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Article

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A Practical Method in Taxing E-commerce Transactions via Payment Gateway: The Role of Payment Service Providers

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ABSTRACT

Purpose: This study aims to propose a potential tax model for taxing e-commerce transactions in Malaysia. **Design/methodology/approach:** A qualitative approach was employed in this study to unravel methods for taxing e-commerce transactions in Malaysia by interviewing key policymakers, tax authorities, and tax practitioner representatives.

Findings: The findings revealed that the Malaysian government should deploy the Payment Service Providers (PSP) Tax Model to tax e-commerce transactions effectively, particularly in the Malaysian e-commerce market. This study suggests that reintroducing the Goods and Services Tax, amending and empowering the Income Tax Act 1967, and enhancing data sharing between government agencies are essential to facilitate the trail of e-commerce transactions and the taxation process.

Research limitations/implications: This study proposes a tax model that can be implemented to tax e-commerce transactions in Malaysia, as Malaysia must establish collection methods to ensure the viability and sustainability of national income. Nevertheless, this study is limited by methodology, timing and scope. Therefore, future studies are suggested to:- i) obtain information from the payment service providers to gain a broader perspective on the proposed tax model to ensure its successful implementation and ii) evaluate the PSP Tax Model and provide a comprehensive view of its viability and feasibility.

Originality/value: This study contributes significantly to authorities and policymakers by identifying tax methods for e-commerce taxation to aid them in effectively taxing e-commerce transactions, thereby increasing the country's tax revenue.

Keywords: E-commerce transactions, E-commerce taxation, Maxims of taxation, Payment service providers, Tax model

I. Introduction

The world today is embracing e-commerce (Turban

et al., 2017), as per Drucker's (2003) predictions that the way of conducting business would be profoundly affected by e-commerce. With e-commerce, customers have an easier shopping experience, more competitive pricing, time efficiency, and diverse product selection (Simanjuntak & Musyifah, 2016; Park, 2018; Tran & Vu, 2019). Besides, online platforms have significantly contributed to the advancement of e-commerce due

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to multinational enterprises (Li, 2000) and numerous smaller businesses, which have access to millions of consumers in the global marketplace (Scarcella, 2020). The consumer-to-consumer (C2C) e-commerce is experiencing dynamic growth (Wang, 2021) alongside the business-to-business (B2B) and businessto-consumer (B2C) e-commerce.

The changes in customers' shopping preferences toward online shopping and the COVID-19 pandemic crisis have significantly contributed to the rise of e-commerce globally (Dutta et al., 2020; Hwang, 2022). In addition, e-commerce has also benefitted from the Industrial Revolution 4.0 (IR4.0). The IR4.0 involves an advanced variety of technologies, namely the Internet of Things-enabled technology, cyber-physical systems, cloud computing, big data analytics, augmented reality, and advanced automation that is continuously transforming the markets (Dalenogare et al., 2018; Eden, 2018; Frank et al., 2019; Vaidya, 2018).

The Malaysian e-commerce income grew exponentially from RM398.2 billion in 2015 to RM1.15 trillion in 2022 (Department of Statistics Malaysia [DOSM], 2017, 2023). Undeniably, the rise in ecommerce sales and widespread acceptance of online shopping have fostered the growth of Malaysia's e-commerce market.

Furthermore, the strong embrace of e-commerce among Malaysians is due to high Internet penetration, young millennials' lifestyles, the impact of COVID-19, and the modern Internet infrastructure offered by the Malaysian government (Australian Trade and Investment Commission [AUSTRADE], 2020; GlobalData, 2020; Bernama, 2021a). Bernama (2021a) reported that COVID-19 forced many small and medium enterprises (SMEs), such as grocers, merchants, restaurants, and supermarket chains, to operate online. The shift to online platforms provided these entrepreneurs with a larger market to sell their offerings, thereby increasing their sales and expanding their businesses. Consequently, e-commerce establishments in the country skyrocketed from approximately 47,556 in 2015 to 625,000 in 2021 (Bernama, 2021b; DOSM, 2017).

The evolution of business from brick-and-mortar mediums to online platforms has disrupted the practice of conducting commercial transactions and collecting taxes on these transactions. Taxing conventional business operations is simpler than more complicated e-commerce activities. The permanent establishment issues are the root of e-commerce challenges faced by tax authorities worldwide. Existing tax regulations were designed for traditional companies with an easily identifiable physical presence (Harpaz, 2014). Nevertheless, the lack of requirements for permanent establishment opens opportunities for tax avoidance among e-commerce players (Yapar et al., 2015).

