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Ecommerce sellers count on cash-flow gains from GST cut

By Soumyajit Saha, ETtech Last Updated: Jun 24, 2024, 06:00:00 AM IST

Synopsis
Recommendations by the GST council aim to benefit suppliers on online platforms and real money gaming firms through tax changes, including a reduction in tax collected at source for electronic commerce operators.

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Sellers, brands and some restaurants operating across online commerce platforms expect to see cash flow benefits from a recommended reduction in tax collected at source (TCS) made by the Goods and Services Tax (GST) council, a variety of online merchants and business owners told ET.

The council on Saturday recommended that the TCS collected by electronic commerce operators, which includes platforms operating in segments in ecommerce, quick commerce and food delivery, be reduced from 1% to 0.5%.

Sellers on ecommerce and quick commerce platforms, especially those with smaller teams, often let the tax credits incurred through TCS pile up for a considerable amount of time before cashing out, as the process of redeeming such credits can be cumbersome, a home and kitchen products seller active on Amazon and Flipkart said.

“The change won’t be so significant as to impact profitability, but it will meaningfully help with freeing up cash flow that we can reinvest into the business... that is a huge boost for businesses like ours that operate on single-digit percentage net margins” the seller added.

Due to the cumbersome nature of filing for returns, the tax credits that are incurred through TCS often end up sitting with the government for a long period of time without any interest, which means a small opportunity cost is also incurred on that amount, said Gaurav Sarda, chief financial officer at beauty and personal care product firm Pureplay Skin Sciences, which runs the Plum brand.

With a reduction in TCS, brands that have a higher exposure to online platforms will benefit more. “For us, about 60% of the business comes from online channels, so the decrease in TCS could make up for, say, the cost of a small to mid-sized marketing campaign- not very substantial, but still helpful,” Sarda added.

The reduction in TCS will be a “big relief for lakhs of small and mid-sized sellers and unlock several hundred crores worth of working capital for them, thereby reducing their cost of doing business,” a spokesperson for ecommerce major Flipkart said.

“In addition, the reduction in pre-deposit amounts for litigation against GST disputes is a step in the right direction and will further improve ease of doing business,” the spokesperson added.

"The recommendation to reduce TCS will give sellers more flexibility in managing their capital and eliminate the need for lengthy refund processes. This measure can further help bridge the gap between online and offline retailers in India,” a spokesperson for ecommerce firm Meesho said.

Zepto, Amazon, Swiggy, Instamart, **Zomato** and Blinkit did not reply to requests for comment on the change in the TCS.

Not all benefit

However, restaurants which sell through food delivery platforms will not benefit as much, business owners and tax lawyers told ET. Restaurants selling food items like biryani and pizza, which counts as a service under the current tax regime, are charged a 5% GST which the platform i.e. Swiggy or Zomato directly collects from the customer and pays to the government. In this system, the restaurant isn't charged a TCS by the platform, said Hanish S, partner at tax firm CNK HSKA & Associates LLP.

However, the sale of products like ice creams, desserts like cakes and packaged beverages are charged higher GST and treated as goods. "So in the case of, say, an ice cream seller, the platform collects the total amount that is inclusive of all taxes, then deducts the commission it charges, and passes on the amount including the GST to the restaurant. However when passing on this amount, the restaurant also deducts 1% in TCS," Hanish said. The GST charged on ice creams stands at 18%, while it is at 12% for desserts like cakes and 28% for packaged beverages, he added.

Therefore only the sale of products like ice creams and desserts will benefit from the change in TCS. For cloud kitchen firm Curefoods, which also runs the dessert brand CakeZone, only 20% of its overall business will see benefits from the reduction in TCS, while the rest 80% which serves products under brands like Eatfit and Sharief Bhai will not, founder Ankit Nagori told ET.