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Online Business Effect on Government Revenue from Tax

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ABSTRACT: Government revenue or national revenue is money received by a government from taxes and non-tax sources to enable it to undertake public expenditure. Government revenue as well as government spending are components of the government budget and important tools of the government's fiscal policy. The collection of revenue is the most basic task of a government, as revenue is necessary for the operation of government, provision of the common good (through the social contract in order to fulfill the public interest) and enforcement of its laws; this necessity of revenue was a major factor in the development of the modern bureaucratic state.[1]

Government revenue is distinct from government debt and money creation, which both serve as temporary measures of increasing a government's money supply without increasing its revenue.

KEYWORDS: government revenue, tax, online business, national, tax, effect, fiscal, good, money, state

I.INTRODUCTION

There are a variety of sources from which government can derive revenue. The most common sources of government revenue have varied in different places and time periods. In modern times, tax revenue is typically the primary source of revenue for a government.[1] Types of taxes recognized by the OECD include taxes on income and profits (including income taxes and capital gains taxes),[1] social security contributions, payroll taxes, property taxes (including wealth taxes, inheritance taxes, and gift taxes), and taxes on goods and services (including value-added taxes, sales taxes, excises, and duties).[2] Besides, lotteries can also bring in considerable revenue for the government.[2] In early 2009, the Australian government used lotteries to boost spending, generating more than $60m in additional tax revenue for state governments. [3]

Non-tax revenue includes dividends from government-owned corporations, central bank revenue, fines, fees, sale of assets, and capital receipts in the form of external loans and debts from international financial institutions. Foreign aid is often a major source of revenue for developing countries, and for some developing countries it's the primary source of revenue.[1] Seignorage is one of the ways a government can increase revenue, by deflating the value of its currency in exchange for surplus revenue, by saving money this way governments can increase the prices of goods.[3]

Under a federalist system, sub-national governments may derive some of their revenue from federal grants. [4]Most governments have a finance minister that oversees government revenue. Governments may also have a separate revenue service dedicated to the collection of revenue.

Online business is any kind of business or commercial transaction that includes sharing information across the internet. Commerce constitutes the exchange of products and services between businesses, groups, and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of information and communication technology to enable the external activities and relationships of the business with individuals, groups, and other businesses,[5] while e-business refers to business with help of the internet. Electronic business differs from electronic commerce as it does not only deal with online transactions of selling and buying of a product and/or service but also enables to conduct of business processes (inbound/outbound logistics, manufacturing & operations,[6] marketing and sales, customer service) within the value chain through internal or external networks.

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Advantages

The many benefits of online business include:

- global access, 24 hours a day, 7 days a week
- improved client service through greater flexibility
- cost savings
- faster delivery of products
- increased professionalism
- less paper waste
- opportunities to manage your business from anywhere in the world.[7]

Disadvantages

- Impersonal
- Technology Gap
- Competition
- Customer Service
- Internet Connectivity[8]

Impact of Online Business on Indian Economy

The Indian online grocery market is estimated to reach US$ 18.2 billion in 2024 from US $1.9 billion in 2019, expanding at a CAGR of 57%. India's e-commerce orders volume increased by 36% in the last quarter of 2020, with the personal care, beauty and wellness (PCB&W) segment being the largest beneficiary. India's consumer digital economy is expected to become a US$ 800 billion market by 2030, growing from US$ 537.5 billion in 2020, driven by strong adoption of online services such as e-commerce and edtech in the country. According to Grant Thornton, e-commerce in India is expected to be worth US$ 188 billion by 2025.With a turnover of $50 billion in 2020, India became the eighth-largest market for e-commerce, trailing France and a position ahead of Canada. According to NASSCOM, despite COVID-19 challenges/disruptions, India's e-commerce market continues to grow at 5%, with expected sales of US$ 56.6 billion in 2021.[9]

Propelled by rising smartphone penetration, launch of 4G network and increasing consumer wealth, the Indian E-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion in 2017. Online retail sales in India is expected to grow 31% to touch US$ 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall. After China and the US, India had the third-largest online shopper base of 140 million in 2020.[10]

Indian consumers are increasingly adopting 5G smartphones even before roll out of the next-gen mobile broadband technology in the country. Smartphone shipments reached 150 million units and 5G smartphone shipments crossed 4 million in 2020, driven by high consumer demand post-lockdown. According to a report published by IAMAI and Kantar Research, India internet users are expected to reach 900 million by 2025 from ~622 million internet users in 2020, increasing at a CAGR of 45% until 2025.E-commerce has transformed the way business is done in India. The Indian E-commerce market is expected to grow to US$ 111.40 billion by 2025 from US$ 46.2 billion as of 2020. By 2030, it is expected to reach US$ 350 billion. By 2021, total e-commerce sales are expected to reach US$ 67-84 billion from the US$ 52.57 billion recorded in 2020.Much of the growth for the industry has been triggered by an increase in internet and smartphone penetration. As of July 2021, the number of internet connections in India significantly increased to 784.59 million, driven by the ‘Digital India’ programmed. Out of the total internet connections, ~61% connections were in urban areas, of which 97% connections were wireless.[11]