Taxing e-commerce activities is also challenging due to the disruptive technology era, borderless commerce, tax jurisdiction, tax competition, automated transactions, confidentiality, and digital convergence (Nadeem & Saxena, 2018; Tambunan & Rosdiana, 2020; Ward & Sipior, 2004). Consequently, e-commerce players strategically allocate transactions to jurisdictions that offer the most tax advantage, such as low-tax and zero-tax countries, to avoid paying taxes and save money (Argilés-Bosch et al., 2020; Azam, 2007).

Unfortunately, countries such as Canada and New Zealand experience substantial income declines due to the failure to impose tax e-commerce transactions (Agrawal & Fox, 2016; Abdul-Jalil Hamdan, 2019). It is also reported that the substantial tax loss in Malaysia's digital economy is B2C (Kaur, 2019; Mahalingam, 2017).

Regarding C2C transactions, one challenge taxing e-commerce is that online sellers frequently use various names and nicknames or remain anonymous when conducting transactions with customers. Palil et al. (2020) asserted that tax authorities face difficulties in identifying the e-commerce actors due to the lack of online sellers' information, inaccurate information, and flaws in collecting information. It is also challenging to trace e-commerce transactions when payment transactions are made using a cash deposit machine. Additionally, online sellers also believed that the Inland Revenue Board of Malaysia (IRBM) would have difficulties detecting e-commerce transactions, and they perceive a low likelihood of being caught for not declaring taxes was low (Abd Hamid et al. 2019a; Yeo et al. 2019).

Furthermore, the requirement for online sellers to register themselves, for instance, in online marketplaces, does not require them to furnish tax identification numbers (TIN). Instead, the required information is, for example, store name, phone number, email, or identity card numbers (IC). In Malaysia, the TIN is the medium to trace and track taxpavers rather than the IC. This situation allows the e-commerce actors to continue online businesses through social media platforms or online marketplaces without being taxed. Consequently, this situation leads to tax injustice for traditional business taxpayers, as individuals should be taxed fairly based on their income. This notion aligns with the maxims of taxation theory by Adam Smith under the principle of equity and fairness (Smith, 1776; Butler, 2007).

With the flourishing number of online sellers nationwide, a crucial need exists to identify a potential method to tax e-commerce transactions to ensure national income's viability, as tax revenue contributes more than 70% of Malaysia's national income (Ministry of Finance [MOF], 2021). They potentially earn e-commerce income above the taxable income bracket but do not declare their income due to reasons such as lack of tax awareness and education and purposely evading tax.

In order to estimate the potential tax revenue loss to the country, this study used the following formula to forecast the potential revenue loss to the country: (Amount of e-commerce income/number of online sellers) x 3% individual tax rate (as an example). The total e-commerce income generated in 2022 was RM1.15 trillion (DOSM, 2023). Based on a survey conducted by the Malaysian Communications and Multimedia Commission [MCMC] (2022), the estimated number of online sellers in the country was 4,998,700 people in 2022, thus; the projection of tax revenue loss from an individual online seller is (RM1.15 trillion/4,998,700 people) x 3% = RM6,901.79. This value indicates that the potential of uncollected e-commerce tax of an individual online

seller is RM6,901.79.

Therefore, this study proposes a potential tax model for taxing e-commerce transactions in Malaysia to reduce tax leakages from e-commerce activities. This study also strives to assess the benefits and limitations of the proposed tax model and evaluate the model per Smith's (1776) four maxims of taxation. This study focuses on local individuals selling goods using online platforms instead of business entities. Registered business entities are more aware of their responsibilities to adhere to regulations set by the Companies Commission of Malaysia (CCM) and the IRBM when doing business. They face penalties under Section 259(1) of the Companies Act 2016 and Section 112 of the Income Tax Act (ITA) 1967 for the failure to submit annual returns to CCM and IRBM.

This study adds to the scarce literature on the methods for taxing e-commerce transactions. Numerous research discussing the issue of taxing e-commerce, including taxation enforcement, tax compliance among online traders, problems, and challenges associated with the impact of e-commerce on the tax system, have been undertaken (Abd Hamid et al., 2019b; Ghani et al., 2021; Jones & Basu, 2002; Kirti & Namrata, 2014; Mansor et al., 2019; Mohd Hanefah et al., 2008; Othman & Mohd Hanefah, 2006; Palil, 2004; Palil et al., 2020; Prawira et al., 2020; Scarcella, 2020; Yapar et al., 2015). Nevertheless, to the best of the researcher's knowledge, the potential tax method for taxing e-commerce transactions, from the Malaysian perspective, has been limitedly explored.

