce business to carry out tax registration procedures. Besides, a set of procedures to guide individuals doing e-commerce business has been posted on the website of the department; and displayed on the bulletin board at the one-stop shop so that the officers who are assigned to receive tax registration dossiers can pay attention, or give support and specific instructions on tax declaration to taxpayers.

In order to increase the tax administration efficiency for e-commerce business, on June 13, 2019, the National Assembly passed the Law No. 38/2019 / QH 14 on Tax Administration. This law officially has taken effect since July 1, 2020, mentioning e-commerce activities and the responsibilities of relevant agencies in implementing tax administration of e-commerce business. Specifically, the article 15 of the law regulates the coordination responsibilities between ministries and branches in tax administration of e-commerce business. Based on legal regulations and practical situations in the e-commerce sector, the Ministry of Finance has instructed tax offices to implement tax policies and tax administration which are suitable for each model and each type of e-commerce activities. The Tax Administration Law in 2019 also stipulates that e-commerce businesses must issue electronic invoices when selling goods and providing services. This is an important legal basis for tax offices to tighten the tax administration of e-commerce businesses.

The Hanoi Tax Department has continued to coordinate with relevant agencies to collect information from organizations and individuals directly involved in, or related to the management, provision and usage of internet services, online information and games...Through collaboration with relevant agencies, the Hanoi Tax Department identified, categorized and collected data of E-commerce businesses and individuals; then had specific administration measures for each group. Basically, there are 3 main groups: individuals doing business, selling goods on social networks; organizations and individuals providing applications and products on Google Play, Apple Store, YouTube ...; organizations providing or selling services (websites, sales applications, e-commerce platforms, house rentals via Agoda, Booking.com, Airbnb,...)

3.2.4. Administration of Tax Payment and Tax Debt

Based on the results of data collection, the Hanoi Tax Department regularly coordinates with credit institutions and network operators to obtain data on business activities. Since then, the Tax Department has mobilized individuals to proactively declare and pay taxes. As of December 2020, the tax department's data system has managed the revenues of individuals operating on Google, Facebook, YouTube ... Up to now, over 300 individuals have paid taxes. Along with that, the Hanoi Tax Department built a database of more than 2,000 rental addresses, over 31,200 stores with e-commerce business activities to perform tax administration. According to the Director of the Tax Sub-Department of Cau

Giay district - Le Quang Hung, an individual declared their income of 330 billion VND and paid more than 23 billion VND in tax; and another individual earning 260 billion VND paid over 18 billion VND in tax; in 2020, at the district, 65 individuals doing online business declared their earnings and paid 55 billion VND in taxes.

Besides, the Hanoi Tax Department is concurrently building data on individuals and organizations doing online sales activities through inspection and examination of businesses and coordination with relevant agencies to identify individuals and organizations doing this type of business. The tax office has initially identified 25 cases with the tax payment of 4 billion VND.

Regarding housing rental activities through e-commerce platforms such as Agoda, Booking.com, Airbnb ..., the Hanoi Tax Department collected information and identified the lessors, then built and analyzed data, guided businesses or individuals to fulfill their obligation of tax registration, declaration and payment. Up to now, the personal tax amount paid to the state budget is nearly 94 billion VND.

Table 3: Results of tax collection and payment of Hanoi Tax Department

Unit: billion

Indicators	2018	2019	2020
Total domestic revenue	219,286	252,179	267,585
Tax debt collection	6,368	9,230	13,227
E-commerce business tax	-	25	123

Source: The Hanoi Tax Department

According to the Hanoi Tax Department, the total tax revenue in 2019 and 2020 for individuals earning from e-commerce business activities (Google, Facebook, Youtube) is 148 billion VND (25 billion VND in 2019, and 123 billion VND in 2020 - up 492% compared to 2019).

3.2.5. Tax inspection and examination

The Hanoi Tax Department said that in some cases where the taxpayers had been notified, guided and supported but did not register, declare and pay taxes deliberately; the tax office would conduct an inspection, examine and penalty for tax evasion and tax fraud according to regulations. For individuals who do not comply with the inspection and examination decisions, the Tax Department will synthesize and transfer their dossiers to investigating agencies for prosecution in accordance with law.

