



Impact of 'GST' on e-commerce and Indian economy

Dr. Jayashree, R Kotnal

Assistant Professor, BLDEA's A S Patil College of Commerce (Autonomous), Vijayapur, Karnataka, India

Abstract

E-commerce is fast gaining traction in today's world. In simple terms, E-commerce can be described as the conduct of any commercial activity using the Internet as a medium. The scope of E-commerce is dynamic and consistently expanding. The online marketplace business model has been the most successful model in India, given the foreign direct investment (FDI) and regulatory norms currently in existence. Therefore, this study focuses more on online marketplaces while studying the E-commerce sector in India.

Multiple indirect taxes are currently levied on transactions in India. Some taxes are levied and collected by the central government, while others are collected by state governments. Furthermore, due to the dynamic and complex business models in which E-commerce players operate, the treatment of various E-commerce transactions under indirect taxes is fraught with ambiguity and disputes. Considering the issues plaguing the current indirect tax regime, India is gearing up to introduce a comprehensive indirect tax regime under the GST (Goods and Services Tax).

Since the introduction of the GST regime will affect the very fundamentals of how business is carried out in India, it is essential to reflect upon the impact on online marketplaces. This paper starts with a brief overview of the conditions under the existing indirect tax regime. It then goes on to discuss the contours of the GST proposal based on the available information. Next, the paper attempts to identify the key factors that might prove to be important for online marketplaces under the proposed GST regime.

Keywords: e-commerce, Indian economy, GST regime, cascading taxes

Introduction

Goods and Services tax (GST) has been identified as one of most important tax reforms of post-independence India. It is a tax trigger, which will lead to business transformations for all major industries.

Given the passage of the Constitution Amendment Bill, 2016 for GST in the Parliament on 8th August 2016, ratification of the said Bill by more than 15 states by early September followed by its enactment, and passage of four GST Bills in the Lok Sabha on 29 March 2017 and Rajya Sabha on 6 April 2017, with the clear road map being laid down by the Finance Ministry, the Government of India seems to be on course to implementing GST with effect from 1 July 2017.

The Bills introduced in the Lok Sabha, during the ongoing Budget session of the Parliament, include Central GST (CGST), Integrated GST (IGST), Union Territory GST (UTGST) and the Bill for Compensation to States. Discussion on the Bills commenced on 29 March 2017 and was passed on the same day after a long debate. According to media reports, the GST Bills, although introduced as Money Bills, shall be taken up for discussion in both houses of the Parliament before their passage in the current session. The Bills were earlier cleared by the GST Council, followed by a Union Cabinet approval.

The revised draft of the Model GST law, which was released in the public domain in November 2016, has been split into CGST, SGST and UTGST Bills apart from IGST Bill. The draft of the Model GST Law underwent further changes before being introduced in the Parliament.

Goods and Service Tax will roll out nationwide on 1st July 2017, marking a revolutionary change in the Indian taxation system. Businesses operating both online and offline are already gearing up to migrate to the new tax system and figuring out how to be compliant in the GST era. While GST is surely going to bring about much required standardization in the commerce landscape; in line with the motto 'one nation, one tax', there are several aspects of GST that will change how businesses operate.

In the last decade, E-commerce has seen an unprecedented growth and India is pegged as the second largest market for E-commerce. The E-commerce market in the country is expected to breach the \$100 billion mark by 2020. The explosive growth in the sector has given rise to multiple tax issues along with other challenges such as rising competition, shrinking profit margins etc. They are also facing litigation owing to their innovative business models.

The Government is trying to simplify the tax structure by introducing GST and promoting trade, while keeping a check on tax evasion. Let's see how implementation of GST will impact E-commerce marketplaces (operators).

Impact on e-commerce marketplaces

1. Standard taxes will lead to standard pricing

Under the present tax structure, different states impose different VAT rates on the same goods. For example, Karnataka has a tax rate of 5% on mobile phones, whereas Maharashtra has 13.5%. Online marketplaces list sellers who need to charge lower taxes thus making the product cheaper

than local retail prices. The retailers often enter exclusive tie-ups to take advantage from tax arbitrage. Post GST, there will be standard tax rates for each product and tax arbitrage will not be possible, bringing retailers and offline sellers to the same level in terms of costing and pricing.

2. Online marketplaces will face the issue of blocked working capital

Under GST, online marketplaces will have to deduct 2% tax per transaction while making payments to sellers listed on their portal. This Tax Collected at Source (TCS) will be handed over as collection towards GST to the government. This rule however does not apply to offline retailers. With TCS, capital will be locked away for periods between 20-50 days depending on the transaction date. The significant impact on the cash flow will force smaller firms to seek additional working capital or ignore the e-commerce marketplace altogether, as it may not offer envisaged convenience and benefits.