This study contributes significantly to research and practical applications. This study contributes to the previous literature by exploring methods for taxing e-commerce transactions within the Malaysian context. The findings hold practical relevance for other countries, particularly developing nations such as those in ASEAN countries, due to the similarities in culture, population distribution, income levels, and education levels. From the theoretical perspective, this study extends the literature on e-commerce taxation by analyzing the recommended tax model according to Adam Smith's maxims of taxation. The tax model will help ensure the viability and sustainability of national income, fostering better development and well-being for the country.

II. Literature Review

A. E-commerce Performance Worldwide

E-commerce can be defined as performing commercial activities, trading, marketing, producing, and distributing goods or services by electronic means using any computer network, specifically the Internet (World Trade Organization n.d.; Zekos, 2003). Globally, the e-commerce market continues to evolve and grow steadily in developed and developing countries (Deloitte, 2015). Koigi (2024) stated that the market value of the global e-commerce market in 2022 was USD18.98 trillion, with a forecasted rise to USD47.73 trillion by 2030. Conversely, with a focus on C2C e-commerce performance, as Polaris Market Research (2024) reported, the C2C e-commerce market share is anticipated to reach USD11,216.30 billion by 2023. Currently, the C2C e-commerce market is dominated by China (Yltävä, 2023).

B. E-commerce Evolution in Malaysia

In Malaysia, Ghani et al. (2021) noted that e-commerce business culture has pervaded Malaysian society since 2016. Statista Research Department (2023) forecasts that this figure will reach 19.64 million in 2027. Among the prominent online marketplaces in Malaysia are 11th Street.my, Alibaba.com, Amazon.com, Carlist.my, Carousell Malaysia, eBay.com, Fashionvalet, Fave by Groupon, Gemfive.com, Hermo, Lazada, Lelong.my, Mudah. com, Qoo10, Shopee, Taobao.com, and Zalora (US International Trade Administration, 2021). Statista revealed that the top three e-commerce sites in Malaysia are Shopee, PG Mall, and Lazada (Statista Research Department, 2022).

The e-commerce businesses' excellent performance in generating income, as recorded by DOSM, exhibited an upward trend over a six-year duration from 2017 until 2022. With a revenue of RM447.8 billion in 2017, the value almost doubled in 2020 to RM896.4 billion (DOSM, 2021). Remarkably, in 2021 and 2022, e-commerce earned more than RM1 trillion in revenue (DOSM, 2023). Figure 1 exhibits the e-commerce income earned in Malaysia from 2017 to 2022.

C. E-commerce Tax in Malaysia and Worldwide

In 1998, the Organisation for Economic Cooperation and Development (OECD) developed the e-commerce tax model, notably the Ottawa Taxation Framework Conditions (OTFC), by emphasizing the fundamental principles countries should follow when taxing e-commerce transactions (OECD, 2001). The OTFC is a benchmark for taxing e-commerce in Malaysia and other nations globally. In Malaysia, the IRBM is the central authority responsible for direct taxes, while the Royal Malaysian Customs Department (RMCD) administers indirect taxes. Malaysia's most substantial revenue is from taxes.



Figure 1. E-commerce Income from 2017 to 2022

The MOF (2021) revealed that Malaysia earned 73.2% of tax revenue in 2021 and 2022, indicating a rise of 4.7% from 2020.

Malaysia does not have a specific clause under ITA 1967 concerning e-commerce activities (Sidik, 2021). Generally, under direct taxes in Malaysia, businesses are taxed under Sections 3, 4(a), and 4(A) of the ITA 1967. Section 3 of the Act specifies that income generated by any individual, whether accrued in or derived from Malaysia or any foreign income received in Malaysia, is taxable. The same scope applies to e-commerce businesses. Section 4(a) of the ITA 1967 governs the scope of tax liability for e-commerce businesses.

If a permanent establishment cannot be established, or a firm lacks a presence in Malaysia, the applicability of taxes may be determined by Section 4(A) (special classes of income) of the ITA 1967 under specific circumstances:

- (i) The government, a state government, or a local authority is responsible for the payment.
- (ii) An individual who resides in Malaysia for this base year is responsible for payment.
- (iii) The payment is charged as an out-of-pocket or expenditure in the accounts of a business operating in Malaysia.

