Goods and Services Tax: An Analytical study In E- Commerce Sector in Indian context

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Abstract: GST from 1st July 2017 replaced a complex indirect tax regime comprising of Service Tax, VAT, Excise Duty and more. The goals were to streamline the tax system, solve the cascading 'tax on tax' issue and establish a unified national market. The switch wasn't an easy one for companies at the time that were part of the digital economy. Digital marketing was a key component of the business operations in India by 2017. Services, such as SEO, social media management, content creation, emails, paid advertising, and web development were no longer the tools of the big companies — even small businesses were turning to them. This exposed the sector somewhat to any change in the tax regime. Prior to GST, digital marketing services were subjected to 15.3% tax, which is 15% Service Tax + 2% Education Cess. This increased to 18% with the introduction of GST. This was enough to encourage changes in pricing, cash flow management and supplier contracts for agencies with thin margins. GST had new compliance needs that weren't in existence earlier, and that were new to newer agencies such as Spot Digital — registration, regular return filing, invoice discipline and ITC reconciliation. There were advantages also: a formal recognition as a business, input credit and the ability to run a business in multiple states under a single registration. We selected this particular agency named Spot Digital out of the many digital marketing agencies in Bengaluru, as they provide all the above mentioned services. It's because it's a small agency that has been operating since GST was introduced, and it provides a valuable insight into the way a small agency grows its business within the GST system, and not as part of a transition to it.
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Introduction

Goods and Services Tax (GST) is an indirect tax (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multistage, destination based tax: comprehensive because it has subsumed almost all the indirect taxes except a few state taxes. Multi-staged as it is, the GST is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination based tax, it is collected from point of consumption and not point of origin like previous taxes. E-commerce consumption taxation has been discussed in the context of catalogue and mail order sales, as well as broader service taxation. The potential scale of aggregate transactions, on the other hand, has pushed the issue to its limit. Exemption from consumer taxes such as Sales Tax/GST/VAT may have serious fiscal policy effects, hence well specified policies on their tax treatment are critical. Failure to enforce the consumption tax on on-line transactions could result in considerable income losses for state governments, who rely heavily on combined sales tax/VAT revenue. It's vital to underline the competitive edge that internet retailers have over their brick-and-mortar competitors as a result of this procedure. This "distorts company decisions as well as what and how customers buy." Vertical disparities in tax liabilities develop because the wealthy are less likely to use the internet and transact than the poor. The substantial complexity and costs of compliance are used as arguments against mandating online sellers to collect sales tax. However, if tax structures and laws are simplified, internet technology makes it possible to collect sufficient consumption tax at a reasonable cost. States having the intention of taxing consumption, implying that the target taxpayer is the consumer. When it comes to imposing a consumption tax, different legal systems are used by different countries and jurisdictions. The taxing jurisdiction for all in-state transactions is the state where consumption is planned or anticipated. The seller is the ultimate taxpayer and collects tax from the consumer.

REVIEW OF LITRATURE:

Antonia Troisi and Laura Gatta (2010) show that a gloomy view of public finance's involvement in meeting and dispersing the costs of transitioning from a command to a market economy is correct. In conclusion, the researchers state that, while referring to the specific situation of Albania, the structural reform index model allows them to debate alternate perspectives on the nature and causes of the fiscal phenomenon's impact on the transition process. Om Prakash and A.S. Sidhu (2011), tax plays a key role in the overall growth of a developing economy like India because it contributes significantly to the national exchequer, which is then spent on the overall development of various sectors of the economy. The study compares the impact of direct tax reforms on the Indian economy to the pre-reform period in terms of key economic metrics. According to the findings, tax reforms implemented during the post-liberalization period did not produce the expected results. The reduction in direct tax rates may not result in the anticipated level of tax compliance. According to the researchers, tax reforms increased the number of assessees, but the resulting increase in tax revenue was insufficient. The majority of taxes are paid by low-income people Ludwing F.M. Reinhard and Steven Li (2011) examine the impact of taxes and the tax changes resulting from the 2000 tax reform on the financing and investment decisions of a sample of German publicly traded companies from 1996 to 2005. In contrast to the German government's perception, the findings do not support the idea that corporations intentionally alter their financial structures to decrease their corporate tax payments. Market opportunities and market pressures have a considerably greater impact on investment decisions than tax considerations, according to the study. In light of the findings, the researchers question whether the recent tax reforms will be able to achieve the goals. Panos Hatzipanayotou and et al. (2011) create a fully competitive general-equilibrium model of a small open economy with private traded goods production and a public good supported by trade and domestic taxes. Researchers look at the effects of the following tax reforms on public goods provision and welfare: I a producer-price-neutral reduction in export taxes and a corresponding increase in production taxes, (ii) a consumer-price-neutral reduction in tariffs and a corresponding increase in consumption taxes, and (iii) a partial tax-revenue-neutral reform in trade and domestic taxes. Regi, S & Anthony, S & Golden, Rahul. (2017). GST is a novel occurrence in Indian taxation history. It is possible to say that it is India's tax revolutions. It has gone through a number of stages in the Indian tax system. GST implementation in India is a difficult task. Even though it was first adopted in the world in 1954 in France, it took this long for it to reach India. The author of this study accurately discusses the GST and its history. K, VIJAYA & MAITHEEN, JABIMOL. (2017). The e-commerce sector's growth is primarily based on the growing number of retail entrepreneurs who operate in the unorganised retail sector. With the goal of widening the tax base, the government has included such players in the scope of GST and has made specific measures for e-commerce enterprises. This is one of the most significant tax innovations in the Indian tax system. GST will be implemented to integrate all state economies and boost the country's overall growth. GST will unify the market and help the Indian economy grow. The GST (Goods and Services Tax) is a value-added tax that will be imposed in India. Saxena, G. (2018). GST (products and services tax) is a largely centralised and unified indirect taxation system on goods and services that would shape India into a single market. On the one hand, GST is being hailed as a paradigm shift in India's taxation system, as it will encompass all indirect taxes levied on manufacturing, sale, and consumption of goods and services across the country; on the other hand, there is much controversy surrounding its implementation, as it is widely believed that it will provide no benefit to the country as a whole and will instead create more ambiguity between states and the centre. The current chapter addresses this difficulty and inconsistencies by commenting on the many features and implications of GST, notably on the Indian e-commerce business, in light of the transition in the Indian taxation structure and the establishment of the GST. Banerjee, Tuhin. (2018). In India, e-commerce has grown significantly during the previous decade. The sector's growth has been hampered by a slew of indirect taxation difficulties. The goods and services tax (GST) is supposed to simplify taxation for e-commerce businesses. This chapter looks at the essential components of GST, such as existing taxes that will be replaced by GST, GST registration, taxable events under GST, GST assessment, GST payment, GST refund and audit, and GST compliance. Dr. Ritu Sharma (2018).. In the event of economic strategies, taxation assumes an essential job and the ongoing tax reforms which the government of India has embraced is one reason for its economic accomplishments on the planet situation the impact of the recently implemented Goods and Services Tax in the field of the Indian online business industry. The Goods and Service Tax was presented in India in July 2017. The online business industry is one of the most elevated donors of Indian economy. The previous indirect tax framework is one of the obstacles for the web based business industry in India in accomplishing greatest potential. Pandey, Pramod. (2020). In India, the e-commerce industry is exploding. After China and the United States, it now ranks third in the globe. Earlier indirect tax policies caused a lot of confusion and litigation, and also slowed down the expansion of the E-Commerce industry in India. The government has also lost a significant amount of money as a result of improperly linked indirect taxes and tax evasion. GST is now expected to close loopholes in previous indirect tax regulations, simplify the tax system, and lower the overall tax rate. However, the impact of GST on the E-Commerce sector will differ from that on other sectors of the economy. The main goal of this study is to assess the impact of GST on E-Commerce in India from the perspective of all interested parties. Sengupta, Sarthak & Dhuria, Apoorva & Munjal, Tina & Vaish, Anurika. (2020). A Research Paper on the Goods and

Services Tax (GST). The Goods and Services Tax (GST) is an indirect tax designed to help the country's economic growth. The Goods and Services Tax Bill has been enacted in the majority of developed countries (GST). GST, on the other hand, was implemented in India in 1999. A committee was formed to draught the GST model. The Indian government, however, re-launched GST on July 1, 2017. There was a lot of clamour for it to be implemented. The GST replaced all of the various taxes levied by the state and federal governments. That is why the phrase "One Nation, One Tax" refers to the fact that there is no need to pay any other tax everywhere in the country. The paper examines the impact of GST in India in detail.

THEORITICAL IMPLICATION OF IMPACT OF GST ON E-COMMERCE SECTOR

1. Taxation Theory: The implementation of GST has simplified taxation in the e-commerce sector by replacing the complex system of multiple taxes with a single tax system. This has implications for taxation theory, as it demonstrates the benefits of a uniform tax system that reduces the compliance burden on businesses.
2. Digitalization Theory: The e-commerce sector is heavily reliant on digital technologies, and the implementation of GST has encouraged digitalization in the sector. E-commerce businesses have had to update their IT systems and register with the GST network, which has led to an increase in digitalization. This has implications for digitalization theory, as it demonstrates how taxation policies can encourage the adoption of digital technologies in business.
3. Compliance Theory: The implementation of GST has led to an increase in compliance in the e-commerce sector. E-commerce businesses are now required to register with the GST network, update their IT systems, and file regular tax returns, which has led to a reduction in tax evasion and improved revenue collection for the government. This has implications for compliance theory, as it demonstrates how taxation policies can incentivize businesses to comply with regulations.

