



Perception of digital tax in India on online services (With reference to 4 particular payment gateways)

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Abstract:

The country's technology and business sectors are rapidly becoming more digital, which makes it difficult for tax authorities to effectively monitor taxpayer compliance with tax laws and collect all necessary taxes. By 2026, the e-commerce market is predicted to reach a value of \$200 billion, and if it does, the Indian government will see a significant boost in tax revenue. Taxpayers now have access to new sources of income thanks to the digital economy, but international taxation agreements struggle to keep up with market liberalization and globalization, particularly when it comes to issues like taxing e-commerce. The notion of "Equalization levy," also known as "Digital taxes," was adopted in India in 2016 on internet advertisements to cover such non-taxable revenue under tax regimes and profits from other nations. Further changes have been made in an effort to require all such non-resident online merchants to pay taxes on sales conducted in our nation. The study's major goal is to showcase the idea of digital taxes, along with its advantages, benefits, and difficulties that have arisen since it was first introduced. The present study has made an effort to understand perception of digital tax in India on services in relation to payment gateways operating in India such as cash free payment, Paytm, android pay, razor pay.

Keywords -Digital taxation, International Taxation arrangements, E-commerce Operators, Benefits, Advantages, Challenges.

1.1 Introduction

The concept of a permanent establishment has undergone radical change since the advent of digitization. Organization for Economic Cooperation and Development (OECD) model, United Nations (UN) model, and US model were used as tools to establish tax jurisdiction for international economic activity. The definition of a predictable Permanent Establishment has become less clear with the growth of digital economic activity. According to Tom Godwin, "Uber, the largest taxi firm in the world, owns no vehicles," companies now receive economic advantage from every region of the world without even owning a single asset. Alibaba, a merchant, does not have its own inventory, while Facebook, a well-known media creation software, does not own any material.

The introduction of the Equalization levy in 2016 marked a turning point in digital taxation in India. This was accomplished through the Base Erosion and Profit Shifting (BEPS) project of the OECD, which aims to tax e-commerce. Chapter VIII, dubbed "Equalization Levy," was introduced in the Budget Act of 2016. The Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, and Government of India established a Committee on Taxation on E-Commerce, which recommendations led to the creation of this Equalization Levy.

The government included a distinct chapter in the Finance Act 2016 after adopting the OECD committee's suggestions. The Equalization Levy is defined as the tax imposed on consideration paid or receivable for any specified service or e-commerce supply or services under the terms of this Chapter in Subsection (d) of Section 164 of the Budget Act of 2016. As a result, this tax was solely applied to online advertisements because the Indian government had not yet declared any other services to be included by this chapter (Deepak Chaudhary, 2016).

Although the committee suggested that the aforementioned definition apply to a variety of services, the government only required that digital advertising be covered. The amount of consideration for services that is indicated in the section and the value exceeds Rs. 1 lakh is subject to a 6% tax rate. Only services rendered by non-residents of India who conduct business with residents of India are subject to this tax.

Later in 2022, the Government amended the Finance Act of 2016 to broaden the application of the Equalization Levy. From April 1 through 2020, the Equalization Levy will encompass practically all digital e-commerce transactions in India. A charge of 2% is applied to the amount of consideration that non-residents of India who conduct business with residents of India get through e-commerce transactions.

1.2 Profit of Sample unit

a) Paytm

The Indian multinational financial technology business Paytm, sometimes known as "pay through mobile," is situated in Noida and specializes in digital payments and financial services. Vijay Shekhar Sharma, working for One97 Communications, founded it in 2010. Consumers can use the company's mobile payment services, and its point of sale, internet payment gateway, and QR code solutions make it possible for businesses to accept payments. Paytm provides its customers and merchants with financial services like microloans and buy now, pay later in collaboration with financial institutions. The business also offers online games, retail brokerage services, and ticketing services in addition to bill payments and money transfers. One97 Communications, the parent company of Paytm, underwent the largest IPO in India history to become listed on the Indian stock exchanges on November 18, 2021. Paytm's gross merchandise value (GMV) for the fiscal year 2021–2022 was estimated to be 8,500 billion (US\$110 billion).