On the other hand, under indirect taxes, the RMCD imposes a service tax or service tax on digital services (SToDS) to service providers, specifically online marketplaces and platforms. The service tax applies to local providers, while SToDs pertain to foreign providers. Service providers exceeding the prescribed threshold must register for service tax and SToDS under the Service Tax Regulations 2018 (Ernst & Young, 2021).

Besides e-commerce transaction tax, countries worldwide use direct or indirect taxes or both taxes and other measures primarily related to cross-border transactions. Cunha (2020) highlighted that indirect tax, in the form of sales tax, specifically the Value-Added-Tax (VAT), Goods and Services Tax (GST), and or consumption tax, is considered the first level of taxation in e-commerce. He further indicated that taxing e-commerce under corporate income tax is complex since it involves several issues, such as different rates (for example, in European countries), double taxation, and autonomous and municipal taxes (Cunha, 2020).

Countries such as the United Kingdom (UK), the United States (US), India, and Australia have developed initiatives and legislation to allow tax authorities to expand their jurisdictional reach due to the dynamic nature of e-commerce (Argilés-Bosch et al., 2020; Rahman, 2018). For example, the UK government continuously strengthens its VAT regulations to enhance tax collection from e-commerce businesses. In 2015, the UK introduced the Diverted Profit Tax or Google Tax (Hadzhieva, 2016). On the other hand, India has introduced the Equalisation Levy, while Australia has imposed the Multinational Anti-Avoidance Law (HM Treasury, 2019; Rahman, 2018).

Consumption taxes such as VAT, GST, and Sales and Use Tax are standard practices to tax e-commerce transactions in many countries. The countries implementing the VAT are Germany, the UK, the European Union, Indonesia, and Thailand. In addition, Singapore, Australia, and Canada implement GST, while the US levies Sales and Use Tax (Ernst & Young, 2021).

D. Theoretical Background

The maxims of taxation by Adam Smith underpins the theory of this study. Smith (1776) introduced four maxims of taxation: equity and fairness, certainty, convenience, and efficiency. These maxims have been used as fundamental principles to create or amend tax policies of taxation systems worldwide (Associ-ation of International Certified Professional Accountants [AICPA], 2017; Downer, 2016).

The principles of equity and fairness drive tax authorities to ensure that all e-commerce participants are subject to taxation similar to traditional individual or corporate business taxpayers (Basu, 2004). In addition, the principle of certainty involves simplicity, ease of understanding, and transparency in tax policies. Adhering to this principle will encourage e-commerce players to pay taxes as they will have informed knowledge concerning where, when, and how taxes are calculated and paid (du Preez, 2018).

Convenience entails that taxes should not be complicated for taxpayers. The tax approach and collection should be simple and fair, and technology should be incorporated to ease tax payments. Zulma and Hizazi (2020) asserted that taxpayers' motivation to comply with tax obligations will increase if the government treats them fairly. Finally, efficiency is related to the economic factor, which focuses on the reduction of tax collection costs by tax authorities. The tax collected must surpass the collection cost (Hermawan & Sinaga, 2020).

Over the years, Adam Smith's principles of good taxation have been expanded to address the underlying issues related to taxing global e-commerce businesses. The OECD in OTFC addressed five principles: neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility (Hermawan & Sinaga, 2020; OECD, 2001, 2014). In addition, AICPA (2017) recommends employable additional principles when tax rules are adopted or changed. The principles comprise information security, economic growth and efficiency, transparency and visibility, minimum tax gap, taxpayer accountability, and appropriate government revenues.

Despite incorporating new principles into taxation policies over the years (AICPA, 2017; OECD, 2001, 2014), Noamna and Kiattisin (2020) stressed that Adam Smith's fundamental principles remain sufficient and acceptable. Thus, to recommend the potential tax model for e-commerce transactions in Malaysia, this study assessed the tax model with the maxims of taxation and 5W (who, what, why, where, when) and 1H (how) aspects. The 5W1H aspects involved are - i) Who should collect the tax?, ii) What ought to be taxed?, iii) Why should they be subject to tax?, iv) When are they supposed to pay taxes?, v) Where should they be taxed?, and vi) How much is the tax rate?

Figure 2 illustrates the study's research framework adapted from Azemi (2020) to suit this study's context.

III. Methodology

This present study employed a qualitative approach by conducting semi-structured interviews and library research to achieve the study's objectives. In the first exploration stage, semi-structured interviews were conducted to gain participants' insights regarding e-commerce taxation and potential methods the country can implement to tax local e-commerce players and transactions. The library research method was performed in the second stage by reviewing related legislation, articles, newspapers, and reports to evaluate the recommended tax model's prospective benefits and limitations.

