GST on e-commerce in retail sector: BOON or BANE

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ABSTRACT

The e-commerce industry in India is still in its infancy, but it has shown a remarkable growth over a period of time and has contributed significantly to the country’s GDP. GST is basically an indirect tax levied on the sale of goods and services and is considered a solution to several complex tax maladies being encountered by the E-commerce companies in the retail sector. The introduction of GST which is a consumption based tax is expected to end the tussle between the states to tax e-commerce transactions. The implementation of GST for an e-commerce company can give them a much needed relief from the recurrent sales tax demands, investigations, and stoppage of goods at the check post. In this paper, the researchers have tried to find out the implications of GST on e-commerce in the retail sector and whether it proves to be more of a boon than a bane to the e-commerce companies.

Key Words

GST, Ecommerce, Retail Sector.

INTRODUCTION

The primary attempt to implement GST in India was made on November 10, 2009 to give boost to indirect tax structure and create a common market. Several deadlines have already been set to implement GST in India but all has been extended due to several obstacle in its way. GST is considered as a destination based consumption tax, in which the consumption states are liable for revenues as the origin states is likely to get 1% additional tax for at least 2 years. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. The
implementation of GST will increase the tax revenue for the Government and it would end the distortions of differential treatments of manufacturing and service sector. Several Taxes like Octroi, central sales tax, state levels sales tax, turnover tax, etc, will be clubbed under one ambit GST. It will also help to curb inflation as the tax rate under GST regime will remain constant over a period of time.

The GST at the Central and at the State level will in this way give more alleviation to industry, trade, and agribusiness also, customers through a more thorough and more extensive scope of coverage of input tax set-off and service tax setoff. The Finance Minister of India, Mr. Arun Jaitley assured that India could become a global market as implementation of GST will give 2% boost to Asia’s third largest economy.

A good tax system should keep in view issues of income distribution and at the same time, also generate tax revenues to support government expenditure on public services and infrastructure development. Indian economy is getting more and more globalised. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. Exports are expected to increase by between 3.2 per cent and 6.3 per cent, while imports will likely rise 2.4-4.7 per cent, the study found. Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

FICCI has suggested that GST should be extended to all sectors of the economy without exception and proposed to cover petroleum and natural gas, real estate, alcohol and power generation under GST so as to broaden the tax base. FICCI has proposed to have same threshold limit on goods and services so as remove confusion and unethical practices and threshold limit should be kept high as it will ease tax administration because tax will be collected from those tax
payer who will be having substantial turnover and small traders do not face any problem regarding record keeping and compliance requirement under GST. FICCI has also recommended an expeditious release of the draft GST Tax code by both the Centre and the States so as to allow industry to assimilate and suggest changes / modifications. The GST is business friendly and is introduced in a manner that it becomes a “win-win” for everyone.

THE ARRIVAL OF GOODS AND SERVICES TAX

The GST is an improvement towards the comprehensive tax reforms in the country and would give India a world class tax system and improve tax collections by the integration of goods and services taxation. It would end distortions of differential treatments of manufacturing and service sector. It will lead to the abolition of taxes such as octroi, central sales tax, state level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, etc. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST at the central and at the state level will thus give more relief to the industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set off and service tax set off, inclusion of several taxes in the GST and phasing out of CST and thus in a way will help remove the shortcomings of VAT.

IMPACT OF GST ON E-COMMERCE

The e-commerce sector in India has been increasingly contributing to the Indian economy and in order to reap the benefits of a mature and a rewarding e-commerce sector, a stable indirect tax arrangement is required as a panacea to several tax maladies encountered by the e-commerce companies in retail space.

The implementation of GST is also expected to resolve many supply chain issues faced by the e-commerce companies enabling faster shipment and returns and a reduced paperwork. This will also help the companies to make better supply chain strategies with increased focus on improving warehousing and network decisions would be purely cost and service driven. The dual
structure of GST will also bring in transparency and simplification of tax system makes it easier and prompt for those selling across states thus lowering the burden of consumers.

**Literature Review**

Since it one of the contemporary issue in the Indian government so very less work has been done in this regard which provide great scope of further studies with suggestions of new reforms and analysis of their impact on Indian economy. The efforts of few have been briefed out below:

**Nitin Kumar (2014)** in his paper titled “Goods and Services Tax in India: Away forward” explained the concept and features of GST. He has rightly pointed out that GST an extension of present VAT that will make the tax system broad and inclusive. He has concluded that economic distortion caused by present tax structure can be removed by implementing GST and it will help to develop common national market.

**Nitisha Gupta (2014)** in her paper titled “Goods and Service Tax: It’s impact on Indian Economy” found that integration of goods and services taxation would give India a world class tax system and tax collections will be improved. She stated implementation of GST will create business friendly environment as price level and inflation rates would come down over a period of time due to uniform tax rates. She explained how GST will work in India? She concluded that GST may lead to collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

**Sharma Manpreet & Neha (2014)** in their paper titled “A Study on Goods and Services Tax in India” explained the benefits and current status of GST in India. They explained the current scenario of GST in India and various shortcomings of GST. They concluded that implementation of GST would reduce the problem of cascading effect, distortion and tax evasion to maximum extent possible.

