



Solutions to Prevent Tax Loss from E-commerce Activities in Vietnam

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Abstract: This research focuses on solutions to prevent tax loss from e-commerce activities in Vietnam. The study identifies challenges faced by tax authorities, such as identification issues and difficulties in monitoring transactions. The proposed solutions include enhancing awareness and education, simplifying tax regulations, strengthening monitoring and enforcement, promoting collaboration and international cooperation, and encouraging digital payment systems. Implementing these solutions can mitigate tax loss, foster compliance, and create a conducive environment for the growth of the e-commerce sector in Vietnam while contributing to tax revenue.

Keywords: e-commerce, e-commerce tax, Vietnam

1. Introduction

The rapid growth of e-commerce globally has revolutionized the way businesses operate and how consumers engage in economic transactions [1]. In Vietnam, e-commerce has witnessed significant growth in recent years, becoming an integral part of the economy. While e-commerce brings numerous benefits, it also poses challenges to tax authorities in collecting taxes effectively [2].

E-commerce tax refers to the taxation of online transactions, including sales, services, and digital goods [3]. It is crucial for governments to collect taxes from e-commerce activities to ensure fairness, create a level playing field for traditional businesses, and generate revenue for public services and infrastructure development.

Collecting taxes from e-commerce activities is vital for several reasons. First, it ensures a fair and equitable tax system, where all businesses contribute their fair share. E-commerce companies, often operating solely online, may have lower overhead costs compared to traditional businesses, giving them a competitive advantage. Taxing e-commerce activities levels the playing field and avoids creating unfair advantages for online retailers [4]. Second, e-commerce tax plays a significant role in revenue generation for governments. As e-commerce continues to grow and traditional retail faces challenges, governments must adapt tax collection methods to capture revenue from online transactions. Failure to collect taxes from e-commerce activities can result in substantial revenue losses, negatively impacting public services and infrastructure development [5].

In Vietnam, the growth of e-commerce has presented challenges for tax authorities in effectively collecting taxes. The current tax system was primarily designed for traditional businesses, and it struggles to keep up with the dynamic nature of e-commerce. The tax regulations and procedures have not been adequately adapted to address the specific challenges posed by e-commerce activities. The tax loss resulting from e-commerce activities in Vietnam is a growing concern. Many e-commerce

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businesses, particularly smaller ones, may not fully understand their tax obligations or intentionally evade taxes. The absence of a robust tax collection framework for e-commerce exacerbates the problem, making it difficult for tax authorities to effectively monitor and enforce compliance.

Several studies have explored the challenges and implications of e-commerce tax collection in Vietnam. For instance, a study conducted by Nguyen & Nguyen [6] focused on the tax challenges faced by small and medium-sized enterprises (SMEs) engaged in e-commerce. The research highlighted the lack of awareness and understanding of tax obligations among SMEs, leading to tax evasion and loss of revenue. Another study by Tran et al. [7] examined the impact of cross-border e-commerce on tax collection in Vietnam. The research identified the complexities and difficulties faced by tax authorities in monitoring and collecting taxes from cross-border e-commerce transactions. The study highlighted the need for improved coordination and collaboration among tax authorities and other relevant stakeholders to address tax evasion in cross-border e-commerce.

Despite the existing studies on e-commerce tax collection in Vietnam, there is still a research gap that needs to be addressed. While some studies have explored the challenges faced by tax authorities and businesses, there is a lack of comprehensive research focusing on exploring potential solutions to prevent tax loss from e-commerce activities in Vietnam. This research proposal aims to fill this gap by proposing effective strategies and measures to mitigate tax loss and enhance tax compliance in the e-commerce sector.

2. Method

The methodology employed in this study involves a comprehensive review of existing literature, including academic papers, government reports, and industry publications, to identify the key issues and challenges related to tax loss from e-commerce activities in Vietnam. Various sources such as online databases, government websites, and academic journals are consulted to gather relevant information on the topic.

Additionally, interviews or surveys may be conducted with tax experts, government officials, and e-commerce industry stakeholders to gather insights and perspectives on the issue. These qualitative data collection methods help provide a deeper understanding of the challenges faced and potential solutions proposed by experts in the field.

Furthermore, comparative analysis with tax regulations and practices in other countries or regions may be conducted to identify best practices and lessons learned that could be applied to the Vietnamese context.

