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Equalisation Levy for Non-Resident E-Commerce Firms

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Why in News

Recently, the Central government has stated that it will **not extend the deadline for payment of equalisation levy by non-resident e-commerce players**, even though a majority of them are yet to deposit the first installment of the tax.

- The **equalization levy** is aimed at taxing foreign companies which have a significant **local client base in India** but are billing them through their **offshore units**, effectively **escaping the country's tax system**.
- The step has come in the backdrop of the **United States Trade Representative (USTR) investigations into taxes adopted or under consideration by 10 nations, including India**, on revenues of American digital service companies like Netflix, Airbnb etc.

Key Points

- **Background for Equalization Levy:**
 - Equalisation levy at **6%** has been in force **since 2016 on payment exceeding Rs 1 lakh a year** to a non-resident service provider for online advertisements.

It is now **applicable for e-commerce companies** that are sourcing revenue from Indian customers **without having tangible presence** here in the country.
 - The amendments to the **Finance Act, 2020** had expanded the ambit of the **equalisation levy for non-resident e-commerce** operators involved in supply of services, including online sale of goods and provision of services, with the levy at the **rate of 2%** effective April 1, 2020.

The tax applies on e-commerce transactions on **websites such as Amazon.com. Google in particular** as the tax applies on advertising revenue earned overseas if those ads target customers in India.

- **Changes in Challan ITNS 285:**
 - The income tax department has modified **challan ITNS 285 (relating to payment of equalisation levy)** to enable payment of the first installment by non-resident e-commerce operators.
 - The challan also seeks **mandatory PAN** and provides for **‘Outside India’** option while **seeking address**.
- **Penalties Involved:**
 - The **non-payment** could result in a **penalty equal to the amount of equalisation levy**, along with interest.
 - The **late-payment** would **attract interest** at the **rate of 1% per month** or part of the month.

Way Forward

As India is racing towards becoming a digital giant and should be negotiated to avoid any hurdles in its implementation. Further, there needs to be international consensus on taxation on a digital economy.

Source:TH