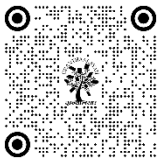


EVALUATING THE EFFECTIVENESS OF THE INDIAN TAX REGIME IN REGULATING THE E-COMMERCE SECTOR

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ABSTRACT

The influencing role of the rapid growth in the e-commerce segment of the Indian market has redefined digital economy and has brought distinct problems to the old tax administration system. In turn, the Indian government has put into operation a couple of tax policy interventions including the Goods and Services Tax (GST), Tax Collected at Source (TCS) and the Equalisation Levy that can augment tax compliance, seal revenue leaks and bring online transactions into the official tax net. This research paper critically appraises the Indian tax regime in controlling the escalating e-commerce industry using both the primary and secondary data. The research design applied in the study is a descriptive research approach, whereby a survey process of 100 respondents comprising of e-commerce sellers, tax consultants and consumers will take place. The results show that although transparency through processes like registration of GST and facilitating TCS has improved, lack of clarity and complicatedities associated with compliance in cross-border transactions have been largely impediments. The Equalisation Levy is novel and yet it has raised criticisms, some of these are unilateralism and a potential conflict with international tax norms. The trends in secondary data indicate the growing share of the e-commerce realm of business to GST collections and growing significance of digital taxation towards revenue mobilisation as a whole. Nevertheless, small, unregistered sellers still experience problems because of low digital literacy and regulatory awareness. It is an observation the research makes that despite the optimistic steps that India has taken towards its taxation system, particularly in tailoring it to the modern-day digital economy, it remains in need of simplifications, reaching out of its stakeholders, and bearing down in comparison to international tax regulations. Some of the recommendations involve clarification of the policies, increasing the facilitation of compliance, and enhanced cooperation with international tax institutions. The study is useful in current policy debates because it has improved understanding of the loopholes and opportunities in e-commerce taxation in India and gives a roadmap of a more comprehensive and efficient digital tax policy.

Keywords: Indian Tax Regime, E-Commerce, Goods and Services Tax (GST), Equalisation Levy, Digital Taxation, Etc

1. INTRODUCTION

The burst of the e-commerce industry in India has presented immense opportunities as well as challenges to the tax regime of the country. As the digital economy radically transforms the outlines of trade and commerce, it is common to find that, in many cases, the conventional tax regimes have either not been able to keep up with the ever-changing and boundary-free manner in which online transactions are currently being carried out (Bhatia & Jain, 2021). Indian government, especially with the introduction of Goods and Services Tax (GST) in 2017, has made significant changes to achieve coherence and effective administration in taxation of the goods, to attain uniformity and efficiency of indirect taxes, including some dedicated to e-commerce activities (Rao & Mukherjee, 2020). Nevertheless, little is common

between these measures when used to control the fast changing e-commerce environment, whether in terms of debates or serious evaluations.

Indian tax regime has come up with the mechanisms of Tax Collected at Source (TCS) under Section 52 of the CGST Act and the Equalisation Levy that is expected to enhance the tax compliance and widen the tax base in the digital domain (Saxena & Gupta, 2022). Although these initiatives have raised awareness of such transactions on e-commerce, there are still apprehensions toward efficiency of enforcing it, costs of compliance on small sellers, the ability of foreign digital providers to avoid tax, and the absence of an inclusive digital economy taxation scheme (Kumar & Sharma, 2019). Further, the OECD has been working on the Base Erosion and Profit Shifting (BEPS) project, which adds to the complications and provides little to no effect on the regulatory process and demands a reassessment of how India implements it (Mehta & Bhattacharya, 2021).