**Girish Garg (2014)** analyzed the impact of GST on Indian Tax Scenario in his paper titled “Basic Concepts and features of Goods and Service Tax in India”. He explained various objectives, challenges, opportunities, salient features and benefits of GST. He concluded by explaining the impact of GST on food industry, FMCG industry, housing and construction industry and financial services.
Objectives

1. To know the impact of GST on E-commerce in Retail Sector.
2. To know various benefits of implementation of GST in India
3. To know various challenges in implementation of GST System in India

Research Methodology

This is basically descriptive and qualitative research in which data has been collected through secondary sources like National and International Journals, Government Reports, websites and news articles and media reports.

GST IN INDIA:

GST will going to overcome a number of taxes levied on our consumption from entertainment tax to sales tax, VAT, excise duty, import duty and luxury tax. GST will help to overcome the problem of double taxation as under this tax will be levied on supply of goods and services as it is based on “Destination Principle” which means tax will be levied at the place of final consumption. GST will be collected at last Point of Sale.

GST paid by different intermediaries in the supply chain can claim it back which ultimately benefit the customers as it will reduce the final cost of goods and services by eliminating double taxation.

The Government of India is in a process of adopting a Dual System GST comprising of two components:

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

The current taxes like Excise duties, service tax, custom duty etc will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST. It can be levied on:
• Intra-state supply and consumption of goods & services
• Inter-state movement of goods
• Import of Goods & Services

Benefits of GST implementation
• It will make the taxation system more transparent and simple and easy to understand.
• It will reduce the overall cost of goods and services to final consumer as cascading aspect of taxation will be overcome.
• It will facilitate free flow of goods and services and thereby reducing overall transaction cost.
• Since GST is not levied on goods and services which are exported so it provides an incentive to EOUs, SEZs and EPZs. And GST will be levied on goods or services imported into the country with destination principle where the imported goods or services are consumed that state will enjoy the tax revenue.
• Since intermediaries in the supply chain can claim the tax credit which will reduce the cost the cost of doing business.
• It will reduce the scope of corruption in the economy as a whole.
• It will increase the tax base as more firms will come under the tax regime which ultimately increases the tax revenue collection for the government.
• GST will guarantee the consistency of taxes over the states, irrespective of place of production or consumption.
• The normal taxation rate on organizations will fall which will decrease the expenses of Indian goods and services and make them competitive in the global market and ultimately GDP would increase
• The taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.
• For paying GST, 13/15 digit PAN-linked identification in line with Income tax will be allotted which will ease the tax payment system.
Challenges for implementing Goods & Services Tax system

- Determining threshold limit is a great challenge right now as low limit will bother small scale traders and service providers but high revenue for government whereas high threshold limit will result in less revenue for the government due to meagre tax base.
- Lot of changes at planning and implementation level will be required where administration to be made in line with IT infrastructure.
- To implement GST, cooperation from state government is required as the states where consumption of goods and services are high will enjoy more revenue than states which have low consumption of goods and services.
- Determination of rate of tax on goods and services is a great challenge for the government due to problem of consensus between centre and state in this regard.
- Heavy expenditure on IT infrastructure including Tax Information Exchange System (TINXSYS), is required that too in a time bound manner for enhancing operational efficiency, enabling voluntary compliance and enhancing tax payer's convenience.
- Since there will be dual model of GST, so there will be different tax rates at State level and Centre level and there further subdivision of these taxes will be difficult depending upon necessity, location and resources of each state.

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APPENDIX

EXAMPLE OF GST

Assume rate of GST = 16%

A. Manufacture sold goods to traders

Inputs used in manufacturing
- Raw material = 100 lakh
- Stores & spares = 20 lakh
- Services = 15 lakh
- Selling Price = 200 lakh

<table>
<thead>
<tr>
<th>Input tax Description</th>
<th>Amt</th>
<th>Tax paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>100@16%</td>
<td>16 lakh</td>
</tr>
<tr>
<td>Stores &amp; spares</td>
<td>20@16%</td>
<td>3.2 lakh</td>
</tr>
<tr>
<td>Services</td>
<td>30@16%</td>
<td>4.8 lakh</td>
</tr>
<tr>
<td>Total input tax</td>
<td></td>
<td>24 lakh</td>
</tr>
</tbody>
</table>

Output tax

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<th>Tax paid</th>
</tr>
</thead>
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<tr>
<td>Sales</td>
<td>200@16%</td>
<td>32 lakh</td>
</tr>
<tr>
<td>Total output tax</td>
<td></td>
<td>32 lakh</td>
</tr>
</tbody>
</table>

Net GST payable = output tax - Input tax

= 32 - 24
= 8 lakh
B. Trader sold goods to consumer

Trader used service of Rs 10 lakh then
Sold goods to customer
Profit = 10 lakh
Purchase price = 200 lakh
GST = 16 lakh
GST rate = 16%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amt</th>
<th>Tax paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>200@16%</td>
<td>32</td>
</tr>
<tr>
<td>Services</td>
<td>10@16%</td>
<td>1.6</td>
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<tr>
<td>Total input tax</td>
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<td>33.6</td>
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Selling price = 220 lakh

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<th>Description</th>
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<th>Tax paid</th>
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</thead>
<tbody>
<tr>
<td>Goods sold</td>
<td>220@16%</td>
<td>35.2</td>
</tr>
<tr>
<td>Total output tax</td>
<td></td>
<td>35.2</td>
</tr>
</tbody>
</table>

Net GST payable = Output tax – Input tax
= 35.2 - 33.6
= 1.6 lakh