A. Data Collection

In an effort to mitigate bias, primary data were gathered from various parties and key informants (Eisenhardt & Graebner, 2007). A total of 11 key



Figure 2. Research framework

policymakers and tax authorities representatives from 4 government agencies and 3 tax practitioners selected using purposive sampling were interviewed. Purposive sampling is the most appropriate sampling technique for selecting suitable interview participants for an exploratory study (Neuman, 2007). The participants were experts in national and global e-commerce development and e-commerce tax-related issues (See Table 1). The interviews were conducted between July 2022 and February 2023, lasting between 30 and 90 minutes per session.

The interviews were guided by a list of questions to acquire an in-depth understanding (Merriam & Tisdell, 2016) and attain the study's research objectives. The interview questions were exploratory in nature, focusing on potential methods for taxing e-commerce in Malaysia. The questions comprised primary and follow-up questions. The list of questions was developed in line with the study's scope and context to ensure that intersubjective understanding between the interviewer and participants was achieved (Buschle et al., 2021). This study sought experts' review of the developed questions before conducting interviews to ensure their suitability and alignment with this study's research questions. Data collection concluded after no new information or insights emerged from the interviews, indicating that data saturation had been achieved. Saturation is reached when researchers encounter repetitive information from participants, or no further information emerges (Merriam & Tisdell, 2016, p. 199).

Table 1. Profile of participants

Participant	Government Agency / Tax Practitioner	Expertise	Position & Working Experience	Duration (minutes)
P1	А	International Taxation	Head of Department. Experience: >20 years	90
P2	А	International Taxation	Principal Assistant Secretary of Department. Experience: >15 years	90
P3	А	Indirect Taxation.	Head of Department. Experience:>20 years	90
P4	А	Indirect Taxation	Principal Assistant Secretary of Department. Experience:>20 years	90
Р5	В	Direct Taxation	Senior Tax Officer of Audit Digital Economy Section. Experience:>15 years	90
P6	В	Direct Taxation	Senior Tax Officer of the Tax Compliance Department. Experience:>20 years	90
P7	В	Direct Taxation	Director of Audit Digital Economy Section. Experience:>20 years	90
P8	С	Indirect Taxation	Deputy Director of Service Tax Policy. Experience:>30 years	95
Р9	С	Indirect Taxation	Assistant Director of Sales Tax Policy. Experience:>10 years	82
P10	D	Businesses' & Consumers' Affairs	Senior Assistant Director. Experience:>8 years	77
P11	D	Businesses' & Consumers' Affairs	Senior Chief Assistant Director. Experience:>20 years	77
P12	Tax Practitioner	Direct & Indirect Taxation	Managing Partner. Experience:>20 years	62
P13	Tax Practitioner	Direct & Indirect Taxation	Tax advisor. Experience:>25 years	62
P14	Tax Practitioner	International & Indirect Taxation	Managing Partner. Experience:>10 years	35

IV. Data Analysis and Findings

Following the interviews with the participants, multi-data were obtained. Qu and Dumay (2011) opined that continuous interpreting, clarifying, and extending interviewees' feedback can add value to the qualitative research method. Nevertheless, ensuring data validity and reliability is vital to ensure the findings' accuracy and credibility and the study's trustworthiness (Creswell & Creswell, 2018; Merriam & Tisdell, 2016). The processes of memo writing, recording, transcribing, and incorporating reflexive thinking were done to ensure the study's validity and reliability (Creswell & Creswell, 2018; Merriam & Tisdell, 2016; Peräkylä, 2011; Suhaili et al., 2018).

The data was analyzed through thematic analysis to identify and report themes within the data (Braun & Clarke, 2006). By following the step-by-step guide to conducting thematic analysis to validate information accuracy (Braun & Clarke, 2006; Creswell & Creswell, 2018) and with the assistance of deductive reasoning, this study delved into the theory-building process (Frau et al., 2022). This study identified four recurring patterns that represent the central construct across the dataset: tax via Payment Service Providers (PSP), reintroducing GST, data centralization between government agencies, and amending and empowering the ITA 1967 (See Table 2).

This study's findings disclosed that e-commerce transactions in Malaysia can be taxed via PSP, which can be introduced at a lower rate in the initial stage. Besides, although GST was abolished in 2018, reintroducing GST should be considered to tax e-commerce transactions effectively. Countries such as Australia, Singapore, and Canada practice taxing e-commerce transactions. Furthermore, the empowerment of data sharing between government agencies and the amendment and empowerment of the ITA 1967 are crucial to assist the IRBM in obtaining taxpayers' information from third parties whenever necessary.