b) Razor pay

Razor pay is an India-based, fintech company that provides payment gateway services to vendors, merchants and ecommerce platforms. It is an online system that is designed to handle end-to-end payments that can also be integrated with different websites and apps. The company was founded by IIT Roorkee alumni Shashank Kumar and Harshil Mathur in 2014. It is headquartered in Bangalore, India.

c) Android Pay

Google Pay is a digital wallet and payment platform from Google. Users can use their Android devices to pay for purchases both online and in physical stores, as well as on websites, mobile apps, and Google services like the Google Play Store. Users' Google Pay accounts are linked to credit or debit cards, which are used to complete transactions for both in-person and online purchases. Near field communication (NFC) is a technology that Google Pay on Android devices employs to communicate with payment terminals. Users can complete transactions using Google Pay on websites that accept the service by logging into their Google account in the Chrome browser. The business's first mobile payment system, Google Wallet, was created in 2011 for Android handsets. Google Wallet was rebranded Android Pay in 2015 and made only focused on peer-to-peer (P2P) transactions. Google declared in 2018 that Google Wallet would merge with the other payment options under the Google Pay name. Thereafter, Google Wallet became Google Pay Send. For contactless purchases on Android smartphones, use Google Pay. On iOS, the peer-to-peer features and account access are accessible. Unfortunately, only Apple Pay is compatible with this use case when making NFC payments using an iPhone or Apple Watch.

d) Cashfree Payments

Bangalore-based Cashfree Payments is a provider of banking and payment technology. As a full-service payments' platform, it assists more than 100,000 businesses in collecting and sending money with tools like an easy-to-integrate payment gateway that supports instant refunds, Payouts, an API banking platform for disbursements, a split payment solution for marketplaces, a bank account verification API, a dedicated UPI stack for businesses, and Auto Collect, a virtual account tool to match inbound payments to customers. Customers include Google-backed Dunzo, Xiaomi, Tencent, Zomato, Zoomcar, Cred, Club Factory, Shell, and contribution platforms Ketto and Milaap. Working with all major banks, including

ICICI Bank, HDFC Bank, Kotak Mahindra Bank, and Yes Bank, Cashfree Payments is developing the foundational banking and payments infrastructure that underpins all of Cashfree's offerings. Major systems like Shopify, Wix, Paypal, Amazon Pay, Ola Money, and Google Pay are all linked with Cashfree Payments.

1.3 Review of literature

Petrit, Ademi (2014). The study on the long-term effects of corporate profits in the context of e-commerce was still explained. It discusses how the current PE threshold affects the taxation of international transactions involving electronic commerce. The study largely focuses on problems with the traditional economic framework's present profit-attribution rules. Yet, these problems tend to become even more perplexing in ecommerce transactions, particularly when multinational firms collect data from various tax countries and for various reasons, making it extremely difficult to track the data's original source.

Tatiana Falcao and Bob Michel (2014) show how a digital service provider could offer its services to various jurisdictions under the current global economic climate without actually complying with any of the OECD recommendations that result in the imposition of tax in the nation where such returns are earned. The authors suggest a case study to demonstrate how a digital service provider could extract a source from nations all over the world without paying any taxes to the country from which they get profit. This could be done by simply applying the non-abusive rules contained in the 2014 OECD Model Tax Convention on Income and Capital.

Report interim published by OECD Action-1 (2015) The paper was released by addressing the tax issues that the digital economy may present. And specifically, the definition of tax purposes has been extensively expanded by international taxation. The many solutions that may be used to address the tax issues that can arise as a result of digitization were also evaluated in the research, and it was established that it was necessary to keep an eye on various areas of the economy's growth.

