

Digital Service tax- Equalisation levy, GAFA tax

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Where is the issue?

- Corporate taxes were designed for an era when most businesses sold physical goods in brick-and mortar shops. It was easy to track how many products were sold and the tax generated from these sales. The digital enterprises like Google, Amazon, Facebook, etc. operate their business on virtual space making it difficult to bring them under the local tax radar, which is only limited to physical business activities.
- For e.g.: Indian government can tax any entity which has its physical presence in India. But, Facebook (or other online service providers) can offer all their services in India without having their presence here.
- To cater to this problem, the concept of digital tax has emerged to maximize on revenue-based taxes vis-à-vis digital business in local jurisdictions.
- It is sometimes referred to as Google tax or digital service tax (DST) imposed by the source country on the revenue generated by global tech companies in such countries.
- It is an informal name given to a ***tax collected on income generated through digital services (like online shopping through amazon, Online ads in Google, etc.)***.
- France's GAFA tax (Google, Apple, Facebook, Amazon) tax
- It's a digital tax by France. France applies a 3 percent tax on revenues from targeted advertising, the transmission of data collected about users for advertising purposes, and from providing a digital interface.

India's equivalent of Digital Tax is Equalization Levy

- In June 2016 introduced a 6% tax in the form of an equalization levy or known as Google tax on the amount paid to internet companies by advertisers.
- In the Union Budget 2018-19, the government also proposed to amend the Income Tax Act to tax digital entities with a large user base or significant economic presence in the country.

What is this levy?

- Equalization Levy is a direct tax, which is withheld at the time of payment by the service recipient. The two conditions to be met to be liable to equalization levy:
 - The payment should be made to a non-resident service provider;
 - The annual payment made to one service provider exceeds Rs. 1,00,000 in one financial year.

Services Covered Under Equalization Levy:

- Currently, not all services are covered
- Any provision for digital advertising space or facilities/ service for the purpose of online advertisement;
- As and when any other services are notified will be included with the aforesaid services.

Rate of Tax Under Equalization Levy

- 6% of the gross consideration to be paid.

Example:

Amit has decided to advertise on Google to expand his business. For this will be charged (say) Rs. 2,00,000 in FY 2017-18 by google for the advertising services availed.

Here, Google will bill Rohan an amount of Rs. 2,12,765.9

Rohan will deduct TDS at the rate of 6% of Rs. 2, 12,765.9 =

Rs. 12,765.9 and pay the balance of Rs. 2, 00,000(Rs. 2,12,765.9 – Rs. 12,765.9) to Google.

What if there is non-compliance?

- In case there is a delay in payment: Interest is charged at 1% of the outstanding levy for every month or part thereof is delayed.
- In case there is non-compliance on behalf of the service recipient, there will be fine and/or jail term of 3 years.