V. Recommendations and Discussions

A. PSP Tax Model

This study recommends adopting a tax model, namely the PSP Tax Model, for taxing e-commerce transactions in Malaysia. The model requires the IRBM to appoint PSP as tax-collecting agents. Since the IRBM does not have the authority to collect charges from any party, the country needs to have an enabling legal provision or enact a new law.

Under the PSP Tax Model, PSP are responsible for collecting charges, typically ranging from 1% to 3%, from the buyer's payment for each e-commerce transaction made through the payment gateway system. This study proposes a 1% to 3% rate, aligning with the Labuan tax rate, a Malaysian offshore tax haven jurisdiction, as suggested by respondents. Subsequently, the PSP will remit the charges to the

Table 2. Summary of the identified constructs

Construct	Illustrative Quote		
Tax via PSP	"So, what we suggested that day, when a payment transaction is made, the payment gateway system must split the payment." [P13] "Let's say, the hijab cost is RM100. It means that, we take 1% as example. 1% from the hijab price is split to IRBM." [P13]		
Reintroduce GST	"it's a call for GST. That's the best. Otherwise, we need to develop any tax models for today's e-commerce transactions." $\left[\text{P7}\right]$		
Data centralization between government agencies	"In Malaysia, we do not have centralized data. We have our own data, and it is difficult to access." [P5]		
Amend and empower the ITA 1967	"Maybe we need to improvise. We're not saying we don't have to change. But, if we're going to change it, we will have to look at the OECD's directions first." [P1]		

IRBM based on the agreed duration, for instance, monthly, bi-monthly, or quarterly. The remitted amount is suggested to be collected after deducting their commission, as the collecting agent acts on behalf of the tax authority. The operation of this tax model is described as follows:

- i) Step 1: A buyer purchases a product for RM10 from an online seller.
- ii) Step 2: The buyer pays the payment provider RM10.30 (RM10+ 3% charge).
- iii) Step 3: PSP will pay RM10 to the seller.
- iv) Step 4: The PSP will subsequently remit the net amount to the IRBM (95% × RM0.30 = RM0.285) after deducting their commission, for example, 5% (5%× RM0.30 = RM0.015) as the tax-collecting agent. It is proposed that the PSP remit the net amount of tax upon an agreed duration between the PSP and the IRBM.

A simple illustration of the money flow from online sales of this tax model is illustrated in Figure 3. The proposed tax model is expected to be applicable to e-commerce transactions involving the payment gateway system.

B. Strategies

This study proposes appointing PSP as taxcollecting agents to implement this tax model successfully. Hence, the government must create a new Act, as the IRBM does not have the authority to collect tax from a third party. A reduced tax rate is recommended for implementing the PSP Tax Model. In the introductory phase, eligible taxpayers could be subjected to a minimum tax rate of 1% to 3%. Many OECD countries imposed a 1% to 3% tax on either imports or domestic sales to minimize tax evasion among micro-SMEs (World Bank Group 2007). World Bank Group (2007) highlighted that the lower tax rate also aligns with the presumptive taxation method widely adopted by many countries to ensure optimal tax revenue. This measure is known as Alternative Minimum Taxes. According to Thuronyi (1996), the minimum tax rate is appropriate when the tax liability exceeds the amount determined by presumptive rules.

The adoption of presumptive taxation by many developed and developing countries is for various tax purposes (Bucci, 2019), which include taxing e-commerce (India), small business taxpayers (Georgia, Indonesia), unincorporated businesses (Austria), unincorporated businesses performing agriculture and certain economic activities (Spain), minibus taxis



Figure 3. The flow of money of the PSP tax model

(Zimbabwe), and SMEs (Italy) (Bongwa, 2009; Bruhn & Loeprick, 2016; Daryanto & Surjadi, 2020; Dube, 2018; Lahiri et al., 2017; Weichenrieder, 2007).

The PSP Tax Model is suggested to adapt the Sales and Services Tax (SST)¹⁾ model implemented in Malaysia to reduce the implementation cost of designing an entirely new tax system. According to the study's participants, the government is recommended to pay the compliance cost if banks under the PSP collect tax for all e-commerce transactions. Similarly, if the PSP is designated as the tax-collecting agent, the government should bear the compliance costs to ensure the seamless implementation of the proposed method, relieving PSP and online sellers from this burden. Furthermore, PSP should receive higher commission fees as tax-collecting agents.