Regulatory Framework for E-Commerce under GST

The Central Goods and Services Tax (CGST) Act specifically defines the operational boundaries for digital trade through two primary definitions:

- Electronic Commerce Operator (ECO): Defined under Section 2(45) as any person who owns, operates, or maintains a digital or electronic facility or platform for electronic commerce (e.g., Amazon, Flipkart).
- E-Commerce Supplier: Physical merchants or service providers who leverage these digital platforms to sell products or services directly to the final consumer.

The Mechanism of Tax Collection at Source (TCS)

One of the most distinctive features introduced for digital platforms is **Section 52 of the CGST Act**, which mandates the statutory mechanism of Tax Collection at Source (TCS):

Net Value of Taxable Supplies = Gross Value of Supplies - Value of Returned Supplies

ECOs are required to deduct TCS at a statutory rate (typically 1%: split as 0.5% CGST and 0.5% SGST for intra-state sales, or 1% IGST for inter-state sales) from the net value of taxable supplies made through their platform by third-party vendors. This collected amount must be remitted to the government by the 10th day of the succeeding month using form **GSTR-8**.

Pre-GST vs. Post-GST Comparative Analysis

The operational realities of running an online marketplace transformed substantially after the 2017 tax reform:

Key Parameter	Pre-GST Regime	Post-GST Regime
Tax Structure	Fragmented levies (VAT, Central Sales Tax, Entry Tax, Octroi, Service Tax).	Unified multi-tiered destination tax (CGST, SGST, IGST).
Cascading Effect	High. Tax-on-tax occurred as Central Sales Tax (CST) paid on inter-state movement could not be set off against state VAT.	Eliminated. Seamless **Input Tax Credit (ITC)** flows across the entire supply chain.
Inter-State Logistics	Slow and inefficient. States imposed arbitrary entry taxes; vehicles faced prolonged clearance checks at state border checkpoints.	Fast and seamless. Removal of physical check posts and implementation of the electronic **E-Way Bill** system.
Registration Threshold	Standard state-wise thresholds applied based on local VAT laws.	Mandatory registration for all suppliers selling via ECOs, irrespective of turnover (with selective exemptions for services introduced later).

Core Impact on the E-Commerce Ecosystem

An evaluation of the digital marketplace reveals distinct structural advantages alongside persistent operational challenges:

Positive Dynamics

- **Supply Chain and Warehouse Optimization:** In the pre-GST era, e-commerce firms built highly fragmented networks of small warehouses across multiple states purely to avoid cascading inter-state taxes (CST). Post-GST, companies consolidated these operations into large, strategically located, and highly automated fulfillment centers based purely on logistics efficiency rather than tax avoidance.
- **Leveling the Playing Field:** Unified tax rates across both online and offline channels eliminated the aggressive tax-arbitrage pricing that previously distorted the brick-and-mortar retail ecosystem.
- **Formalization and Transparency:** Every transaction processed through an ECO leaves a verifiable digital footprint via TCS tracking. This significantly reduces the shadow economy and controls tax evasion among online retail merchants.

Operational Challenges

- **The Burden of Compliance:** E-commerce operators must obtain separate GST registrations in every Indian state where their suppliers operate or where they maintain fulfillment hubs. Small businesses often struggle with the financial cost of recurring monthly return filings (**GSTR-1, GSTR-3B, and GSTR-8**).
- **Working Capital Blockage:** The mandatory deduction of TCS captures liquidity upfront. While suppliers can claim this back as an Input Tax Credit, the time lag between tax extraction at source and return filing creates temporary working capital crunches for micro, small, and medium enterprises (MSMEs).
- **The Product Returns Dilemma:** The e-commerce sector experiences structurally high product return rates (often ranging between 15% and 30%). Modifying filed returns and reconciling TCS calculations for cancelled or returned orders adds significant administrative complexity to corporate accounting.

Conclusion

The implementation of the Goods and Services Tax (GST) on **July 1, 2017**, marked a paradigm shift in India's fiscal landscape. By replacing a fragmented system of 17 central and state indirect levies (such as VAT, Central Excise, and Service Tax), GST aimed to create a unified national market under the principle of *"One Nation, One Tax."*

Among all sectors, the **E-Commerce sector** experienced one of the most structural transformations. An analytical study of this sector reveals a dual narrative of enhanced supply chain efficiency alongside significantly heightened compliance mandates.

The implementation of GST in India successfully resolved the historical challenges of double taxation and fragmented logistics that held back online marketplaces. It integrated the e-commerce sector into a formalized national economic framework.

However, for the sector to reach its projected valuation of **$350 billion by 2030**, continuous regulatory refinement is essential. Simplifying the multi-state registration process for marketplace operators and reducing compliance friction for small MSME vendors will be critical to sustaining India's digital trade expansion.

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