The current study aims to provide a critical analysis on the extent to which the tax regime (especially GST and other associated digital taxes) in India can suit the peculiarities of the e-commerce field. It seeks to determine mismatches in policy design and implementation on the ground, the stimulation of taxation effect on compliance attitude by players participating in the e-commerce and propose changes to tax administration to be in tandem with the digital economy. The rise of e-commerce as a factor of both scope and complexity in connection to the industry necessitated a powerful yet dynamic tax framework to help close the gap on uneven taxation, expose potential revenue leakage, and establish a level playing field between the digital and traditional businesses (Tripathi & Srivastava, 2020).

This paper also adds to the argument about tax modernization and handling a digital economy present within emerging economies today, as viewed through the lens of the current tax policy effectiveness and its potentially negative impacts on the e-commerce industry.

2. REVIEW OF LITERATURE

The introduction of taxation on the digital economy especially where e-commerce is involved has become a major policy concern across the world and in India. The integration of tax laws and the e-commerce environment in India has been explored among other scholars. The introduction of the Goods and Services Tax (GST) saw the introduction of a harmonized system of indirect taxation in the country that substituted various state and central levies. Rao and Mukherjee (2020) reveal that GST was meant to make compliance easy, end the chain of taxation, and put e-commerce under the regulatory regime with measures such as Tax Collected at Source (TCS). Nevertheless, the writers believe that the compliance role of small online sellers is excessive.

Saxena and Gupta (2022) assessed the Equalisation Levy as the method of taxing cross-border digital transactions. As per their study, the levy forces foreign e-commerce platforms in the Indian tax net, though it might result in either double taxation of these companies and the conflict with international tax agreements. On the same note, Mehta and Bhattacharya (2021) evaluated the digital mechanism of taxation used in India with regards to the BEPS (Base Erosion and Profit Shifting) framework put in place by OECD. They noted that the unilateral actions of India, innovative as they are, must be pegged on the global agreement in order to discourage the occurrence of trade disputes.

Kumar and Sharma (2019) identified some practical issues that e-commerce sellers have experienced adapting to GST regime. Under their findings, they found that there is technology lag within the GST Network (GSTN), there is a misunderstanding on place-of-supply rules and also delay on input tax credit. The existence of these complications frequently puts off smaller businesses to be able to expand into the online realm. Bhatia and Jain (2021) have also emphasized that although India has successfully demonstrated efforts to tax digital commerce, enforcement mechanisms should be improved so that the government will not have to face any shortages in terms of revenues, and to achieve tax neutrality among the online and offline sellers.

In a study conducted by Tripathi and Srivastava (2020), the researchers stressed the necessity of constant policies to stay in pace with the changes in e-commerce business models. It suggested increased application of data analytics and technology-enabled assessments of tax payers to increase transparency. The literature also indicates that a collaborative approach to governance between tax authorities and digital platforms is necessary so that the necessary and seamless compliance is achieved without suppressing innovation (Sen & Roy, 2018).

Overall, the current literature can form the base of discerning the challenges and the advancements of the tax regulation of the e-commerce sector in India. Nonetheless, there are lapses in the evaluation of how practical these

provisions have been in the real sense in the context of stakeholder or administrative aspect and it is at this point that the study can fill the gap to measure the efficacy of the provisions in the real world.

3. OBJECTIVES

The primary objective of this study is to evaluate the effectiveness of the Indian tax regime in regulating the e-commerce sector by examining its legal provisions, implementation challenges, and compliance impact on stakeholders. It also aims to identify gaps and suggest policy improvements to enhance tax transparency and efficiency in digital commerce.

4. METHODOLOGY

In conducting the study, the author has taken a descriptive research design that critically assesses the effectiveness of the Indian tax regime to control the e-commerce sector. Information is gathered using a structured questionnaire to be administered to the tax professionals, e-commerce sellers and those that are used in regulating the field. To establish a purposive sampling, the sample size will be selected on 120 respondents. The analysis of the gathered data is carried out via both qualitative and quantitative data collection methods including frequency distribution and cross-tabulation to decipher significant trends and challenge, as well as stakeholder considerations of the tax compliance, enforcement, and the aptness of the tax policy.