The new PE nexus based on digital presence is discussed by Peter Hongler and Pasquale Pistone (2015). It talks about the primary feature of the PE Nexus and considers the idea of sourcing in the global economy for income tax reasons. A potential reconstruction in the context of a new dimension for the benefit theory supports the idea of a new PE nexus based on digital presence. In the age of the digital economy, this study emphasizes the necessity for a structural revision of the rules for allocating taxing rights on cross-border corporate income.

A.H.S. Pamerathna (2016) finds that digital taxation has an unimaginable impact on a variety of economic indicators, including those relating to investment, consumption, and exports. With this perspective, the researcher has determined that the Information and Communications Technology sector serves as the primary setting for the production of digital goods. Data from interviews and survey questions are mostly used for this research's qualitative interpretation.

This paper by **Lahiri, Ashok K. Ray, Gautam, and Sengupta (2017)** makes an argument for three key factors that influence governmental decisions. . Second, since the burden on buyers and sellers has been researched in order to standardize the rate, the effect of digital taxing on cum tax price is far from transparent. As the passthrough to occupant buyers increases, it is harder to agree on a rate reduction. Thirdly, the digital economy has accelerated the shift in tax control that favors "home" countries compared to "source" countries.

Sestakova Monika (2018) The paper's main goal is to clarify why new strategies should be used in circumstances where old tax forms and laws are insufficient due to the digital economy. It has been examined in the larger context of the Digital economy and a new business model utilized by Digitalized businesses. Moreover, the relevant location shifts regularly and the elements impacting value creation are quite mobile. The 2019 report from the UN committee of experts on international cooperation provides analysis and evaluation of current difficulties brought on by the economic use of digital taxation. The vocabulary related to the "Digital Economy" is also defined. The combination of the conventional tax code with the substantial economic loosening for business has been elaborated. Also, it shows admiration for countries who have taken unilateral action to conduct international trade in this digital economy. The article by **Marcel Olbert and Christoph Spengel from 2019** examines the

difficulties of digitizing taxes on consumption and corporate earnings. The paper contends that there is no justification for adopting a new tax order for digital enterprises by using anecdotal and empirical information to evaluate OECD and European Union levels. Divisional tax competition is probably going to be distorted by the SEP and digital taxing proposed by the European Commission. Data on new value-creating assets in the digital economy are discussed in the paper, which uses tax rules as the gold standard for profit. To maximize the value of data generated by diverse proprietary activities, multidisciplinary research is driven the article also discusses how existing transfer pricing solutions can be enhanced for use with datadriven business models.

Gillian Neky's (2019) With trade being accompanied without the need for a physical presence, which is a requirement for tax administration, Gillian Neky's (2019) study aims to explore the taxability of the digital economy. In an economy that mainly relies on intangible assets and the business model based on data, the different network effects, and user-generated content, the study has examined how states, and particularly Kenya, can detect their permanent establishment, required for tax administration.

Manoj Kumar Singh (2019) provides a brief overview of the digital economy's dimensions and the issues the taxation systems are now dealing with. Many recommendations have been made by academics and professionals, with the OECD/G20 Base Erosion and Profit Shifting Project, Action 1: 2015 being the most forward-looking. The Indian government's position has been analyzed in light of the "Equalization Levy" proposed by the Union Budget, 2016, while taking into consideration the findings of the Report of the Committee on Taxation on ECommerce, which was published in February 2016. This study's focus is solely on income taxation as opposed to Value Added Tax (VAT).

The study by **Aqib Aslam and Alpa Shah (2020)** focuses on the information required to harness inputs that come from digital enterprises. It makes the point that a scenario could arise about the value produced by users under the corporate income tax. However, in order for user-based tax measures to become certain, a number of issues need to be addressed. These include international agreements on whether user value justifies a reorganization of taxing rights, establishing the legal authority to tax income derived from user value, and developing an appropriate metric for valuing user-generated data if it is to be used as a data base. A modified definition of a permanent establishment paired with formulaic distribution taxation, user-based royalty-type taxes, and other taxing methods are all possible, each with advantages and disadvantages.