3. Unregistered merchants will be weeded out of e-commerce space

While GST registration in normal case is mandatory where

turnover is Rs. 20 lakh or more, if a trader wishes to sell through online portals he needs to get registered irrespective of turnover. Merchants without proper registration will be forced to move out of the online system. Now, all sellers will be required to be registered and charge taxes at standard rates creating a level playing ground for all online sellers in terms of product pricing.

4. Compliance issue in case of returns and refunds

Majority of the products sold online carry a return date of 30 days which translates to about 15 - 20 million transactions per month and the returns and refunds for these have to be done with utmost care. The returns are required to be filed monthly now by both parties and refund adjustment will need special attention affecting tax liability.

Industry experts have welcomed the standardization that GST promises, but it is believed that tax collected at source will deter sellers from listing themselves on e-commerce marketplaces and hit the e-commerce industry.

We will have to wait to see how the businesses grow and flourish under the new GST era and will government reconsider the proposed law addressing the concerns raised by e-commerce players.

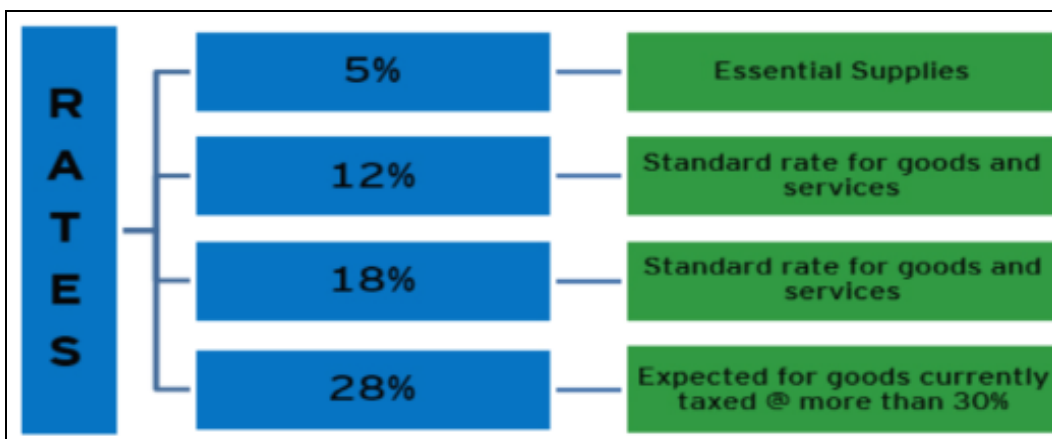


Fig 1: Consensus between Central and State Governments has been reached on four-tier rate structure.

A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The proposed GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It will also stimulate the need to relook at internal organization and IT systems.

With its proposed implementation from 1 July 2017 gaining intensity, it is critical for companies, which have business operations in India to understand the broad contours and framework of the proposed GST law, likely impact of the new levy on their business and start taking appropriate steps to meet its requirement and be GST ready.

Impact of GST in Indian economy - GST impact in India

Impact of GST in Indian Economy Complete Analysis. Impact of GST in India. Amidst economic crisis across the globe,

India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like ‘Make in India’, ‘Digital India’, etc. Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. In view of the important role that India is expected to play in the world economy in the years to come, the expectation of GST being introduced is high not only within the country, but also in neighboring countries and in developed economies of the world. Check more details about “Impact of GST in Indian Economy” from below

Impact of GST in Indian Economy

1. Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer.

2. Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.
3. A single taxation on producers would also translate into a lower final selling price for the consumer.
4. Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.
5. GST would add to government revenues by widening the tax base.
6. GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
7. GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.