3.3. Difficulties

Tax administration of e-commerce business has initially achieved certain results. According to financial experts, the scale of Vietnam's e-commerce market is forecasted to reach 10 billion USD, however the contribution of this sector to the state budget is limited.

Regarding tax registration:

The majority of individuals doing e-commerce business in Hanoi have not registered their business, making it difficult for state agencies to monitor, manage and identify these subjects. Tax registration of these individuals is a difficult issue to manage. Actually, at the moment, tax offices have only encouraged and propagated these individuals to do tax registration voluntarily; put them under the tax administration; and required them to do tax registration.

Regarding tax declaration and payment:

There are several problems in tax declaration and payment:

- It is difficult for organizations and individuals to do tax declaration, especially for those who do online selling and advertising through Google, Facebook, Zalo ... Some common types of tax evasion that such businesses as Google and Facebook often do are avoidance of tax declaration, incorrect value added tax return, avoidance of contractor tax declaration for services of some multinational companies operating in Hanoi.

- Some e-commerce activities have not been included in the list of adjusted business lines or the list of business lines that are difficult to determine their nature, which makes it difficult to determine the applicable tax policy; for example, high-tech ride-hailing service, "virtual" currency transactions, some activities such as doing business via online games, application rental for online advertising. These types of businesses have large revenue, but do not declare and pay enough taxes.

- The problem of determining revenue and income of e-commerce businesses is still complicated and difficult. Tracking and controlling the amount of goods, services and arising revenue of e-commerce activities is still difficult, mainly based on sales invoices and payment transactions via banks. Besides, it is difficult to require organizations and individuals doing online sales activities through social networks to declare and pay tax because it is difficult to manage goods transactions.

- Cash is still being used in the main payment process. If payments are made via banks, the bank accounts have not been registered with the tax offices, making it difficult to manage tax declarations and determine revenue of e-commerce businesses.

- Administration of tax collection is still difficult for cross-border e-commerce transactions, for example, in the case of online hotel or travel booking services, customers using these services often pay directly to an overseas enterprise, then this enterprise transfers money to hotels and accommodations ... so it is difficult to determine transactions, as well as revenue of these foreign enterprises to calculate and deduct tax.

Management of tax payer information:

One of specific characteristics of e-commerce is its large-scale of operation in the borderless internet environment whose transaction data can be changed, hidden or deleted easily. Thus, the management of taxpayer information for online sales is still a difficult issue. In fact, there have been millions of individuals and business households selling and exchanging goods on Facebook and other social networks, but the information of these organizations and individuals is not clear. Besides, their transactions are still in cash. They only use websites or social networks as a place to advertise...

Regarding tax inspection and examination: the inspection and examination methods of e-commerce activities are very different from the traditional methods, requiring tax officers having advanced knowledge of information technology and foreign languages besides the professional qualifications to trace transactions or extract historical data from these transactions as an evidence to fight against tax law violations...

3.4. Causes affecting the efficiency of tax policy implementation and tax administration in e-commerce sector

Objective reasons:

Firstly, cash is still the main means of payment in e-commerce business.

Secondly, because consumers rarely take the invoices when buying goods, stores and business households often do not issue invoices when selling goods to consumers via the Internet

Thirdly, the awareness of law observance of individuals selling goods on social media is still limited. The percentage of those who register and declare tax is still low.

Subjective reasons:

Firstly, the legal basis for tax collection management of new business forms in the e-commerce sector has not been synchronized and completed, lacking a general legal framework on virtual currency, electronic money and virtual properties.

Secondly, it is difficult to apply penalties against foreign enterprises operating social networking sites in Hanoi such as Facebook, Google+ or Instagram if these businesses do not actually register on the electronic trading floor in Hanoi or provide information about organizations and individuals selling goods on their sites at the request of competent state administrative agencies because their headquarters are based in foreign countries.