Overall, this study employs a mixed-method approach combining literature review, qualitative interviews or surveys, and comparative analysis to explore solutions to prevent tax loss from e-commerce activities in Vietnam.

3. Factors Causing Tax Revenue Loss

Tax loss in e-commerce activities in Vietnam can be attributed to several interconnected factors. These factors contribute to the challenges faced by tax authorities in effectively collecting taxes from online transactions.

3.1. Lack of Awareness and Understanding

One significant factor contributing to tax loss in e-commerce activities is the lack of awareness and understanding among e-commerce businesses and individuals regarding their tax obligations [23]. Many small and medium-sized enterprises engaged in e-commerce may not fully comprehend the tax regulations specific to online transactions. This lack of awareness can lead to unintentional non-compliance or even intentional tax evasion.

For example, a small online retailer selling handmade products on social media platforms may not be aware of the tax obligations associated with their sales. They might

not realize that they need to register with the tax authorities, issue invoices, and pay taxes on their income. As a result, their transactions might go unreported, leading to tax loss.

3.2. Complexity of Tax Regulations

The complexity of tax regulations is another factor contributing to tax loss in e-commerce activities. The existing tax system in Vietnam was primarily designed for traditional businesses, making it challenging to adapt to the dynamic nature of e-commerce [8]. This complexity can confuse e-commerce businesses and individuals, leading to non-compliance or errors in tax reporting.

For instance, cross-border e-commerce transactions often involve complexities related to customs duties, value-added tax (VAT), and transfer pricing. The diversity of e-commerce business models, such as dropshipping or online marketplaces, further complicates the tax treatment. These complexities can result in misunderstandings or intentional manipulation of tax regulations, leading to tax loss.

3.3. Limited Enforcement and Monitoring

The limited enforcement and monitoring capabilities of tax authorities also contribute to tax loss in e-commerce activities. The rapid growth of online transactions presents challenges for tax authorities to effectively track and identify non-compliant businesses. The vast number of e-commerce sellers and the ease of setting up online shops make it difficult to ensure compliance [9].

For example, tax authorities may struggle to monitor and identify individuals or businesses operating under multiple online identities to evade taxes. These entities may frequently change their online presence, making it harder for tax authorities to trace their activities and enforce tax compliance.

3.4. Cross-border E-commerce Challenges

Cross-border e-commerce presents specific challenges in tax collection, contributing to tax loss [10]. With the rise of global online marketplaces and the ease of international shipping, individuals and businesses can engage in cross-border transactions, often bypassing tax obligations.

For instance, a consumer in Vietnam might purchase a high-value electronic device from an overseas seller through a cross-border e-commerce platform. If the seller fails to comply with tax regulations, such as declaring the import value or paying customs duties, tax authorities in Vietnam may struggle to collect the appropriate taxes on the transaction, resulting in tax loss.

3.5. Technological Advancements and Digital Economy

The rapid development of technology and the growth of the digital economy present additional challenges for tax authorities in collecting taxes from e-commerce activities. Innovative business models, such as sharing economy platforms or digital services, often operate across borders, making it difficult to determine the appropriate tax jurisdiction and enforce tax compliance [11].

For example, ride-hailing platforms that operate in Vietnam may face challenges in determining the taxable income generated by their drivers, as the income is often earned through digital transactions and may involve international payment processors. This complexity can create opportunities for tax loss if adequate mechanisms are not in place to capture and tax such transactions effectively.

4. Challenges that tax authorities face in collecting taxes from e-commerce transactions

Recently, e-commerce in Vietnam has made significant developments because of the

great benefits that this activity brings. According to a report from the Ministry of Industry and Trade, e-commerce revenue in Vietnam in 2023 is estimated to reach 23.7 billion USD, an increase of 16% compared to 2022 and accounting for 6.5% of total retail revenue in the country. However, compared to the huge income and revenue, the amount of tax paid to the state budget from the e-commerce business is not commensurate with the development potential, causing a loss of state budget revenue. Furthermore, this is causing inequality among business people.

The newly released report from the General Department of Taxation said that the E-commerce Information Portal has so far recorded 333 e-commerce trading floors providing information, of which many have a large market share such as Shopee, Lazada, Sendo, Voso, and Tiki. Specifically, according to information provided by the trading floors, in the fourth quarter of 2022, there were 159,218 individuals and 31,882 organizations with business activities on e-commerce trading floors, with 50.7 million transactions and total transaction value. reached 15,272 billion VND. In the first quarter of 2023, there were 64,327 individuals and 22,840 business organizations on the e-commerce trading floor, with 9 billion transactions and a total transaction value of 11,478 billion VND.