5. RESULTS AND DISCUSSION

As part of assessment of the success of the Indian tax regime in controlling the e-commerce field, the survey carried out on 120 respondents (tax consultants, e-commerce traders and regulatory experts) was gathered and analysed. The frequency distribution and percentage analysis were applied to the data so as to translate the trends and impressions about the compliance, policy execution, and taxation challenges.

Figure 1

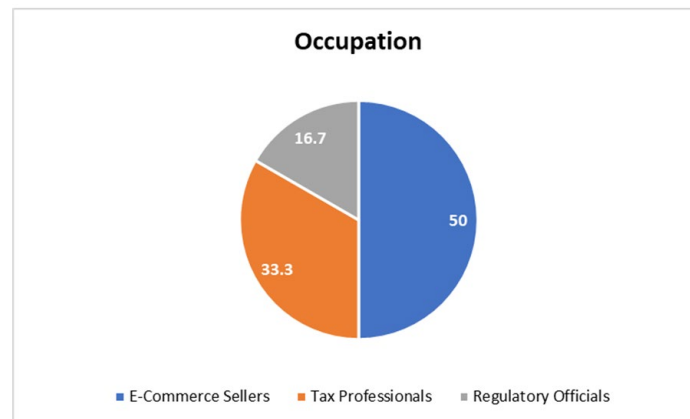
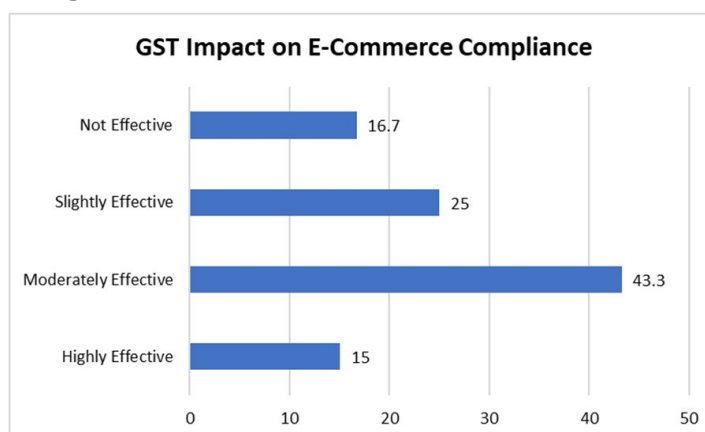


Figure 1 Occupation of the Respondents

The respondents included half of the e-commerce sellers, 33.3 percent as tax professionals and 16.7 percent were regulatory officials. This division guarantees the balanced viewpoint on both operation and regulation levels of reflection.

Figure 2**Figure 2** Impact of GST on E-Commerce Compliance

Although a majority of the respondents stated that GST provisions were effective in tax compliance to an extent of at least moderate within the context of e-commerce, the opinion of respondents was disparate, with 41.7 percent believing that the situation would have a minimal or poor effect, thus exhibiting mixed feelings on the present taxation system.