The author, **Tarun Jain (2021)**, aims to suggest and make a case for a new regime treaty provision to impose tax on digital services. Several main motivations for this analysis stand out among the other entries. First, an anti-unilateralism clause in a treaty. For further information, see the website. The third justification for this approach is that treaty clauses don't only list a country's legitimate income demands.

1.4 Statement of Problem

Lack of transparency in the tax system: India's taxation system for digital transactions is not transparent. The applicability of different taxes, including income tax, the goods and services tax (GST), and the equalization levy, is as a result quite unclear to both taxpayers and businesses. The Indian tax system is complicated, and the introduction of digital taxation has made it even more so. Many tax requirements must be complied with both taxpayers and enterprises, which can be time- and money-consuming. Tax evasion: One of the primary issues with digital taxation is that companies can simply evade taxes by moving their profits to nations with low tax rates. In order to address this issue, India has instituted an equalization levy. Double taxation: The possibility of double taxation is another problem with digital taxation. Businesses may face a larger tax burden if a digital transaction is taxed in both the country of origin and the country of destination. Hence this study will help in understanding the perception on Digital Taxation on Online Service which might help the policy makers to make provisions so that digital taxation on online service will be successful.

1.5 Objectives of The Study

1. To examine the awareness of digital taxation in India.
2. To find the most preferred payment gateways.
3. To compare the rate of digital taxation in India with other countries.

1.6 Scope of Study

If there is one universal lesson from the Coronavirus pandemic, it is the importance of digital agility. The past few months have shown businesses and governments alike that in the time of crisis, they need to be able to swiftly adapt their operating model. This pressure is particularly acute for tax administrations. As the global recession places renewed emphasis on revenue strategy, tax administrations are finding themselves on the front lines of a rapid and intense digital transformation, finding ways to conduct every day and emergency business while complying with mandates to maintain social distance. Economies with already strong underlying information technology are proving to be more resilient than those without this infrastructure already in place. At a recent event, I listened to officials from Cambodia and Kenya explain how their strong digital track records are paying off during the current crisis. Our current priorities are -Developing global solutions to build capacity among developing countries and emerging market to undertake successful digital transformation of their tax administrations; Promoting thought leadership on tax and technology, Exploring the creation of a mechanism to identify, prioritize, fund, and implement digital public goods for use by tax administrations. By bringing these leading organizations together under the banner of the Prosperity Collaborative, we aim to create solutions that are well-targeted and easily replicable across different country contexts. Ultimately, we aim to create digital public goods that can be built once and deployed anywhere.

1.7 Methodology

Descriptive research is used for the purpose of the study. The methodology used by us is a convenience sampling method to collect samples. The sources used are the primary sources such as questionnaire which was circulated using google form. Reviewing the literature is the research process used to address the given research objectives. In order to understand the concept behind the establishment of this Equalization levy, the study first reviews the literature on digital taxation. The need for digital taxation in India has also been acknowledged, which provides a clear image of the economic benefits that come from corporate activities for our nation. Knowing the significance and necessity of digital taxes in India, this study is being conducted to conduct a conceptual investigation into a thorough examination of digital taxation in India. Secondary sources were used to assemble the study's data. The information below was gathered by sending numerous companies Google digital tax form.

1.8 Limitations

- Digital taxation is still in initial phase, so tax procedures can dynamite from time to time based on OECD recommendations that could even impose high rate of taxes even than existing ones.
- Most of the data reviewed and cited in the paper was theoretically descriptive in nature as Digital taxation changes are going on, and more needs to be done.
- The paper is only focused on digital taxation introduced in India.
- The paper is done with primary sources of data.