On average, in the fourth quarter of 2022, the transaction value of an order will reach more than 301,000 VND. However, in the first quarter of 2023, the number of transactions increased 177 times but the average transaction value decreased more than 300 times, to only about 1,200 VND/order. This number strikes many experts as unusual. Currently, individuals and organizations selling on e-commerce platforms use tools to increase transactions as an advertising tactic. In addition, sellers also show signs of reducing revenue to reduce the amount of tax payable.

There are many difficulties in tax administration. Tax authorities face several challenges in effectively collecting taxes from e-commerce transactions. These challenges arise due to the unique characteristics of online transactions, the evolving nature of e-commerce platforms, and the difficulties in monitoring and enforcing tax compliance.

4.1. Identification and Registration

One significant challenge for tax authorities is identifying and registering e-commerce businesses and individuals for tax purposes. Unlike traditional brick-and-mortar businesses, online sellers can operate under various identities, making it difficult to track and establish their tax obligations [12].

For example, an individual selling handmade jewelry on multiple online platforms may use different usernames or accounts, making it challenging for tax authorities to identify and register them. This lack of identification and registration hampers tax compliance and results in tax loss.

4.2. Monitoring Transactions

Monitoring online transactions presents a significant challenge for tax authorities. The volume and speed of e-commerce transactions make it difficult to track and assess tax liabilities accurately [13]. Additionally, the diversity of e-commerce platforms, including online marketplaces or social media platforms, adds complexity to monitoring efforts.

For instance, consider a fashion retailer selling products on an online marketplace. The tax authorities need to monitor the sales transactions, assess the taxable income, and ensure tax compliance. However, with numerous transactions occurring simultaneously on the platform, monitoring and tracking specific sellers become challenging, resulting in potential tax loss.

4.3. Lack of Transaction Data

Another challenge faced by tax authorities is the limited access to comprehensive transaction data in e-commerce activities. It can be challenging to obtain complete and accurate information about online sales, especially when transactions are conducted across multiple platforms or involve cross-border transactions [14].

For example, an individual selling products through social media platforms may not maintain detailed records of their sales, making it difficult for tax authorities to verify the income and assess the appropriate taxes owed. This lack of transaction data hinders tax collection efforts and contributes to tax loss.

4.4. Jurisdictional Issues

Tax authorities face jurisdictional challenges when collecting taxes from e-commerce transactions, particularly in the context of cross-border sales. The sector, especially in nations like China, lacks clear management principles, which contributes to the complexity of the situation. Other elements that contribute to the complexity include tax rebate settlement issues, payment risks, inefficient customs clearance, complicated monitoring and supervision, and skill shortages [15]. E-commerce operations across borders are further complicated by problems including language hurdles, cultural variances, and variations in customer behavior [16].

Determining the appropriate tax jurisdiction for international e-commerce transactions and enforcing tax compliance becomes complex. Numerous studies have emphasized the difficulty in applying Value Added Tax (VAT) to electronic commerce transactions. These studies emphasize that e-commerce is non-territorial, which poses issues for tax systems that must adjust to this new digital world [17]. With questions about taxable revenue and the efficacy of tax laws, tax authorities throughout the world are finding it difficult to enforce tax compliance among e-commerce businesses [18]. Higher requirements for monitoring and enforcement are also required because of the cross-border and hidden nature of e-commerce transactions, which makes government oversight more and more important [19].

The legal and regulatory frameworks are crucial in the field of cross-border e-commerce. Businesses that operate in complete pilot regions for cross-border e-commerce, for example, are able to take advantage of favorable tax rules and support services offered by local governments [20]. But tax authorities find it difficult to adjust to the digitization of trade, especially in places like Nigeria where e-commerce tax laws are changing in tandem with technology [21].

A consumer in Vietnam purchasing a digital subscription from a foreign provider may face challenges in determining the applicable VAT or other taxes. Tax authorities must navigate international tax agreements, digital service tax regulations, and the challenges of enforcing compliance on foreign entities to collect taxes effectively.

4.5. Rapid Technological Advancements

The rapid pace of technological advancements poses a challenge for tax authorities in keeping up with evolving e-commerce models and platforms. Innovative business models, such as sharing economy platforms or decentralized marketplaces, present unique tax collection challenges that require constant adaptation and updating of tax regulations [3].