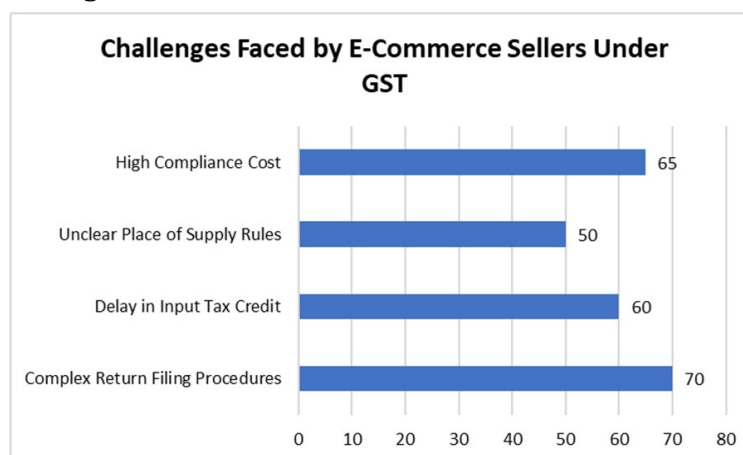
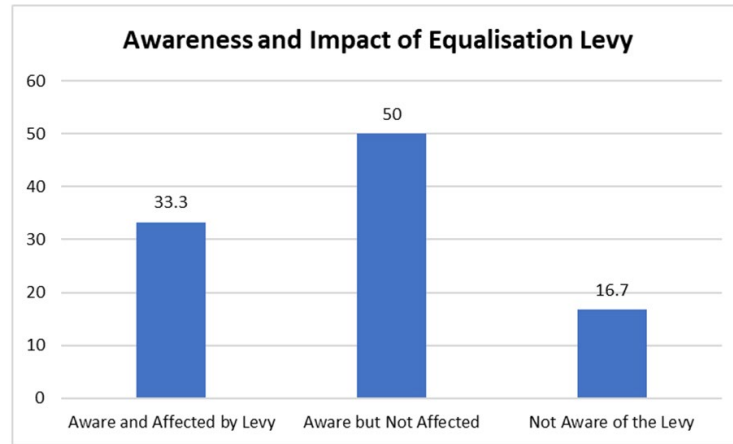
Figure 3**Figure 3** Challenges faced by e-Commerce Sellers under GST

Table 3 shows the concerns of e-commerce sellers on the GST regime that can be classified as the most significant. Of great concern to the respondents as revealed by a huge 70 percent was reported to be a complex return filing procedures that implies that the already established compliance procedures are seen as cumbersome and burdensome. Moreover, 65% of the interviewees cited excessive compliance costs, which is indicative of the monetary impact of retaining the services of consultants, software and GST record keeping. Six out of ten respondents indicated delay in obtaining Input Tax Credit, which may have negative impact on cash flow and liquidity of the business. In addition, 50 percent said they were confused with the aspect of place- of supply regulations particularly when it came to the sale and supply in different states. Based on these findings, it implies that despite the intention to simplify taxation with GST, a set of practical and procedural problems persist in not permitting the e-commerce company to operate comfortably, especially in small and mid-sized sellers.

Figure 4**Figure 4** Awareness and Impact of Equalisation Levy

A closer look at the information presented in Table 4 by respondents about the presence of awareness regarding Equalisation Levy, a policy device designed to impose tax on inter-country online sales, shows that 83.3 percent of them have acquired an understanding of its existence. Nonetheless, 33.3 percent answered that they are directly affected by it implying that the levy directly affects a small group of people- primarily businesses with foreign digital platforms or services. The levy has no direct impact to their operations, half of the respondents acknowledged having understood the levy but it had no direct impact on their operations meaning their business is more of a domestic business or does not engage in much online advertising and transborder services. However, it is important to note that 16.7 percent of the respondents have no idea about the existence of the Equalisation Levy; a fact that became of policy failure as far as awareness creation is concerned. On the whole, the data demonstrates that despite the levy being a progressive step towards the digital taxation of the world, its scope and the scope of its realisation are very limited at the moment, and some more outreach or explanation probably will be needed so that more people will be aware of it and aware of the need to comply with the rules it introduces.

6. SECONDARY DATA ANALYSIS

The analysis in this section utilizes secondary data taken off government publications, research organizations and industry reports to determine how effective the Indian tax regime in balancing the e-commerce industry. It is concerned with tax collections, the mechanism of compliance, policy outcomes and comparative understanding.

Table 1 E-Commerce Market Growth in India (USD Billion)

Year	Market Size (USD Billion)
2017	38
2019	52
2021	84
2023	110
2026*	200 (Projected)

Source: Ministry of Commerce & Industry (2023)

The e-commerce market in India has recorded the upward trend, having increased market value of USD 38 billion (2017) to USD 110 billion (2023) with a prediction set to reach USD 200 billion by 2026. The fast growth will highlight the more pressing requirement of a firm and vibrant system of tax so transparency and accountability may be ensured in online trade.

