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Gst impact on the e-commerce sector: an overview

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ABSTRACT: The success of the e-commerce sector is largely dependent on the increasing number of retail entrepreneurs, who fall in the unorganized retail sector category. The government has included such players in the ambit of GST with an intention of broadening the tax base and has introduced specific provisions for the e-commerce companies. This is one of the major taxation reforms in Indian taxation system.GST is to set to integrate all state economies and increase the overall growth of the country.GST will create unified market and boost the Indian economy. The Goods and Service Tax (GST) is a value added tax to be implemented in India.. There are 3 kinds of taxes under GST: 1) SGST 2) CGST 3) IGST. The GST tax rates are divided into 5 categories which are 0%, 5%, 12%, 18%, 20%. Implementation of GST is one of the best decision taken by the Indian Government. The success of the e-commerce sector is largely dependent on the increasing number of retail entrepreneurs, who fall in the unorganized retail sector category. The government has introduced such players in the ambit of GST with the intension of broadening the tax base and has introduced specific provisions for the e-commerce companies. This paper focuses on the concept of GST and their impact on E-Commerce.

Keywords: GST – Impact – E Commerce –Impact of GST – Advantages – Disadvantages.

INTRODUCTION

―We believe GST is good for the e-commerce industry as it would eliminate hurdles in inter-state delivery and subsume the entry tax introduced on e-commerce shipments by some states,‖ a spokesperson for Amazon India said. Apart from easing the hurdles in transporting goods across states, the uniform tax will also bring down costs of warehousing. There will be a move to create bigger distribution centres, as Indian companies would now need fewer warehouses. ―The barriers at state borders will ease. The complexity of paying different taxes in 29 different state territories will also ease. Warehousing will become more integrated. We won't have to set up warehouses in different states,‖ TA Krishnan, CEO of logistics firm Ecom Express said.

The buying and selling of products and services by businesses and consumers through an electronic medium, without using any paper documents. E-commerce is widely considered the buying and selling of products over the internet, but any transaction that is completed solely through electronic measures can be considered e-commerce. The e-commerce players that depend heavily on third-party logistics firms to transport goods to the customer's doorstep have largely welcomed the new GST regime, which they say will ease the hassle of inter-state ferrying of goods under a centralised tax regime.

GST

Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017

E- Commerce and its Value Chain System

Online buying or selling transactions are referred as e-commerce. A person or company who owns, manage or operate an online platform to sell goods or services electronically known as an electronic commerce (e-commerce) operator. Companies such as Paytm, Myntra, Flipkart, Amazon, Ola, Uber fall under the category of e-commerce players. In India, e-commerce market is growing at a fast pace. In current regime there are multiple indirect taxes are levied on the online transactions. In these indirect taxes, some of the taxes are collected by State Government, and some are collected by Central Government. There is a complex tax environment for the e-commerce which brings ambiguity and disputes but now new GST taxation will affect the fundamentals of tax in e-commerce. The first time Indian Government has taken the initiative to regulate the e-commerce business.

E-Commerce according to GST rules

E-Commerce is defined like this in Section 43B(d) of the MGL (Model GST Law) – Electronic Commerce to mean the supply or receipt of goods and/ or services, or transmitting of funds or data, over an electronic network, primarily the internet, by using any of the applications that rely on the internet, like but not limited to e-mail, instant messaging, shopping carts, web services, universal description Discovery and integration (UDDI), File Transfer Protocol (FTP) and Electronic Data Interchange (EDI) whether or not the payment is conducted online and whether or not the ultimate delivery of the goods and/or services is done by the operator.

Why is Dual GST required?

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

E-Commerce Operator

Section 43B(e) of the MGL defines an Electronic Commerce Operator (Operator) as every person who, directly or indirectly, owns, operates or manages an electronic platform which is engaged in facilitating the supply of any goods and/or services. Also a person providing any information or any other services incidental to or in connection with such supply of goods and services through electronic platform would be considered as an Operator. A person supplying goods/services on his own account, however, would not be considered as an Operator. Section 19 r/w Schedule-III of the MGL, provides that the threshold exemption is not available to such suppliers and they would be liable to be registered irrespective of the value of supply made by them.

Aggregator

Section 43B(a) of the MGL defines aggregator to mean a person, who owns and manages an electronic platform, and by means of the application and communication device, enables a potential customer to connect with the persons providing service of a particular kind under the brand name or trade name of the said aggregator. For instance, Ola cabs would be an aggregator.