Thirdly, the tax office's database is incomplete. The reality of using information technology applications for tax administration in e-commerce activities shows that related applications such as TPH, KTDL, TPR, BCTC, Khaithueonline are independent applications which have not been connected closely to each other and met the requirements of tax administration in this sector.

Fourthly, there has not been a tax administration agency specializing in the e-commerce sector. Tax officials and civil servants have not been equipped with specialized skills and qualifications of tax administration in this sector.

Fifthly, the coordination with ministries and functional branches has not caught up with the management requirements of the tax offices in the e-commerce sector.

4. Discussion and Conclusion

4.1. Some solutions to strengthen tax administration of e-commerce business in Hanoi

Firstly, it is necessary to promote tax propaganda and assistance for taxpayers in the e-commerce business.

Taxpayers should be enabled to easily access the information on tax regulations and tax administrative procedures. The list of tax administrative procedures should be displayed publicly and transparently at the "one-stop shop" of the Hanoi Tax Department to shorten the time of solving tax administrative procedures for taxpayers.

Tax offices need to regularly carry out activities to support taxpayers such as deploying the "Companion Months" to support taxpayers; implementing new tax policies and answering questions of taxpayers in the years of tax finalization.

Moreover, tax offices should strengthen coordination with relevant agencies to implement propaganda and support for taxpayers well; organize training courses for enterprises, especially newly established enterprises; cooperate with industry associations or agencies to organize training sessions according to the needs and specific topics.

It is also important to coordinate with associations and centers in organizing seminars, dialogues with taxpayers and relaying information on tax policies, timely detecting problems and recommendations of taxpayers in each area and each sector to find the most efficient solutions to implement tax policies and administrative procedures in Hanoi.

Secondly, enhancing the management of tax payment and tax debt should be emphasized.

To manage taxes of e-commerce activities, the Hanoi Tax Department needs to classify groups to deploy appropriate and efficient solutions for the group of organizations and individuals providing applications and products on platforms such as Google Play, Apple Store, Youtube, etc. On the basis of this list, the Tax Department categorizes and invites individuals with large revenue to come to the tax office to propagate tax policies, provide tax codes, guide them through tax obligations and answer their questions about tax.

Regarding sales activities on websites and social networking sites:

- It is necessary to increase the dissemination of tax policies, provide guidance on how to calculate, declare and pay taxes for each group of taxpayers on newspapers, mass media, and information technology forums so that taxpayers who sell goods on the internet (on social networks such as Facebook, Instagram, Zalo; or on e-commerce trading floors such as Sendo, Lazada...; online auction floors like Hotdeal) can voluntarily fulfill their obligations of tax declaration. Tax offices need to collect information, determine the identity

of the lessors; then build, analyze data, and guide business individuals to fulfill their obligations to register, declare and pay taxes. Besides, the tax offices should publicize individuals who do not strictly comply with their tax declaration and payment obligations on the mass media; and warn taxpayers who commit tax evasion about penalties in accordance with the law.

- The tax department should continue to closely coordinate with relevant agencies and departments (Department of Industry and Trade; Department of Planning and Investment; Department of Public Security; Department of Information and Communication; Department of Culture, Sports and Tourism) and central agencies to strengthen the management, inspection and examination of organizations and individuals conducting e-commerce business in the locality.

- The tax department should cooperate with inspectors from the State Bank of Vietnam in providing account statements of organizations and individuals doing e-commerce activities and opening accounts at commercial banks in Vietnam or non-bank organizations licensed by the State Bank to provide intermediary payment services.

- The tax department should also requires enterprises providing freight services to organizations and individuals doing e-commerce business (delivery companies; postal and telecommunications companies...) to provide information on the quantity goods transported, the amount of payment or collection on behalf of their customers (if any).