Table 2 GST Collections from E-Commerce Operators (₹ Crores)

Financial Year	GST via TCS from E-Commerce
2018-19	1,743
2019-20	2,194
2020-21	2,505
2021-22	2,842
2022-23	3,364

Source: CBIC Annual Reports (2019-2023)

The amount of GST collected under Tax Collected at Source (TCS) of e-commerce operators has been continuously growing (within 93 percent over 5 years). This implies a better tax management and increasing compliance in the sector. Nonetheless, the tax collection growth is not quite proportional to the industry growth in general, implying a lack of enforcement and reporting of smaller sellers.

Table 3 Equalisation Levy Collections (₹ Crores)

Year	Equalisation Levy Collected
2016-17	395
2018-19	565
2020-21	987
2021-22	1,265
2022-23	1,612

Source: Income Tax Department Reports (2023)

Equalisation Levy which is a tax imposed on foreign e-commerce companies that operate in India without physical presence has been marching steadily. As the collections go up to 1612 crore in 2022-23, it shows that India can cover more of its tax base in the digital economy. Nevertheless, according to the experts, this may cause discordance without the global agreement (Mehta & Bhattacharya, 2021).

In secondary data analysis, the increasing amount of tax collected mainly in the e-commerce business indicates some level of success of the Indian tax system. The GST mechanism, the TCS mechanism and the Equalisation Levy has expanded the tax base and better monitoring of transactions. Nevertheless, some barriers are still present regarding the complexity of the procedures, inadequacy of information among the small sellers, and possible tax litigation across borders. Such reflections indicate that the existing taxation regime is heading in the correct direction but faces additional changes ensuring a better enforcement rate and clarifications as well as to enable smaller entities within the e-commerce sector.

7. CONCLUSIONS

The paper demonstrates that although the Indian taxation regime, especially with its GST and Equalisation Levy policies have come up with impressive advancements in terms of controlling the e-commerce sector, they are not without a lot of challenges. With Tax Collected at Source (TCS) and expansion of Equalisation Levy, transparency and increased tax base have been benefited. Nevertheless, compliance complexities, the burden of administration, and small proportions of awareness from small e-commerce sellers are among the reasons why full-scale implementation is not taking place. According to secondary information, collection level of taxes paid by the sector has been escalating, but these do not necessarily capture the tax-able level since the dynamic growth of digital commerce could be much higher. What complicates India further is the harmonization of the regulatory issue with the taxation standards regarding digitalization at an international level. On the whole, the tax regime has been flexible enough to compete with the rapidly developing conditions of e-commerce; nevertheless, it also needs to be more flexible, simplified, and aligned with the policies to become more effective and inclusive of it.

8. RECOMMENDATIONS

A number of measures are suggested to make the Indian tax regime more efficient and fair in terms of its regulation over e-commerce. To start with, the GST compliance mechanism should be simplified, especially for MSMEs and individual sellers, by making available digital filing tools of returns to be user friendly and by offering advisory services. Second, official guidelines and frequent training of the stakeholders should be offered on the subject of TCS and place-of-supply to shed more light on the matter. Third, framework of the Equalisation Levy must be reconsidered within the framework of the trends in taxation worldwide, particularly to prevent the cases of double-taxing as well as to comply with OECD Pillar One and Pillar Two. Moreover, the government ought to offer further convergence of tax authorities and the e-commerce platforms in order to facilitate real-time sharing of data to minimize the evasion risks. Finally, policymakers would need to participate in active dialogue with the representatives of the industry, tax experts, international organizations, to consider balanced and development-friendly policies of digital taxation in India, which is coherent with the international level.

CONFLICT OF INTERESTS

None.

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