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Digital Firms can be a Taxing Problem for Govts

Yee Loong SUM

Singapore Management University, ylsum@smu.edu.sg

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By MOK FEI FEI

COMPANIES that do their business online are posing major challenges for governments when it comes to collecting tax.

Two accountancy experts, speaking at a seminar here yesterday, said these digital firms were transforming the nature of business transactions.

And the way these businesses are taxed could change fundamentally as governments grapple with these issues, they said.

The head of taxation at the Association of Chartered Certified Accountants (Acca), Mr Chas Roy-Chowdhury, said governments now have "a real will to do something" to close loopholes posed by such new businesses.

For example, an online company may declare that its source of profit is where the computer serv-

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Tax agencies face challenges from loopholes in how such businesses operate

er is located and choose to base its server in a country that imposes low corporate taxes.

But most of its revenue may be generated from another country with higher tax rates, causing the authorities there to miss out on tax revenue.

Also, the use of cloud computing and virtual servers makes it

difficult to pin down the location of the server.

This has prompted international bodies such as the Organisation for Economic Cooperation and Development, which sets global taxation benchmarks, to explore how income is defined for these new business models.

One option is for the authori-

ties to require companies to use software to track the locations of the points of sales for digital transactions, and tax their incomes accordingly.

But Mr Roy-Chowdhury acknowledges that putting that into practice will be difficult.

"There's a huge amount of complexity because then the company

will have to look through every transaction. It would be a sea change from the way that the current global tax system operates."

He also noted that high budget deficits suffered in many countries are increasing the pressure on governments to push for tax reforms in a bid to get more of the global tax revenue.

When that happens, companies, especially multinational corporations, could decide to shift operations to countries that have lower taxes and are more cost-efficient, such as Singapore.

Singapore Management University accounting professor Sum Yee Loong said he is aware of a number of companies that are seriously looking at relocating to Singapore with this rationale.

"The good thing about Singapore is it is very transparent and it does not condone artificial transactions," he pointed out.

The two tax experts spoke yesterday at a seminar on tax avoidance and information exchange, which was organised by Acca Singapore.

About 60 accounting professionals attended the seminar held at Marriott Hotel.

✉ feimok@sph.com.sg