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GST - Impact of GST on Suppliers on e-commerce Platforms

India's e-commerce sector is expected to cross revenue of Rs.12,000 crores in 2020, according to a joint Assoc ham-Forrester study. It is also expected that the sector will grow at an annual rate of 51%, the highest in the world. The Indian Government's recent move of currency demonetization and the vigorous push for digitization in every aspect of life has only propelled the e-commerce industry's growth.

For a supplier on an e-commerce platform, it is certainly an exciting time to do business, given the accessibility to geographically distant customers, low operational costs, and the scalability that e-commerce provides. At the same time, taxation on e-commerce transactions in the current regime is ambiguous and different states have different levies of tax. The advent of GST will bring a lot of questions in the minds of suppliers on e-commerce platforms. Will GST bring uniformity in taxes on e-commerce across the nation? What will be the impact of GST on their profit margins and operational costs?

Let us understand the impact of GST on suppliers on e-commerce platforms.

Seamless availability of input credit

Current regime

In the current taxation regime, e-commerce platforms charge Service Tax on the services provided to suppliers on their platform, such as warehousing, logistics, marketplace commission, etc. Suppliers cannot claim input credit on the Service Tax paid on these services, and it becomes a cost. Similarly, the Excise duty paid on goods is also a cost to a supplier in the current regime.

GST regime

A great positive for suppliers in the GST regime is the seamless availability of input credit. Under GST, input credit will be available on all inputs used in the course of or for the furtherance of business. In effect, this will result in reduced cost of operations for suppliers as they will now be able to take the credit of tax paid on inputs, which was until now adding up to their cost.

Uniform taxation across states

Current regime

In the current regime, suppliers have to keep track of the state-wise taxation rules relating to the products they deal in. The same product is taxed at different rates in different states. In some cases, due to ambiguity in dealing with the models of e-commerce business, multiple taxes are imposed on the same product. Many states are also imposing entry tax on the entry of goods sold online to their states.

GST Regime

Under GST, all goods and services will be assigned specific tax rates which will be uniform across the nation, regardless of whether they are sold at physical stores or online. Hence, as a supplier, GST brings greater reaches to customers across the nation.

Mandatory registration

Current regime

Many suppliers on e-commerce platforms are not registered under the current tax regime, as their turnover does not exceed the threshold limit. This enabled sale of products at a lower price as compared to registered dealers. Compliance tasks such as maintenance of detailed accounts and invoices, and filing of returns are also not required.

GST regime

In the GST regime, all suppliers on e-commerce platforms have to mandatorily register. Hence, irrespective of how low their turnover is, a person supplying goods or services on e-commerce platforms has to register and fulfill the duties as a registered dealer, which includes maintaining detailed accounts and records, filing returns and paying taxes on a monthly basis. This can be perceived as unfair to e-commerce suppliers because for persons making supplies through physical stores, registration only on crossing of the threshold limit is the rule and they also have an option of paying tax on composition basis if their turnover does not cross Rs. 50 Lakhs. Also, suppliers who own their own portals do not come under the scope of e-commerce and hence, need to register only if their turnover exceeds the threshold limit. The need of the hour for e-commerce suppliers is to prepare for the additional compliance activities and cost which GST will bring. This can be made easier by using technology to make compliance activities easier, inculcating discipline in maintenance of accounts and records, and careful planning of cash flows.

Cannot become composition tax payers

Current regime

Under VAT in the current regime, suppliers with turnover less than Rs.50 Lakhs can opt for the composition scheme, by which they only need to pay taxes at a small percentage of their turnover and file returns usually on a quarterly basis, depending on the state from which they operate.

GST regime

Under GST, such suppliers cannot opt for the composition scheme even if their turnover is less than Rs.50 Lakhs. They have to be registered as regular dealers. For such suppliers also, compliance activities and cost will increase under GST due to the requirements of filing returns and pay taxes on a monthly basis along with maintaining accounts and records in the prescribed manner.

Cash flow will be impacted

Current Regime

E-commerce suppliers generally operate on thin margins. Once a sale is made through an e-commerce platform, the e-commerce operator collects the money from customers and remits it to the supplier, after deducting the marketplace commission. Let us take an example of a supply in the current regime.

Example: Fast Deals is an e-commerce operator and Sarath Pvt Ltd is a registered supplier on the platform. Sarath Pvt Ltd supplies a mobile phone on Fast Deals for price of Rs.11,200 (including VAT) on 1st May, '17.

Particulars	**Rs.**
Value of mobile phone sold	10,000
VAT @12%	1,200
Sale price	11,200
(-) Marketplace commission, including Service Tax*	(-) 200
Amount remitted to supplier by e-commerce operator	11,000

GST Regime

Under GST, e-commerce suppliers will face 2 challenges:

1. Their cash flow will be affected by the tax collection at source (TCS) @ 2% by operators. In the GST regime, operators are liable to collect tax on supplies made through their platform and remit only the remaining amount to the supplier.

Let us consider the same example as above in the GST regime.

Particulars	**Rs.**
Value of mobile phone sold	10,000
GST @ 12%	1,200
Sale price	11,200
(-) Marketplace commission, including GST*	(-) 200
(-) TCS @ 2% on Rs.10,000	(-)200
Amount remitted to supplier by e-commerce operator	10,800

** Assuming marketplace commission of Rs.200 for illustration purposes.*

Here, the amount remitted to the supplier by the e-commerce operator is Rs.10,800, after deducting TCS. Hence, when the monthly impact of TCS on an e-commerce supplier is analyzed, the amount of cash blockage becomes quite significant, especially for small dealers operating on thin margins. This tax paid will be available as input credit to the supplier on 15th of the next month, which means cash blockage of 30-45 days.

1. The input tax credit (ITC) available to e-commerce suppliers depends upon their vendor's compliance. The tax paid by an e-commerce supplier on purchases from his/her vendor can be availed as ITC only if the e-commerce supplier's vendor has filed the monthly return and made full payment of the tax due. In case of non-compliance by the vendor, the e-commerce supplier will lose the eligible ITC. In such situations also, the suppliers' cash flows will be significantly impacted.

Hence, e-commerce suppliers must consider the impact of TCS and non-compliance by their vendor while making decisions on the vendors to be selected, the product pricing, and working capital.

Conclusion

For suppliers on e-commerce platforms, GST certainly brings cost reductions in the form of availability of input credit and the levy of a single tax on supplies across the nation. It is expected that it will be easier to do business in the GST regime with greater clarity on the treatment of e-commerce transactions and uniformity in the taxes levied. However, suppliers must also be prepared for the impact on their cash flows due to tax collection at source (TCS) by e-commerce operators, non-compliance by their vendors and payment of taxes on a monthly basis. Compliance activities will also increase for suppliers in the GST regime due to mandatory registration. They cannot opt for composition levy even if their aggregate turnover is less than Rs.50 Lakhs. Being a regular dealer requires filing of returns on monthly basis and maintenance of detailed accounts and records. As a supplier, it is important to plan and prepare for the GST regime. Awareness of the compliance requirements under GST, proper training of resources to handle these requirements and use of technology to make all this easier will ensure that suppliers can capitalize on the new era of e-commerce in India.