Nevertheless, implementing this tax model requires further studies involving various stakeholders, notably the Central Bank of Malaysia (BNM), the MOF, the PSP, and the IRBM. Comprehensive and detailed discussions with BNM and PSP are crucial to justifying and clarifying issues such as policy and governance. Additionally, to enhance the tax model, a tax incentive can be introduced to attract buyers to pay e-commerce transactions online rather than cash payments through a cash deposit machine or cash-on-delivery. By offering incentives, buyers will prefer online payments rather than cash payments. Sung et al. (2017) used Korea as an example to highlight that the Korean government effectively transitioned to a cashless economy by implementing tax deductions for purchases made through electronically traceable payments. Taxpayers can claim these deductions when filing their tax settlements.

C. Benefits and Limitations of the Tax Model

This study identified the potential benefits of the PSP Tax Model, which include a simple mechanism for the government to enhance tax collection. The model requires the PSP to be registered with the BNM as the country's tax-collecting agents by emulating the SST system. The tax collected under this approach can be considered the final tax for e-commerce players.

Subsequently, not many parties will be involved in executing this tax model. Only the PSP, IRBM, MOF, and BNM are involved, which enables the tax model to be implemented with less complication and bureaucracy. This model is believed to produce higher tax revenue by providing tax incentives. For example, the Korean government earned a net gain of approximately USD1.3 billion after introducing tax incentives by allowing tax deductions upon making eligible purchases through electronically traceable payments (Sung et al., 2017). This incentive can be adopted to encourage people to buy online, hence ensuring the sustainability and growth of the e-commerce industry once this tax model is implemented.

Furthermore, implementing this tax model can

i) Service tax is imposed on customers of registered or taxable individuals who are rendered taxable services listed in Group G of the First Schedule, Service Tax Regulations 2018. The service providers charge a 6% fixed rate of service tax for the following professional services - legal, legal services on Islamic matters, accounting, surveying, engineering, architecture, consultation, information technology, management, employment, private agency, and digital (RMCD, 2021a). A service provider must register with RMCD if the offered services surpass RM500,000 in 12 months RMCD (RMCD, 2021b).

The service tax is charged when payment is received from their customers. Nevertheless, effective 1st September 2019, although payment has not been received and regardless of whether an invoice has been issued to the customers, registered individuals must account for service tax a day after 12 months from the date of services rendered (RMCD, 2021a).

ii) Sales tax is a single-stage tax imposed on taxable goods manufactured in Malaysia by a taxable individual and sold by the individual and on importing taxable goods into Malaysia (RMCD, 2023). A manufacturer of taxable goods must register with RMCD if the sales value amount is / will exceed RM500,000 in a period of 12 months (RMCD, 2019). Different tax rates apply based on the group of taxable goods, which may be levied on either 5%, 10%, a specific rate, or exempt (RMCD, 2019).

The registered manufacturer must collect the sales tax owed from consumers in addition to the price and any other amount due and payable by the consumers for the taxable products. An invoice must be issued either in the national or English language containing specified details either in electronic form or hard copy (RMCD, 2023).

iii) For SST filing of returns, the submission is made bi-monthly, either electronically or by mail (RMCD, 2023).

offset the loss from the inability to collect taxes from untapped eligible taxpayers among online sellers. This compensation is achieved by levying taxes on each e-commerce transaction. Besides, the implementation costs are forecasted to be low since the government can replicate the existing SST system with some modifications.

On the other hand, some weaknesses must be addressed to implement an effective and lucrative tax collection model. Firstly, in the initial phase, buyers are anticipated to be reluctant to purchase online due to the knowledge that tax burden is upon them. Hence, dwindling sales will affect online sellers. Nevertheless, the situation will improve gradually, and the purchasing rate will eventually increase as online shopping has become part of society's culture.

Secondly, implementing the PSP Tax Model is also considered time-consuming, as it requires a new statute to be established by the government. Thirdly, introducing tax incentives to encourage the execution of this tax model can lead to double deduction concerns. For instance, a taxpayer might claim a deduction of RM3,000 for purchasing basic supporting equipment for a disabled person while simultaneously claiming the same amount by utilizing electronically traceable payment. Therefore, the IRBM must issue guidelines to clarify the features that are considered eligible electronically traceable payments. Finally, the government must bear the compliance cost to execute this tax model.

D. Incorporation of Maxims of Taxation and 5W1H

This study evaluated the PSP Tax Model, based on Smith's (1776) maxims of taxation (See Table 3), to ensure that the PSP Tax Model adheres to the principles of equity and fairness, certainty, convenience, and efficiency.