Current tax structure and proposed tax structure

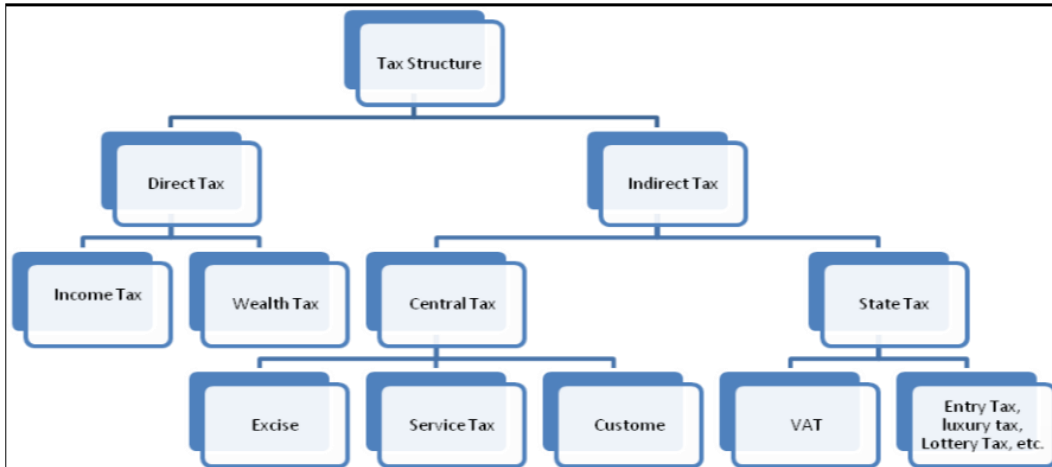


Fig 2: Current Tax Structure in India

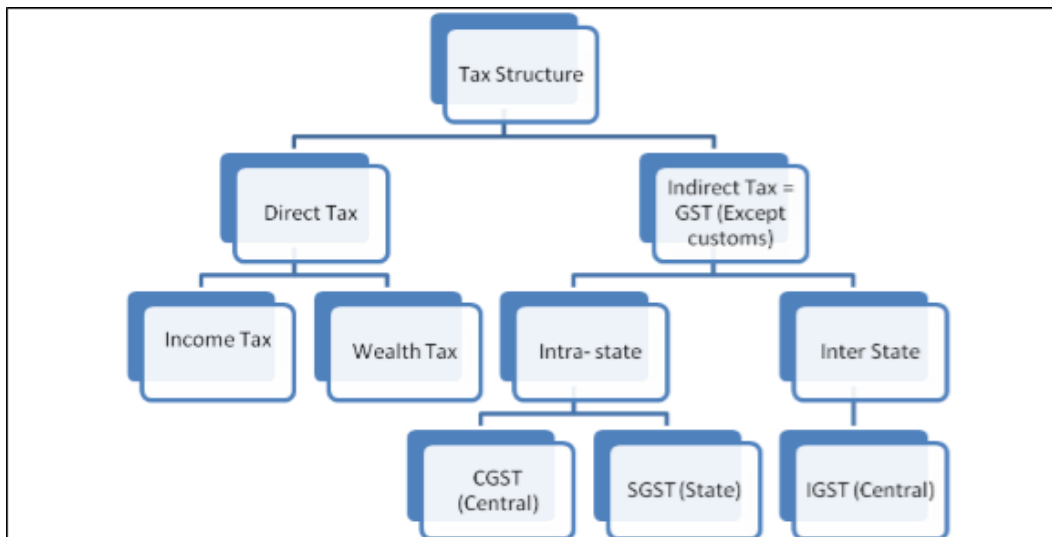


Fig 3: Proposed Tax Structure in India.

Model of GST

- **SGST and CGST for intrastate transaction:** In the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.
- **IGST for Interstate transaction:** ‘IGST Model’ will be in place for taxation of inter- State transaction of Goods and Services. The scope of IGST Model is that center would levy IGST which would be CGST plus SGST on all inter State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.



Fig 4: Stakeholder in Business Chain.

Key advantages

Though the roll out of GST may lead to greater compliances for E-commerce players, its implementation could bring in significant benefits, such as:

Removal of cascading taxes

The e-commerce sector will gain significantly from the removal of restrictions on cross utilization of credits. Currently, traders are denied credit of service tax paid on input services such as warehousing, logistics, commission of marketplace and service providers are not allowed to claim credit of VAT paid on goods that are used for providing output services. This cascading results in a significant blocked input tax cost for this sector since VAT is applicable on the output side, whereas most input costs are services.

Consolidated tax rates

Currently, there are differential rates of VAT for the same goods in different States with further fragmentize of VAT rates. This has in the past resulted in classification disputes. However, GST rates at both the Central and State levels are expected to be uniform and harm noised which would reduce disputes.

Conclusion

GST is one the most ambitious and significant reform which India ever attempted and it will have a long lasting impact on the Indian economy. By eradicating the confusion of taxes that are prevailing in the country's current scenario- is it centres tax, interstate tax, state tax and local tax which till now it will be replaced by GST in India. It is most likely to metamorphose Indian economy which was plagued by taxation and ambiguities for long, GST is mostly likely to take the show forward by giving uniformity in taxation system. Mostly foreign investors have complaints about taxation policies. Now, after implementation of the GST they will have

a sigh of relief. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

References

1. Ravi Teja Sharma, ET Bureau. Union cabinet to spend Rs 1 lakh crores in 5 years on smart cities, Amrut infrastructures, The Economic Times, 2015.
2. <http://www.dailytenminutes.com/2015/10/technology-what-is-smart-city-and-how.html>, 2016.
3. Article on Smart city, Available at https://en.wikipedia.org/wiki/Smart_city, 2016.
4. Article on Make in India, http://en.wikipedia.org/wiki/Make_in_India, 2016.
5. Jayashree R, Kotnal. GST In India: An enrichment of indirect taxation system, International Journal of applied Research. 2016; 2(4):735-738.
6. Adi Agarwal. Modi Brings Digital Revolution in India http://blog.brainguru.in/2014_08_01_archive.html, livemint.com, 2016.