

Equalisation Levy

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In news

Google India paid more than six hundred crore equalization levy in FY20

What is an equalization levy?

- The “Equalization Levy” is a tax aimed at taxing the digital transactions i.e. the income accruing to foreign e-commerce companies from India.
- Equalisation Levy was first introduced in India by Finance Act 2016 as a separate Chapter VIII titled ‘Equalisation Levy’ to provide for an equalisation levy of 6% to be deducted from amounts paid to a non-resident not having any permanent establishment in India, for specified services.
- It covers all business to business and business to consumer transactions, third-party and related party transactions, across digital and non-digital businesses, where goods and services are sold online.

Which services are covered under it?

Currently, the following services are covered under it:

- Online advertisement
- Any provision for digital advertising space or facilities/ service for the purpose of online advertisement

Charge of equalization levy on specified services

There shall be charged an equalisation levy at the rate of six per cent of the amount of consideration for any specified service received or receivable by a person, being a non-resident from

- a person resident in India and carrying on business or profession, or
- a non-resident having a permanent establishment in India

The equalization levy shall not be charged, where

- The non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment
- The aggregate amount of consideration for specified service received or receivable in a previous year by the non-resident from a person resident in India and carrying on business or profession, or from a non-resident having a permanent establishment in India, does not exceed one lakh rupees
- The payment for the specified service by the person resident in India, or the permanent establishment in India is not for the purposes of carrying out business or profession.

Recent changes

The Finance Act 2020 came up with several new tax provisions, one of which expanded the scope of 2016 equalisation levy to include e-commerce transactions. The Act introduced Section 153(iv), which added Section 165A to the Finance Act 2016 to put an equalisation levy charged at 2% on the non-resident e-commerce operators.

What is the Finance Act?

- The Central Government, through this Act, gives effect to financial proposals at the beginning of every Financial Year.
- The Act applies to all the States and Union Territories of India. Finance Act thus making this Act one that renews itself each year.
- All the Governmental financial policies are included in

this Act.

- The existing policies, new policies, as well as changes made to existing policies are all included here. Every Finance Act is assented by the President of India.

Equalization Levy (Amendment) Rules, 2020

Central Board of Direct Taxes(CBDT) notified the Equalisation levy (Amendment) Rules, 2020 to further amend the Equalisation levy Rules, 2016.

The following amendments have been made in the Equalisation Levy Rules, 2016:

- Definition of “electronic verification code” is added to definition Rules 2
- It amended Rule 3 to exclude the words “for specified services” and add the new heading as “Rounding off of consideration, equalisation levy, etc.”
- The amendment also inserted the new word “electronic verification code” which means a code generated for the purpose of electronic verification of the person
- It amended rule 4 related to payment of equalisation levy to include an e-commerce operator in addition to the assessee.
- The amendment allows an e-commerce operator to file an appeal before the CIT(A) and ITAT.