II.DISCUSSION

E-Commerce has become an important part of many multilateral negotiations such as Regional Comprehensive Economic Partnership (RCEP), WTO, BRICS etc. E-Commerce still faces various issues like international trade, domestic trade, competition policy, consumer protection, information technology etc.[12] As a growing sector with huge interest from both domestic and international players, it becomes pertinent to regulate it keeping in mind the

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interest of both entrepreneurs and consumers. A conducive environment and a level playing field should be encouraged. Policymakers should also be mindful of shaping a vibrant domestic industry. A comprehensive policy is of utmost importance to reflect India's position in both domestic and international or multilateral forums.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.[13] 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. [14]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.[15]

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.[16] 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 for Goods and Services Tax once such threshold limit is breached. Click here to read more about threshold limits under GST. 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.[17] 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%. 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. [18]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.[19]

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

Get your GST enrolment done on time. To read more about the enrolment process and its relevance[20]

Plan your logistics and warehousing requirement carefully. To read our detailed guide on impact analysis on logistics and warehousing

Adopt such platforms, technologies which will enable your business to be GST compliant. Click here to get all updates and access a pool of GST Calculators.

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.[21]

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III.RESULTS

Under the GST regime, all products and services are uniformly taxed across the nation. There has been a significant decrease in the number of taxes that businesses had to pay.It has also become easier for the government to keep track of tax evasions and illegal activities.GST on eCommerce businesses has largely increased employment opportunities in this sector, has increased the ease of doing business, improved cross border trade, and has given a boost to entrepreneurs and innovators.[22]

GSTs registration to help small eCommerce businesses get access to formal credit :-

In India, the informal sector accounts for more than 93% of the working population. With the implementation of GST, the Indian government saw an addition of 4 million salaried people from September 2017 to April 2018.Why? For eCommerce sellers, the biggest advantage of GST had been the input tax credit. This gave incentives to businesses to register themselves.(Input Tax Credit: If a seller has already paid taxes when buying raw materials, the tax they pay for the final product is adjusted.)Registering your small business with the government gives you a whole host of benefits. With relevant and updated documents you can take loans from the government, banks or non-banking financial companies.This access to formal credit not only protects you from scams, frauds, and arbitrary interests imposed by unofficial loan sharks, it also helps grow your business profit margins.[23]

1. Removal of the cascading tax effect

Earlier, each stage of the production had a separate tax. Along with that, there was a tax for the central government and for the state government. each state had different tax quotas.This created a sort of a cascading effect where an individual had to pay a tax on an already taxed good.Now, all kinds of indirect taxes are consolidated under one umbrella. This reduces the total tax that an eCommerce business owner needs to pay when selling online.

2. Reduction in logistics costs to benefit eCommerce businesses

Interstate travel of goods used to be a huge burden to eCommerce business owners. Since different states had different taxation rates, vehicles carrying goods usually had to stop at multiple checkpoints for long hours to clear the paperwork![24]

The removal of multiple state-level taxes has helped eCommerce businesses by

- Allowing them to choose profitable vendors from other states
- Keep inventory in warehouses around the country to reduce delivery times

3. Expansion to new cities

The states that once used to have different taxes on different products now have a uniform taxation system in place.GST on eCommerce businesses has allowed online sellers to expand to new cities and increase their customer bases.If you want to sell online in different states, you don’t have to modify the prices according to each state.[25]

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GST on eCommerce businesses to simplify taxation

The implementation of GST has also drastically impacted the tax filing processes. eCommerce business owners today don't need to worry about long back and forth with tax authorities, delays, discrepancies across state governments, and so on.All compliances can now be done online. Through GST portals established by the Indian government, eCommerce business owners can now:

- Register online through customised apps provided by GSTN and ST Suvidha Providers
- Upload invoices in real-time instead of tracking all of them at the end of a financial year
- File refund claims online with self-declaration forms[26]

Every process is digitized and automated, which means that every process has a structured and consistent timeline. You can get your registration done within 3 days and settle refund claims within 60 days.

