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INDIAN NETIZENS TO BE CHARGED WITH ENTERTAINMENT TAXES (GST ON THE USAGE OF THE INTERNET AND NEW NORMS FOR LEVYING TAXES ON ONLINE GAMING, HORSE RACES, AND CASINOS)

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Abstract

This article discusses a significant policy change in India's taxation landscape where the government has decided to impose a 26% Goods and Services Tax (GST) on the revenue generated from online gaming, horse racing, and casinos. It begins by providing an overview of the GST Act 2017, which revolutionized India's tax system. The article explores the pros and cons of taxing internet usage and services, highlighting its impact on access, innovation, and privacy.

The article then delves into the implications of the new GST on different sectors. For online gaming, it discusses how the GST affects gaming revenue, impacts gamers, and introduces the concept of input tax credit for developers. Horse racing, deeply ingrained in Indian culture, faces taxation on betting revenue, potentially influencing costs and state-level regulations. Casinos, often situated in tourist destinations, may experience varied tax rates and could impact tourism and operational costs.

The article rationalizes the government's decision while expressing concerns such as complex compliance, affordability, unregulated alternatives, and global competition. It concludes by emphasizing the need for stakeholders to engage in constructive dialogue to strike a balance between revenue generation and ensuring accessibility and regulatory compliance, as India's taxation landscape continues to evolve under the GST Act 2017.

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Introduction

The year 2017 marked a transformative phase in India's taxation landscape with the introduction of the Goods and Services Tax (GST) Act, a comprehensive indirect tax reform aimed at simplifying the nation's intricate tax structure. Since then, the GST regime has been continuously evolving, bringing various sectors under its purview and altering the dynamics of taxation. In a recent development that has stirred debates and discussions across the country, the government has decided to impose a 26% GST on the revenue generated from online gaming, horse racing, and casinos. This article delves into the details of this significant policy change, exploring its implications for these industries and analyzing how it aligns with the provisions of the GST Act 2017.

Understanding the GST Act 2017

Before delving into the impact of GST on online gaming, horse racing, and casinos, it's essential to grasp the fundamental tenets of the GST Act 2017.

The GST Act 2017, which came into effect on July 1, 2017, revolutionized India's taxation system by replacing a complex web of central and state taxes with a unified, dual-GST structure comprising Central GST (CGST) and State GST (SGST). It also introduced the concept of Integrated GST (IGST) for interstate transactions. Under this framework, goods and services are classified into different tax slabs, ranging from 5% to 28%, with some items being exempt.

Should Internet usage and Services be taxed? (Pros and Cons)

Taxing internet usage and services can serve several purposes, but it's important to note that the decision to implement such taxes can be controversial and should be considered carefully. Here are some **potential reasons for taxing** internet usage and services:

Revenue Generation: One of the primary reasons for taxing internet usage is to generate revenue for the government. Taxing internet services can provide a new stream of income that can be used to fund various government programs and services.

Leveling the Playing Field: Taxing internet-based services can help level the playing field between online and offline businesses. Traditional brick-and-mortar businesses often have to pay various taxes and fees that online businesses might avoid. Taxing online services can help address this imbalance.

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Consumer Protection: Taxes can be used to regulate and monitor online activities such as online gambling or the sale of certain goods and services. By imposing taxes, governments can have greater oversight and control over these activities, which can help protect consumers from fraud or exploitation.

Infrastructure Investment: In some cases, revenue generated from internet taxes can be earmarked for investment in digital infrastructure, such as improving broadband access or expanding high-speed internet coverage in underserved areas.

Behavioral Regulation: Taxes can also be used as a tool to influence consumer behavior. For example, higher taxes on certain online services or goods may discourage their use, while lower taxes or exemptions may promote other activities or industries.

However, it's important to consider the potential **downsides and challenges** associated with taxing internet usage and services:

Access and Affordability: Taxes on Internet usage can make it more expensive for individuals and businesses to access the Internet. This could potentially hinder digital inclusion and access to online resources for those with limited financial means.

Innovation and Economic Growth: Excessive taxes on internet services can stifle innovation and economic growth in the digital sector. It may discourage entrepreneurs and startups from entering the market or investing in new technologies.

Enforcement Challenges: Implementing and enforcing internet taxes can be technically challenging, especially in a global and interconnected digital environment. Tracking online transactions and ensuring compliance can be complex.

Privacy Concerns: Taxation of internet services may raise privacy concerns, as governments may need to collect data on online activities to enforce taxes effectively.

In conclusion, the use of taxing internet usage and services can have both advantages and disadvantages, and its implementation should be carefully considered in light of its potential impact on individuals, businesses, and the broader digital economy.

Internet: Want vs. Need.

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²The Internet not only became one of the most widely utilized commodities, but it also improved dramatically, becoming the most marketable entity since then. We used to live without the internet, just as we used to live without electricity but in the contemporary it is unimaginable.