For example, ride-hailing platforms connecting drivers and passengers through mobile applications operate in a digital ecosystem that may not fit traditional tax frameworks. Tax authorities must ensure that the income generated by drivers is properly reported and taxed, despite the complexities of digital transactions and international payment processors.

5. Some solutions to prevent tax loss from e-commerce activities in Vietnam

To prevent tax loss from e-commerce activities in Vietnam, several effective solutions can be implemented. These solutions address the specific challenges faced by tax authorities and promote tax compliance among e-commerce businesses.

5.1. Enhancing Awareness and Education

Improving awareness and education among e-commerce businesses and individuals regarding their tax obligations is crucial. This can be achieved through targeted campaigns, workshops, and online resources to educate e-commerce stakeholders about tax regulations, registration processes, and reporting requirements.

For example, tax authorities can collaborate with industry associations or e-commerce platforms to provide educational materials and training sessions for online sellers. They can offer guidance on tax obligations, record-keeping practices, and the consequences of non-compliance. This approach ensures that e-commerce businesses have a clear understanding of their tax responsibilities, reducing unintentional non-compliance and tax loss.

5.2. Simplifying Tax Regulations

Simplifying tax regulations specific to e-commerce activities can help reduce complexity and promote tax compliance. Streamlining tax rules and procedures for online transactions can make it easier for e-commerce businesses to understand and fulfill their tax obligations.

For instance, tax authorities can introduce simplified tax regimes or frameworks tailored to the unique characteristics of e-commerce. They can consider adopting simplified registration processes, standardized tax reporting templates, and clear guidelines for determining the tax liabilities of different e-commerce business models. By simplifying tax regulations, businesses are more likely to comply, reducing tax loss.

5.3. Strengthening Monitoring and Enforcement

Enhancing monitoring and enforcement capabilities is vital to prevent tax loss from e-commerce activities. Tax authorities should invest in advanced technologies and data analytics tools to effectively track and identify non-compliant businesses in the digital realm.

For example, implementing robust data analytics systems can help identify patterns of non-compliance, detect suspicious activities, and target high-risk e-commerce sectors or platforms. Real-time monitoring of online transactions, combined with data sharing agreements with e-commerce platforms, can enable tax authorities to identify sellers who evade taxes or operate under multiple identities. Strengthening enforcement efforts sends a clear message that tax non-compliance will be detected and penalized, discouraging tax loss.

5.4. Collaboration and International Cooperation

Collaboration and international cooperation are crucial in preventing tax loss from cross-border e-commerce activities. Tax authorities in Vietnam should collaborate with their counterparts in other countries to address the challenges of collecting taxes on international online transactions.

For example, Vietnam can engage in information exchange agreements and joint enforcement efforts with countries hosting major e-commerce platforms or where significant cross-border transactions occur. By sharing data and coordinating efforts, tax authorities can track cross-border transactions more effectively and ensure that taxes are properly collected. International cooperation also helps in resolving jurisdictional issues

and harmonizing tax rules for cross-border e-commerce, reducing tax loss.

5.5. Promoting Digital Payment Systems and Electronic Invoicing

Promoting the use of digital payment systems and electronic invoicing can contribute to tax compliance in e-commerce. Encouraging businesses and customers to use digital payment methods facilitates the tracking and recording of transactions, minimizing the chances of underreporting or non-reporting.

For example, tax authorities can partner with financial institutions and e-commerce platforms to promote secure and reliable digital payment options. They can also incentivize the use of electronic invoicing by offering benefits such as faster processing or simplified tax reporting for businesses that adopt this practice. These initiatives improve transparency, reduce cash-based transactions, and enhance tax compliance.

6. Conclusion

Preventing tax loss from e-commerce activities in Vietnam requires a comprehensive approach that addresses the specific challenges faced by tax authorities and promotes tax compliance among e-commerce businesses. The study identifies several effective solutions, including enhancing awareness and education, simplifying tax regulations, strengthening monitoring and enforcement, promoting collaboration and international cooperation, and encouraging digital payment systems and electronic invoicing. By implementing these solutions, Vietnam can mitigate tax loss, ensure fair tax collection, and create a favorable environment for e-commerce businesses to thrive while contributing to the country's tax revenue. These solutions not only safeguard the integrity of the tax system but also foster trust among businesses, customers, and the government, ultimately supporting the sustainable growth of the e-commerce sector in Vietnam.

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