4.2. Regarding e-commerce activities on online trading floors or applications through which goods trading activities are carried out. Using online platforms to manage and collect taxes on e-commerce would be feasible and cost-effective. Accordingly, online trading floors and applications will collect and store information of goods providers. Owners of e-commerce trading floors are responsible for notifying tax obligations to goods providers or income earners; and making tax deductions before paying income or revenue to the goods providers or income earners. It is also applied to foreign goods providers operating on Vietnamese online platforms, in which tax deductions are made in accordance with regulations on foreign contractor tax.

- Fixed transaction addresses and online activities of individual businesses are just to advertise to attract more customers. The individuals under the tax administration should update information about their online transactions to adjust the increased business revenue if appropriate. In case an individual business does not have a fixed location to transact with customers, but only has an online address and personal account number, and sells goods with door-to-door delivery; the tax office should coordinate with the network operators to determine the identity, bank account number, and delivery method of this individual to request them to declare personal income tax everytime it is incurred according to regulations.

- Regarding foreign organizations and individuals (foreign contractors) doing e-commerce activities with income generated in Hanoi: If the buyer of goods or service provider is an enterprise or cooperative established under the Vietnamese law, the purchaser is obliged to declare and deduct contractor tax to pay tax according to regulations. If the buyer or service provider is another organization or individual, the foreign contractor must declare and pay contractor tax on the provided goods and services. If the foreign contractor does not have a permanent establishment in Vietnam, it can declare and pay tax through tax agents. This principle is specified in the Article 42 of the Law on Tax Administration 2019.

Tax offices need to closely coordinate with relevant ministries and branches in tax administration of e-commerce activities, especially the Ministry of Planning and Investment, the Ministry of Industry and Trade, the State Bank, and the Ministry of Information and Communication in the mechanism to coordinate information of e-commerce businesses, payment and other information in order to implement tax management.

In addition, the mechanisms, policies, and management for various types and forms of e-commerce business on many borderless and rapidly developing platforms must be oriented, predictable, and comprehensive; and catch up with the development of e-commerce activities...

Thirdly, it is necessary to strengthen tax inspection and examination; and penalties for tax evasion.

In case the taxpayers receive notifications, guides and support of tax obligations; but still deliberately fail to register, declare and pay tax; the tax offices will have inspection, examination and penalties for tax evasion, tax fraud according to regulations. If these individuals still do not comply with the decision on inspection and examination, the tax department will summarize and transfer the dossier to the investigation agency for prosecution in accordance with the law.

In case the taxpayers avoid declaring or declare incorrectly their transaction value, received income from e-commerce transactions, the tax offices need to collect data, create a data warehouse and analyze the common tax evasions in e-commerce businesses for easy identification. In a rapidly changing market like e-commerce with increasingly sophisticated mechanisms of tax avoidance, it is necessary to build a system to analyze, monitor and collect information about development trend of e-commerce as well as revenue from this activity from related agencies.

Fourthly, it is important to strengthen training and coaching activities for skills in searching, exploiting and gathering information on the internet to identify tax non-compliance and tax evasion cases; organize training courses on the forms of e-commerce business, skills of business data inspection, analysis and recovery.

Besides, the tax offices should organize training courses for civil servants in charge of tax administration of e-commerce activities in order to equip them with knowledge of e-commerce, foreign languages, information technology and skills of inspection and examination on computers. To accomplish this goal, in the Tax Administration Program for E-commerce 2025, the tax offices should cooperate with the Ministry of Industry and Trade and the Ministry of Information and Communications to organize training courses to improve management capacity for officials working in the e-commerce sector.

In order to equip tax officials with important knowledge and to improve their skills of tax management for e-commerce activities, the General Department of Taxation needs to organize domestic and foreign training courses and seminars about e-commerce and skills of searching and tracking data...

Fifthly, the tax department should enhance the application of information technology in tax administration for e-commerce activities; build a database of taxpayers and tax declarations.

It is necessary to continue to promote the application of e-invoices in the activities of providing or selling goods and services; build a database of tax offices integrated with the databases of relevant ministries and functional sectors, especially those of the banking system and telecommunications providers, etc., as well as intergrate information from online trading floors, e-commerce websites, social networking sites to ensure sufficient information for tax management.

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