³Researchers from the University of Birmingham in the UK gave the example of Kerala, noting that the Indian state has declared universal internet access a human right and aims to provide it for its 35 million people by this year.

They explained that as political engagement increasingly takes place online, basic freedoms that many take for granted including free expression, freedom of information, and freedom of assembly are undermined if some citizens have access to the internet and others do not.

"Without such access, many people lack a meaningful way to influence and hold accountable supranational rule-makers and institutions," Reglitz said.

The researchers noted that people without internet access don't have a say in the making of the rules they must obey and which shape their life chances.

Reglitz added that exercising free speech and obtaining information was now heavily dependent on having internet access.

Online Gaming: A Digital Frontier

Online gaming, a rapidly growing industry in India, encompasses a wide array of gaming options, from multiplayer online games to virtual casinos and fantasy sports platforms. The imposition of GST on online gaming has several implications:

Taxation of Online Gaming Revenue: Under the GST Act 2017, online gaming platforms are subject to taxation. Most online games fall under the 18% GST tax slab. This includes not only the revenue generated from game subscriptions but also income from in-game purchases and advertisements.

Impact on Gamers: The introduction of GST on online gaming can potentially lead to an increase in the overall cost of gaming for enthusiasts. Subscription fees, in-game purchases,

² <https://modern diplomacy.eu/2022/01/27/internet-a-luxury-or-necessity/>

³ <https://economictimes.indiatimes.com/magazines/panache/internet-access-no-longer-a-luxury-experts-call-it-a-basic-human-right/articleshow/72007199.cms?from=mdr>

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and other services are likely to become more expensive, impacting the affordability of these services.

Input Tax Credit: Game developers and operators can claim an input tax credit for GST paid on inputs and services used in the development and operation of games. This provision can help offset their overall tax liability.

Horse Racing: A Traditional Pastime

Horse racing, deeply rooted in Indian culture and history, is not just a sport but also a popular form of entertainment and betting. The inclusion of horse racing in the GST framework brings forth various considerations:

Taxation of Betting Revenue: Betting, a significant component of horse racing, is taxable under the GST Act 2017. Operators are required to collect GST on the revenue generated from betting activities, further adding to their tax compliance responsibilities.

Consumer Impact: Bettors participating in horse racing may experience higher costs due to the imposition of GST. The 26% tax rate could impact the profitability of racecourse operators and influence the pricing structure for betting.

State-Level Regulations: While the central government has introduced the GST on horse racing, it's important to note that individual states may have their regulations and taxes related to betting and gambling, creating a complex tax landscape for this industry.

Casinos: The Entertainment Oasis

Casinos, generally located in a few select states in India, offer a unique blend of entertainment and gambling. The introduction of GST on casinos carries several implications:

Varied Tax Rates: Casinos may be subject to different GST rates based on the services they offer. For instance, services such as restaurants and hotels within casinos may have different GST rates, adding complexity to tax calculations.

Impact on Tourism: Many casinos are strategically located in tourist destinations, significantly contributing to tourism revenue. The imposition of GST may affect the attractiveness of these destinations for tourists, particularly high rollers and international visitors.

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Operational Costs: Casinos already operate with substantial operational costs, and the introduction of GST can further increase their expenses. This, in turn, may affect pricing, profitability, and the range of services offered.

The Rationalization and Concerns

While the government's decision to impose a 26% GST on online gaming, horse racing, and casinos may be driven by various motives, including revenue generation and streamlining the taxation of these sectors, it also raises several concerns:

Complex Compliance: Complying with the GST Act 2017 can be intricate, especially for businesses operating across multiple states. The need to navigate both central and state GST regulations can be daunting and resource-intensive.

Consumer Affordability: Higher tax rates on these forms of entertainment could potentially make them less affordable for the average Indian, limiting access and participation in recreational activities.

Unregulated Alternatives: The gaming and betting industry has a history of operating in unregulated environments. High tax rates might incentivize some operators to continue operating in the shadows, making it challenging for authorities to monitor and regulate these activities effectively.

Global Competition: In a globalized world, India's gaming and betting industry competes with international markets. The introduction of a 26% GST could potentially make it less competitive compared to offshore alternatives with lower tax burdens.

Conclusion

The decision of the Indian government to impose a 26% GST on online gaming, horse racing, and casinos is a pivotal policy change that has far-reaching implications for these industries. As the country continues to evolve its taxation framework under the GST Act 2017, it is crucial for stakeholders, including industry players, policymakers, and regulators, to engage in constructive dialogue to address the challenges and concerns posed by this decision. Striking a balance between revenue generation and ensuring accessibility and regulatory compliance is paramount to the sustainable growth of these sectors in India's ever-changing economic landscape. The GST Act 2017, as it stands, is a cornerstone of India's taxation

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system, and its implications on various sectors, including gaming and betting, continue to shape the nation's fiscal policies.



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