https://dx.doi.org/10.22161/ijaers.4.8.12 *ISSN: 2349-6495(P) | 2456-1908(O)*

Impact of GST on E-Commerce

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***Abstract*—** *E-commerce as anything that involves an online transaction. E-commerce provides multiple benefits to the consumers in form of availability of goods at lower cost, wider choice and saves time. The general category of e-commerce can be broken down into two parts: E-merchandise: E-finance. E commerce involves conducting business using modern communication instruments: telephone, fax, e-payment, money transfer systems, e-data interchange and the Internet. Online businesses like financial services, travel, entertainment, and groceries are all likely to grow. Forces influencing the distribution of global e-commerce and its forms include economic factors, political factors, cultural factors and supranational institutions.*

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. Overall it is known to be beneficial to both the consumer, business and the Government. In India, there are different indirect taxes applied on goods and services by central and state government. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. For this, GST will have 3 parts CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. This going to be forward on all transactions of both goods and services, only one tax will apply which is GST comprising of CGST and SGST. IGST would be applied instead of SGST for interstate transactions. Input credit of all these taxes will be available against all the respective outputs.

This paper is outcome of a review of various research studies carried out on Impact of GST on E-commerce. This paper examines different aspects like No threshold for GST registration, No Benefit under Composition Scheme, Tax Collection at Source by Marketplace Operator. Finally in the conclusion one country and one tax will help Indian Economy to grow Rapidly.

Keywords*— *E-commerce, GST, Traditional business, Opportunities.

I. INTRODUCTION

India's e-commerce market is estimated to have crossed Rs. 211,005 crore in December 2016 as per the study conducted by Internet and Mobile Association of India. The report further claim that India is expected to generate $100 billion online retail revenue by the year 2020.

The uprising of Electronic Commerce in India has also resulted in conception of online marketplaces. A Marketplace is an e-commerce platform owned by the E-commerce Operator such as Flipkart, Snapdeal and Amazon. Some of the features of a marketplace model are:

- Marketplace enables third-party sellers to register and sell online on their platform.
- Marketplace charges a subscription fees/ commission on sale value from listed sellers.
- Third-party sellers under this model gain access to a larger customer base, registered with marketplace.
- Customer on the other hand gain access to multiple sellers and competitive prices for desired products.
- Items purchased on such marketplaces are either shipped by Merchant/Third-party seller directly or through the fulfillment center managed by Marketplace Operator.

Government has also allowed Foreign Direct Investments under such model to promote e-commerce marketplace business model in India.

Marketplaces has provided retailers with additional channel of sales and reach which was unimaginable for an offline seller. Major marketplaces claim to have lacs of sellers affiliated with their platform with millions of SKUs. While the number of sellers and their business have increased significantly, GST has specifically taken up marketplaces and has come out with rules & regulations specific to this segment.

Introduction of these regulations requirements has compelled the online seller community to embrace GST regime. Some of these compliance are:

No threshold for GST registration: Government has specified a threshold limit for all the businesses. A business is liable to register under Goods and Services Tax once such threshold limit is breached. However such limit is not

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applicable in case of E Commerce sellers. All the businesses carrying out e-commerce activity are required to get registered under GST irrespective of their turnover.

No Benefit under Composition Scheme: Most of these sellers registered with marketplace operators are small and medium businesses. Government has introduced composition scheme under GST law. This scheme is primarily aimed to reduce the burden of compliance for small and medium businesses. Under this scheme, businesses are required to file returns quarterly instead of monthly and pay taxes at nominal rates up to 2%. To know more about Composition Scheme, However GST law has explicitly excluded e-commerce businesses from this scheme.

Tax Collection at Source by Marketplace Operator: Under the new tax regime, marketplace operators are mandatorily required to deduct a percentage amount as the GST liability of seller and deposit it with government. This mechanism is being termed as "Tax Collection at Source (TCS)" under the GST law. Eventually the marketplace seller will have to file monthly return under GST to claim the credit of TCS collected by the marketplace operator. This will also impact the liquidity and cash flow of these sellers.

While all the marketplace operator have already completed the first level analysis of impact of GST on their operations, marketplace sellers are still unaware of these rules.

Need of the hour is to keep themselves aware of the changes that are going to come. Also such sellers should now start planning their transition strategy for GST regime.

Some of the key points that should be kept in mind are:

1. Get your **GST enrollment** done on time. To read more about the enrollment process and its relevance.
2. Plan your logistics and warehousing requirement carefully. To read our detailed guide on impact analysis on logistics and warehousing,
3. Adopt such platforms, technologies which will enable your business to be GST compliant.

Although we are at a very initial stage for GST implementation. But marketplace sellers may not have much luxury of time and it is advised to be proactive in your business decisions for GST transition.

What is considered as 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.

E-Commerce Operator	**Not an Ecommerce Operator**	**Not an Ecommerce Operator**
Amazon and Flipkart are e-commerce Operators because they are facilitating actual suppliers to supply goods through their platform (popularly called Market place model or Fulfillment Model)	Amazon and Flipkart will not be treated as e-commerce operators in relation to those supplies which they make on their own account (popularly called inventory Model).	Titan 78 supplying watches and jewels through its own website would not be considered as an e-commerce operator for the purposes of this provision.

With the inclusion of retail entrepreneurs in the ambit of GST and the introduction of specific provisions for e-commerce companies, certain areas of GST will impact the e-commerce sector.

Every company in India, be it a multinational company or a small/medium enterprise, is gearing up for the implementation of GST. The e-commerce sector would follow suit in its preparation by focusing on provisions specific to this sector in the GST law. 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. Here are some of the key areas of GST that impact the e-commerce sector:

1. No trade barriers—one nation one tax

(i) 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. For example, a mobile phone in state 1 is taxed under VAT at five percent and in state 2 at 14.50 percent. As a result, the sellers in state 2 would not want to sell locally but would prefer to sell from state 1, resulting in loss of revenue for state.

(ii) E-commerce operators have set up distribution centres only in certain locations and collect the VAT applicable on sales made from such centres. In order to compensate for the loss of VAT revenue, many states have recently imposed entry tax on goods coming from other states, which discourages sales made from other states. The entry tax acts as a trade barrier, restricts free movement of goods from one state to another and increases the cost for traders.

(iii) 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.

2. **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.

3. **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.

The e-commerce operator has to report the product/service code and the applicable rates for each item level individually. This requires them to map every sale done by the dealer and ensure TCS is deducted at the right value. The implementation of compliance is cumbersome for both e-commerce operator and the supplier.

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.

4. **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.

5. **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.

II. CONCLUSION

As we can see, the GST law may have a negative impact on the e-commerce sector. Given that e-commerce sector in India is one of the most rapidly advancing sectors and the government is vigorously promoting digitised 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

In the run-up to one of the biggest tax reforms in the country, the market is abuzz with new rules and guidelines about the Goods and Services Tax (GST). How will GST really impact your business? How will your financial reporting change? Find out the answers to all this and more, directly from industry and tax experts who will share their expertise on Your Story's new series 'India on GST'.

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