

**Source of Income and Permanent Establishment Issues
in the International Taxation of Electronic Commerce**

Donald T. Williamson

Professor and Director, Graduate Tax Program
American University
Washington, D.C. 20016-8044

and

Faro Naveed

Tax Consultant
PriceWaterhouseCoopers, LLP
Washington, D.C.

Abstract

The taxation of cross-border electronic commerce presents many challenges to U.S. taxing authorities, none more daunting than defining whether such income is from sources within the United States and whether the nature of e-commerce rises to a U.S. trade or business or permanent establishment under U.S. income tax treaties. Applying existing regulations and case law interpreting these terms to conventional commerce, the paper finds that no new regime of rules are required in order to tax international e-commerce in a manner consistent with the taxation of such commerce over more conventional means.