International Journal of Research in Advent Technology, Special Issue, March 2019
E-ISSN: 2321-9637
National Seminar on Ethics, Entrepreneurship & Sustainable Development on
19th & 20th March 2019
Available online at www.ijrat.org

"Impact of GST On E-Commerce and Indian Economy Opportunities and Challenges"

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ABSTRACT

The research paper is regarding impact of GST on Indian Economy. With the introduction of GST there is a condition chaos and confusion among common man. The aim this research paper is to explain the mechanism of GST and its effects on Indian economy. 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, FDI & GST

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

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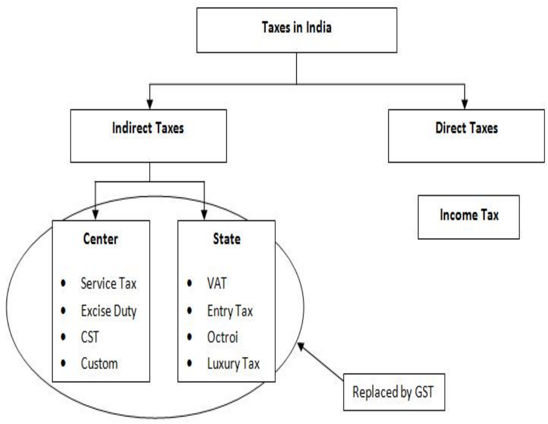
GST era. While GST is surely going to bring about much required standardization in the commerce landscape; in line with the motto 'one nation, one tax', there are several aspects of GST that will change how businesses operate.

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).



OBJECTIVES OF THE STUDY

- To enhance GDP - the GST is expected to increase both domestic and international trade which in turn is expected to increase the GDP rate in India.
- To attract FDI and other foreign investors - common tax rate system throughout the country will insure transparency in the tax regime and will act as an advantage for the companies to do business in India with a relative ease and as a result is expected to attract foreign investors.
- To simplify tax regime- single tax and lesser number of tax rates will make the tax regime much simpler as compared to the previous complex system.
- To facilitate Tax management- management of multiple taxes such as purchase tax, VAT, entry tax, service tax etc. is difficult and time consuming. It is easy to manage GST.

- To control Tax evasion - too many tax rates and multilayer tax system not only make the management difficult but also leaves room for tax evasion. In order to avoid tax evasion transparency in the tax system was must.
- To develop common national market - Earlier tax rates and policies were different in different states and in state and center. GST is aimed to develop a common national market.
- To ease the business in India - clear, transparent and unified tax will ease the business in India. Further it will reduce the cost of the manufactured goods.

LITERATURE REVIEW

Shefali Dani (**2016**) studied "Impact of Goods and Service Tax (GST) on Indian Economy" and found out that GST will simplify the current indirect heterogeneous tax structure, remove inefficiencies, is applicable and successful in over 150 countries, but it may falter in India due to likely inflation and also its impact on certain industries like telecommunication.

Lourdunathan F and **Xavier P** (**2017**) studied "Implementation of goods and services tax (GST) in India: Prospectus and challenges" and observed that GST will make one tax, one nation, will provide relief to producers and consumers through input credit set-off, will result in resource and revenue gain at both Central and State levels.

Raj Kumar(**2016**) studied "Comparison between Goods and Services Tax and Current Taxation System and found out that if we compare different taxes and duties levied under present tax system and under GST, GST will simplify the processes, bring transparency, higher output, employment opportunities and economic growth.

Garg, Girish (**2014**) studied "Basic Concepts and Features of Good and Service Tax in India" and concluded that GST will affect different sectors of the economy differently – where it will double the tax burden on food items (like cereals, grains, dairy products etc.) and thus is not preferable, it is essential for the construction, housing and FMCG industries for their growth and expansion.

Saravanan Venkadasalam (**2014**) has studied the consequence of GST on the economic growth of ASEAN States using Least Squares

Dummy Variable Model (LSDVM). As we know that seven of the ten ASEAN nations have already been using the GST. He recommended that the household final consumption expenditure and government general consumption expenditure are positively considerably related to the GDP (Gross Domestic Product). But the outcome of GST differs in countries. Philippines and Thailand show major negative relationship with their national growth. On the other hand, Singapore shows a momentous positive relationship

METHODOLOGY

Since we have conducted an explanatory research, the paper is based on secondary data including journals, newspapers, magazines, and articles. Descriptive type research design has been adopted to provide more accuracy and better analysis of research study. The secondary data has been utilized for research study.

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.

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 ON INDIAN ECONOMY

The Goods and Service Tax (GST) is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country"s tax to GDP ratio and also inhibit inflation. The GST Council has finalised a four-tier GST tax structure of 5 per cent, 12 per cent, 18 per cent and 28 per cent, with lower rates for essential items and the highest for luxury and de-merits goods, including luxury cars, SUVs and tobacco products, that would also attract an additional cess. Moreover, with a view to keeping inflation under check, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed at zero rates. The cess is expected to provide additional resources to the central government to compensate states for losses incurred. An economy of a country can grow only if its people and their businesses grow as well as there is an increase in the Government revenue in the long run. The following points affirm how the GST will impact the Indian economy:

- **Reshapes Indirect Tax Structure:** Goods and Services Tax or GST is **a destination based indirect tax that will mitigate the cascading effect of taxes**. The GST will reshape the structure of indirect tax by subsume the majority of indirect taxes like Service tax, excise duty, Value Added Tax (VAT), Countervailing Duty (CAD), Special Additional Duty of Customs (SAD), Central Sales Tax (CST) etc. This will do away with the complex structure of indirect tax of the country, thus improving the ease of doing business in the country.
- **Exports:** GST will also remove the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction. Exports will become competitive as the GST regime will eliminate the cascading effect of taxes. A National Council of Applied Economic Research study suggested that GST could boost India‟s GDP growth by 0.9-1.7 percent.
- **Gross Domestic Product:** In terms of growth impact of GST implementation, the near-term could be a mess, with adjustment costs for the private sector is grappling with inter-sector implications, and the central government (CG) trying to compensate states for revenue loss. If the GST rate is set at around the 17-18%, service producers would face an increased tax burden while manufacturers would see a fall. That could cause manufacturers not to pass through benefits and service providers to pass on costs, moves that would lower consumption and overall growth. At present, the effective indirect tax rates on services and goods are 15 percent and 22.5 percent, respectively.
- **Inflation:** Initially, the implementation of the GST in the near-term could bring some upturn in inflation; however, the effect should be transitory. The service tax rate could shoot up from the current level of 15 percent (including Krishi Kalyan Cess). Under the GST tax regime, this tax rate may go up to 18%. This has led to fears that inflation could rise in the short term.

- **Foreign Direct Investment (FDI):** The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption. The GST will be good one for the Indian rupee (INR). So far, the currency has yet to see a GST boost. It is believed that GST will lead to wider foreign direct inflows of investment and a narrow current account deficit-factors that should help the INR eventually outperform other Asian and emerging market currencies.
- **The impact of GST on Make–in–India:** The „Make in India‟ campaign is proposing to make India a world-class manufacturing hub. GST will play a crucial role to attract large-scale investment. The impending Goods and Service Tax promises a progressive tax system which avoids cascading of taxes and will help in establishing India as a true common market. A Finance Ministry report said that the GST regime will boost the 'Make in India' programme as manufacturers will get input tax credits for capital goods.
- **Credit to Manufactures:** Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, therefore, incentivizing firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganized sector, which is not part of the value chain, would be drawn into the tax net.

BENEFITS OF GST

- There will be lesser compliances. This will simplify the life of a taxpayer as 17 indirect taxes have been subsumed. It will also decrease compliance costs.
- GST will increase transparency as it will unify the national market, blurring the State lines and

manufacturing sector will have bigger areas for prospective markets.

- No cascading of taxes – Cascading of taxes in the current system i.e. tax on tax will reduce and the domestically produced goods will become cheaper with lesser tax and logistics costs for the consumers.
- Since all taxes are integrated under GST system, it will lead to equitable distribution of tax burden on manufacturing and services.
- It will remove cascading of taxes as it will be charged only at the final destination of consumption, similar to the principle of VAT.
- GST increases the Government revenue, by enhancing the tax base.
- Regulating the unorganized sector – Some industries in our country such as textile and construction are mainly unorganized and unregulated. GST has requirements for online payments and compliances, claiming of input credit only at the time, the supplier has received the amount, thus bringing regulation and accountability to these industries.
- GST will remove custom duties levied on exports. India's competitiveness in foreign markets will rise due to lower cost of transaction.
- Defined treatment for e-commerce – Many Indian companies sell goods and services on the internet. States have different VAT laws for the e-commerce sector. Example – websites like Jabong amazon, myntra, etc transporting goods to Uttar Pradesh have to submit the registration number of the delivery truck and a VAT declaration.
- GST will improve the exports. As the cost of Production descends in the Indian market, domestic goods and services become price competitive in foreign markets.
- Increased efficiency in logistics - The logistics industry in our country had to maintain several warehouses across states to evade the current CST(Central Sales Tax) and state entry taxes on movement across States. Many a times, these warehouses are required to work below their capacity therefore increasing their operating costs.
- GST will encourage to Make in India. The GST implementation will attract competition in the manufacturing sector because it will attend to the concerns of fragmented market, cascading effect, high logistics costs, and inter-state tax. Also, GST will entail suitable countervailing duty giving improved protection from imports

PROBLEMS WITH GST

- While the GST will simplify tax structure, it will increase the burden of procedural and documentary compliance. Number of returns will increase significantly so also the extent of information. For instance, a real estate developer or contractor will have to file 61 returns in a year compared to 24 returns at present. Similarly a taxable person providing services from several states will have to take registration and file return in all such states. Currently a single centralized registration is required in such cases.
- GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.
- It is also pertinent to note that all indirect taxes will not be subsumed in GST. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products like crude, natural gas, ETF, petrol and diesel will not be subsumed in GST on its introduction. These taxes will form part of the cost of these goods when used as inputs in downstream products. Hence those sectors where these goods form significant input cost such as plastics and polymers, fertilizers, metals, telecom, air transport, real estate will not get full benefit of GST.
- Major beneficiary of GST would be sectors like FMCG, Pharmacy, Consumer Durables and Automobiles and warehousing and logistic industry.
- High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate,
- While GST is eagerly awaited by the industry, the legal process to implement GST in India is quite long and complex. After the Constitution Amendment Bill is passed by the Parliament with two-thirds majority, it will have to be passed by at least 15 states. There after GST council has to be constituted which will recommend model GST law and GST rates. On such recommendation, GST Act and Rules have to be enacted by the Parliament and each state assembly. Then implementation date has to be notified. It is therefore quite important that the Constitution Amendment Bill is passed in the current Monsoon Session if GST is to be implemented during the tenure of present Parliament which ends during 2019.

CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. 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 centers 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.

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