1.9 Data Analysis and Interpretation

Table no.1

Gender of the Respondents

Sl. No	Gender	Number Respondents	Of Percentage
1	Male	112	56
2	Female	88	44
Total		200	100

Source - Primary Data

Table no.2

Age of the Respondents

Sl. No	Age Of the Respondents	Number Respondents	Of Percentage
1	18-30 Years	39	19.5%
2	31-45 Years	67	33.5%
3	45-60 Years	53	26.5%
4	61 and Above	41	20.5%
Total		200	100

Source - Primary Data

Table no.3

Sl. No	Name of the Sample Unit	Questionnaire Sent	Response Received
1	Paytm	50	32
2	Razor pay	50	41
3	Android Pay	50	29
4	Cashfree Payments	50	33
Total		200	135

Source - Primary Data

Table no.4

Date of Incorporation

Sl. No	Year Of Incorporation	Number Of Respondents	Percentage
1	2001-2010	44	26.34%
2	2010-2020	59	35.32%
3	2020-2023	64	38.32%
Total		167	100

Source - Primary Data

Table no.5

Company Situation in India

Sl. No	Is It Situated in India	Number Of Respondents	Percentage
1	Yes	133	70.74%
2	No	55	29.26%
Total		188	100

Source - Primary Data

Table no.6**Digital Tax Presence in India**

Sl. No	Statements	Number Of Respondents	Percentage
1	Present Only Through Internet	68	34%
2	Both Internet and Physical Presence	57	28.5%
3	No Physical Presence	37	18.5%
4	Will Come to India in Future	38	19%
Total		200	100

Source - Primary Data**Table no.7****Equalization of Tax**

Sl. No	Statements	Number Of Respondents	Percentage
1	Yes	143	71.5%
2	No	57	28.5%
Total		200	100

Source - Primary Data

Table no.8**Comparison of Digital Tax Payers in India with Other Countries**

Sl.No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Yes	14	10	8	16	03
2	No	44	17	11	22	16
3	No Idea About This	30	28	19	04	06
Total		88	55	38	42	28

Source - Primary Data**1.10 Findings**

- The researcher found that a maximum of 39 respondents (19.5 per cent) belonged to the age of 18-30 years followed by 67 respondents (33.50 per cent) of age 31-45 and 53 respondents (26.5 per cent) come under the category of 45-60 and 41 from >61 (20.5 per cent)
- It is understood that more than one half (56 per cent) of the respondents are male whereas 77 (44 per cent) of the respondents are female.
- It is found that a greater number of companies are incorporated in year 2020-2023 (38.34 per cent) whereas (35.32 per cent) has incorporated in 2010-2020 and only (26.34 per cent) has incorporated in between the year 2001-2010.
- It is clear that 70.74 percent companies are situated in India.
- The data reveals that 71.5 per cent of company want equal tax.
- The research reveals that India has a high rate of tax implied on digital services.

1.11 Suggestions

- The government should give more insights about the digital taxation in India. □ The government should specify all the rules and laws on digital taxations.
- There should be a uniform tax rate on digital taxations for all kinds of income to the company.
- The law and order should make sure that any company operating digitally in India should not evade the digital tax.
- The government should conduct debates, talks, etc. on digital taxations so the companies can address any issues the companies are facing and resolve them.

1.12 Conclusion

Cross-border e-commerce is subject to compensation tax for this reason. However, start-ups and medium-sized businesses facing real tax burdens are likely to be hit harder than established domestic and foreign e-commerce companies. You should rethink your model. While the technology sector and e-commerce will undoubtedly be affected by the digital tax, it is unclear what effect it will have on companies that use digital components embedded in non-digital products. To regain public support for treating multinationals fairly, governments must remain actively involved in finding solutions to the problem. Some people are angry that the government has taken unilateral actions that could violate existing trade agreements. Worse, there is not enough information about the types of organizations affected by the digital tax and how to distribute taxable income more equitably. It is unacceptable for states to unilaterally tax foreign companies because we believe current regulations need to be reformed. Despite the difficulties, the equalization tax could be seen as a significant move for the government to take control and cash out of India's digital economy

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