Equalisation Levy

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

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 instalment 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.

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.

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.