Table 3. Adherence of PSP tax model with maxims of taxation

Equity and Fairness	Certainty	Convenience	Efficiency
E-commerce activities will be taxed through PSP	 New Act needs to be developed. Remit charges to IRBM based on the agreed duration. The tax rate proposed is between 1% and 3% (Nevertheless, the rate is subject to decisions made by IRBM after discussions with other stakeholders). 	The tax payment is made through the payment gateway system.	 Low implementation costs. Increase tax revenue. Simple mechanism - does not involve many parties. Final tax paid to the seller. Trace previously untapped eligible taxpayers among individual online sellers.

Table 4. Elements of 5W1H of PSP tax model

Who should collect the tax?	What ought to be taxed?	Why should they be subject to tax?	When are they supposed to pay the tax?	Where should they be taxed?	How much is the tax rate?
PSP	E-commerce transactions	 To ensure tax leakages from e-commerce transactions can be minimised. To ensure the equity and fairness tax principle, as suggested by Smith (1776), is fulfilled. 	 E-commerce transactions will be taxed upon payment. The PSP will remit the payment to IRBM based on the agreed terms and duration. 	End of online purchase transactions. (Upon completing online purchase transactions)	1% - 3%

This study further assessed the PSP Tax Model with the elements of 5W1H (See Table 4) to provide an in-depth understanding of the model.

VI. Conclusion

The evolution of the public's buying behavior, increased mobile utilization, and high Internet penetration have contributed to the growth of e-commerce in Malaysia (AUSTRADE, 2020). The growth has positioned Malaysia as one of the most enticing markets for e-commerce in Southeast Asia (GlobalData, 2020). Nevertheless, the prevalence of e-commerce players has led tax authorities to face challenges in ensuring that all e-commerce players fulfil their responsibilities by paying taxes to the country (Nadeem & Saxena, 2018; Palil et al., 2020; Tambunan & Rosdiana, 2020). Thus, the inability to tax e-commerce transactions causes the government to lose significant income as taxation is one of the country's primary revenue sources, especially in developing countries, that benefits the public and the country's growth.

This study proposes a potential tax model for taxing e-commerce transactions in Malaysia. Despite being an exploratory level study, this study explores the possibility of establishing methods for taxing e-commerce transactions of individual online sellers. This exploratory study provides a basis for a theoretical contribution and future research by proposing the PSP Tax Model (Refer to Figure 3). This model aims to enhance tax collection systems, particularly concerning e-commerce transactions, providing a framework that tax authorities in developing countries, particularly the ASEAN countries, can adopt for taxing e-commerce transactions. The PSP Tax Model was established and developed from in-depth interviews with experts in taxation and the Malaysian e-commerce environment. Potential benefits and arising limitations, which require careful consideration from the tax authorities before executing

the PSP Tax Model, are highlighted in this study.

Following an evaluation aligned with Smith's (1776) maxims of taxation and considering the 5W1H elements, the PSP Tax Model is considered suitable, viable, and practical to implement. Adhering to the principles of equity and fairness, certainty, convenience, and efficiency in creating tax rules or policies is vital as effective taxes can be implemented, thus fulfilling the purpose of a tax system (Alley, 2014). Additionally, it is recommended that the ITA 1967 in Malaysia is amended to make it relevant to the development of e-commerce nationally and globally, empower data sharing between government agencies, and consider reintroducing GST.

This study significantly contributes to developing countries with low or moderate tax compliance levels among individual taxpayers. A country's government can boost its tax revenue collection, while the tax authority can make a better-informed decision in formulating methods to tax e-commerce transactions. An increase in tax revenue benefits the country's development, elevates citizen welfare, and improves social life. Furthermore, this model can be applied to any technological-related business emergence, provided that the transactions involve a payment gateway system. Nevertheless, it is essential to emphasize that the success of the tax model proposed in this study relies on increasing tax awareness among e-commerce players over time.

Nevertheless, this study is limited by methodology, timing, and scope. From a methodological perspective, this study only gathered data from government agencies related to Malaysia's e-commerce environment and tax practitioners. Therefore, the data gathered may limit the generalization of the findings. Future research is suggested to obtain information from the PSP to gain a broader perspective on the proposed tax model to ensure its successful implementation.

Second, the feasibility of the PSP Tax Model was not investigated due to time limitations. Hence, further studies should evaluate the PSP Tax Model and provide a comprehensive view of the model's viability and feasibility, including an estimation of the implementation costs of the PSP Tax Model relative to tax revenue collection.

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