Advantage of GST on E-Commerce

1. GST will replace 17 indirect taxes, so it will become easy and cheap to follow the compliances.
2. The tax rate will be the same for each product, so there will be no hassle to calculate different tax on different products.
3. There will be no intrastate tax so that things will become cheaper.
4. Inventory cost and the logistic cost will fall because of reduced warehouses.

Disadvantage of GST on E-Commerce

1. E-Commerce startups might have a reason to get worried after details have emerged of TCS (Tax collected at source) guidelines of GST. Apparently, they will be required to file quarterly and monthly returns, and collect taxes from online sales.
2. Sellers will charge CGST + SGST /IGST+ additional tax depending upon the transaction.
3. Multiple registrations required.
4. Higher tax rate on outside

What is GSTN and its role in the GST regime?

GSTN stands for Goods and Service Tax Network (GSTN). A Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST. The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders for implementation of GST. The functions of the GSTN would, inter alia, include:

- Facilitating registration;
- Forwarding the returns to Central and State authorities;
- Computation and settlement of IGST;
- Matching of tax payment details with banking network;
- Providing various MIS reports to the Central and the State Governments based on the tax payer return information;
- Providing analysis of tax payers' profile; and
- Running the matching engine for matching, reversal and reclaim of input tax credit.

KEY AREAS OF GST THAT IMPACT THE E-COMMERCE SECTOR:

a) No Trade Barriers—One Nation One Tax

In the present regime, there is no uniformity in the tax rates among the different states and therefore every state determines its own tax rates specific to the products. However, such trade barriers will cease to exist as GST is inclusive of entry tax. The destination state earns the revenue from GST on sales regardless of where the sale was made. Further, there is no rate arbitrage under GST because the classification of goods and rate of GST is common across states.

b) Tax collection at source (TCS)

It is mandatory for all e-commerce operators to collect tax at the rate of two percent as TCS on the net value of sales made by suppliers through e-commerce operators. Such TCS has to be deducted in each state and deposited accordingly. This brings in significant compliance challenges to sellers and may discourage sales through marketplace model. However, this may not be applicable for inventory based models, where the e-commerce operator makes the sale from its own inventory. The key purpose of this provision is to encourage compliances under GST and provide a mechanism for the government to track suppliers who sell through e-commerce operators.

c) Increase in compliances for e-commerce operators

The e-commerce operators should report all supplies made by the seller and the TCS collected thereof on a monthly basis. The sales reported by the e-commerce operator will have to match with the sales declared by the supplier himself at the end of every month, and any difference will be added to the turnover of the supplier and consequently be liable to discharge GST on such additional turnover.

Additionally, the e-commerce operators will have to register in each state and file the reports separately on a monthly basis. This process increases the challenges in compliance and costs of running the business.

d) Mandatory Registration of sellers and unavailability of Composition Scheme

GST mandates that all sellers supplying through an e-commerce operator need to be registered under GST irrespective of the threshold limit of Rs 20 lakh. These sellers cannot opt for composition scheme, where they pay a flat tax at the rate of two percent and do not maintain details of each product sold. In this scenario, it is not feasible for small businesses to maintain a detailed record of purchases and sales and pay higher rate of tax. Because of this, many small retailers may not prefer to work with an e-commerce company, which impacts the business for e-commerce operators.

e) Increase in Credits

The GST law has extended the meaning of _input tax‘ to cover any goods/services used by the company in the course of business, which has widened the ambit of input GST credits. This has removed the requirement to establish the direct nexus of inputs/input services with the final product/service provided by companies. For e-commerce operators and sellers, the unavailability of credit towards excise duty and VAT on goods and service tax on certain services adds to the cost of running the business, which would be avoided under GST on account of increase in credits.

Conclusion

The E-commerce operators will have to register in each state and file the reports separately on a monthly basis and Mandatory registration also become difficult for small business enterprises. It is not feasible for small business to maintain a detailed record of purchase and sales and pay higher rate of tax because of these small retailers may not prefer to work with an e-commerce company. As we can see the GST law may have a negative impact on the e-commerce sector. The e-commerce sector in India is one of the most rapidly advancing sectors and the government is vigorously promoting digitalized economy, the introduction of such cumbersome compliances cringes the growth of this sector. Statutory framework introduced by the government should be towards the advancement of business rather than creating obstacles. The GST law should provide an enabling environment that encourages e-commerce operators and suppliers

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