

## **Executive Summary**

The most important use of the internet is in the world of e-commerce. Trade and commerce on the internet are doubling or tripling each and every year and in just a few years will be generating hundreds of billions of dollars in sales of goods and services. If an environment in which e-commerce can grow and flourish is established, then any computer can be a window to do business, big and small, at a location anywhere in the world.

With the supersonic-growing market of e-commerce, the tax regimes find themselves in a rather ambiguous position. Tax administrations could benefit from the new information technologies because such technologies will increase efficiency, opening up new possibilities to exchange information in a more timely and secure way, and improving the quality of their dealings with tax payers. At the same time, e-commerce with commercial transaction over open networks such as the internet, could also open new possibilities for large scale tax evasion and avoidance, endangering the country's tax revenue base.

Sri Lanka is now at a critical stage of declining trend of tax revenue to GDP ratio while heavier revenue demands are inevitable to meet commitments on the proposed strategic socio-economic development of the country. As such the question of effective taxation of e-commerce needs to be urgently addressed. Accordingly, the main purpose of this policy paper was to examine to what extent prevailing tax rules could be applied to e-commerce transactions in Sri Lanka or in the alternative whether new tax measures could be adopted based on global developments and the experiences of other nations.

This study was desk-based to the extent that it is based on existing domestic tax statutes, international principles of taxation reflected in current tax treaty provisions, relevant tax case law, and available literature relating to international taxation and e-commerce.

The policy paper suggested that the adoption of the 'Equalization Levy' under domestic tax laws of Sri Lanka based on the Indian model would be a feasible solution to address tax challenges arising from the digital economy. Also it proposed that the multidisciplinary Committee be appointed at the national level to examine in detail questions relating to effective taxation of e-commerce having regard to the projected growth of e-commerce business in Sri Lanka and the possibility of using revolutionary technology itself to search for better ways of addressing identified challenges.