IV.CONCLUSIONS

Goods and Services Tax or GST is an indirect tax regime used in India on the supply of goods and services. GST came into action on July 1st, 2017 through the implementation of the One Hundred and First Amendments of the Constitution of India by the Government of India. It replaced existing multiple taxes levied by the central and state governments.GST has brought in a 'one nation one tax system', it is a comprehensive,[27] destination-based, multistage, tax and it has successfully subsumed almost all the indirect taxes except a few state taxes. The effect of this new tax regime on various industries is slightly different. The differentiation's first level will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.Goods and Services Tax is actually increasing competitiveness and performance in India's manufacturing sector. However, declining exports, as well as high infrastructure spending, are a few of the concerns in this sector. Earlier there were multiple indirect taxes that had increased the administrative costs for manufacturers and distributors, But with GST in action, they are getting relaxation on compliance burden and due to it the sector is expected to grow more robustly.[28]As per the report of March 2014, there were 12lac+ service tax assessees in India but only the top 50 paid more than half of the tax collected nationwide. Most of the tax is collected by domains such as IT services, the Insurance industry, telecommunication services, business support services, Banking and Financial services, etc. All these pan-India businesses are already working in a unified market and will see a reduced compliance burden after GST. The benefits all come with GST also need an important step from the service provider side now they will have to separately register every place of their business in each state.[29]

GST Impact on Agriculture

As you already know With around 16% of the Indian GDP, the agricultural sector is doing the largest contribution to the overall Indian GDP. But it doesn't mean that everything was profitable in this sector Before the GST one of the major issues of this sector was the transportation of agri-products across state lines all over India. GST with less taxation is helping but it is still much, thus it is expected through GST to resolve the issue of transportation

GST Impact on Automobiles

There is a huge benefit to GST on Cars. GST actually provided the best benefits to the buyer and almost every part of this sector. The Indian automobile industry is a vast business producing a large number of cars annually. There were several types of taxes applicable to this sector like excise, VAT, sales tax, road tax, motor vehicle tax, and

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registration duty before GST but now everything is adjusted in GST. Buyer has to pay extra cess rate along with applicable GST.[30]

GST Impact on FMCG

The FMCG sector is also getting some benefits due to the new taxation regime, It is experiencing notable savings in logistics and distribution costs. It happens because the GST has eliminated the need for multiple sales depots.

GST Impact on Freelancers

Freelancing in India is still not a vast industry, thus the rules and regulations for this growing industry are still up in the air. GST's online scheme makes most things much easier for freelancers to file their taxes online. In the GST regime, they are taxed as service providers, and the new tax structure brought clarity and accountability to this sector.

GST Impact on E-commerce

The Ecommerce sector is growing rapidly in India and GST is supporting the e-com sector's continued growth In many ways, the long-term effects are going to be particularly interesting because the GST law introduces a Tax Collection at Source (TCS) mechanism. E-commerce companies are not too happy with TCS now however currently the rate of TCS is at 1%. Recently a new section is included, section 194-O defines the applicability of TDS on E-commerce transactions.

GST Impact on Logistics

India is a vast country and probably the logistics sector forms the backbone of the economy. We can easily assume that a well-established and mature logistics industry has the potential to give a boost to the "Make In India" initiative of the Government of India to a desired and suitable position soon.[28]

GST Impact on Pharma

If we observe the performance of the pharma and healthcare industries then we can clearly see that the GST is benefiting these industries. The GST created a level playing field for generic drug makers and also boosted medical tourism. Additionally, It simplified the tax structure. However, there is a concern related to the pricing structure only and the sector is hoping for a tax respite, and if it happens then it will make healthcare easier, affordable and within reach of everyone.

GST Impact on Real Estate

It is one of the most pivotal sectors of the Indian economy, Real Estate is playing an important role in employment generation in India. The impact of GST can't be seen soon due to the dependency on tax rates. However, the real estate sector will see substantial gains from Goods and Services Tax implementation, because it brought transparency and accountability to this sector.[29]

GST Impact on Startups

It brings some beneficial changes already for this sector such as increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services. Before the GST, many Indian states had their own different VAT laws which were confusing for companies that have a pan-India presence, especially in the e-commerce sector. Most of the issues have been solved under GST.

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GST Impact on Telecommunications

We have seen a bit of price cut in this sector too, but due to the regular changes finding the accurate answer is hard. However, in the telecom sector, prices decreased after GST for some time. Manufacturers will save costs through efficient management of inventory and by combining their warehouses. Similarly, it will be much easier for Handset manufacturers to sell their stuff or equipment as the GST system has negated the requirement to set up state-specific entities, and transfer stocks which will result in saving up on logistics costs.

GST Impact on Textile

With a contribution of about 10% of the total annual export, the textile industry contributes to the employment of a large number of skilled and unskilled workers in the country. The good news is that the contribution value is expected to increase under GST. GST is affecting the cotton value chain of the textile industry which is preferred by most small-medium enterprises because it previously attracted no central excise duty (under an optional route).[30]

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