Impact of GST on Indian Ecommerce Industry after Implementation

GST (Good and Service Tax) is the highly discussed indirect fiscal reform that has been rolled out in India from 1st of July 2017. With this GST implementation, the Government aims to provide a uniform & simplified tax structure across India.

As this GST implementation is able to simplify the life of a common man, the Indian eCommerce industry is worried as GST has created higher compliance challenges for the Indian eCommerce sector and its operators.

Here eCommerce operators include those who, directly or indirectly, own, operate or manage an electronic platform or website to support the supply of good/services or in delivering any information or any other incidental services over digital or electronic network (mainly the internet). For example, Amazon, Flipkart, etc. However, we have also predicted "**Impact of GST on Indian eCommerce Industry**" in our past GST write-up before the actual rollout of GST. In this blog post, we have thoroughly compared and analyzed such impacts on eCommerce sector post GST.

Let's have a look at the list of challenges that we found during such analysis:

1. Increased Onus & Compliance Burden

With the implementation of this new tax regime, eCommerce operators would be required to collect tax at source (knows as TCS) and deposit the applicable amount of GST during payment time to the supplier. This results in increased onus & compliance burden on eCommerce operators; partly because many of them have lots of vendors.

Additionally, in the existing regime, eCommerce players are considered only as service providers and are thereby needed to abide only one central service tax rule. However, under this GST law and with the resulting burden of TCS (Tax Collected at Source), those eCommerce operators will also be needed to undertake extra compliances in the States based on suppliers' locations.

2. Taxation on Stock Transfer

After this GST law implementation, Intrastate & interstate stock transfers are also considered as supplies and subjected to GST. Moreover, the defined transactions without consideration are also coming under supplies. Despite the fact that the tax paid would be accessible as credit to the eCommerce entity, this may give birth to cash flow blockages.

3. Credit is Allowed Only after Tax Payment

Credit is allowed on only those transactions for which taxes have been paid as the credit to the government.

4. Impact on Discounts or Incentives

Under GST, the tax computation is now based on transaction value (value of goods or services). This transaction value may include Pre/Post supply discount. Pre-supply discount means the discount permitted before or during the supply time and are included in the invoice. On the other hand, post-supply discounts are provided after affecting the supply. The tax is charged based on transaction value and whether the discounts will be incorporated or not relies on the discount category. If it is a pre-supply discount, it will not be incorporated in the transaction value. However, if it is a post-supply discount, then it will form the part of the transaction value. Therefore, the existing trends of offers followed by eCommerce operators, such as cash backs & promo codes will fall under the post-supply discount category and these offer trends will have to be re-examined to suit these new changes under the GST.

Key Advantages of GST for eCommerce Players:

In addition to the above challenges, there are some important benefits of GST implementation for the Indian eCommerce sector and its operators, like:

1. Cascading Taxes Abolishment

Ecommerce industry will surely get benefits from a new change under the GST, i.e. the abolishment of restrictions on cross utilization of credits. This change further facilitates the seamless credit across the supply chains, accompanied by tax set offs (the amount of tax credit that can be claimed in the VAT return) which are accessible across the production value-chain, both for goods as well as services. This will result in dropping the cascading effect of taxes plus lowering supplies' overall cost.

2. Uniform & Harmonized Tax Rates

Under the existing tax regime, the VAT rate is imposed differently for the same goods in tune with different states. For instance, Karnataka holds 5% VAT rate on mobile devices, whereas Maharashtra holds 13.5% on the same.

This state wise differentiation in VAT rate has given birth to classification disputes in the past. On the contrary, new GST rates are projected to be uniform for both the centre and states of India. And this will definitely lower down such disputes.

Conclusion:

In simple and short words, GST implementation seems more challenging for the Indian eCommerce industry than the drivers of growth. Online shopping via eCommerce portals is going to be expensive as there will be an extra amount of tax that you have to pay to the seller. On the other hand, the good thing is that the delivery of goods will take short time due to less paperwork on seller side to deliver goods in different states of India. However, the return and cancellation will become quite tough for the eCommerce sites post GST. Besides, all eCommerce portals, regardless of their turnover are needed to register for GST.