

[Home](#) » [Consumer](#)

Revenue from online ads signals promising start to digital taxation

The receipts peg the size of online advertisements worth above Rs1 lakh a year at Rs10,000 crore a year

Last Published: Thu, Apr 26 2018, 11 26 PM IST

Gireesh Chandra Prasad |

Remya Nair




The government is now planning industry-wide consultations on the way forward in taxing the digital economy. Photo: Bloomberg

New Delhi: The first full year of taxing digital services has thrown up promising results with the government collecting Rs600 crore as tax from online advertisements. Policymakers are now busy planning to scale proceeds from this new area, including through tax treaty changes.

The tax that took effect on 1 June, 2016 had brought in Rs500 crore in the 10 months of FY17. Online advertisements are the first digital service to come under 'equalisation levy', a tax deducted at source.

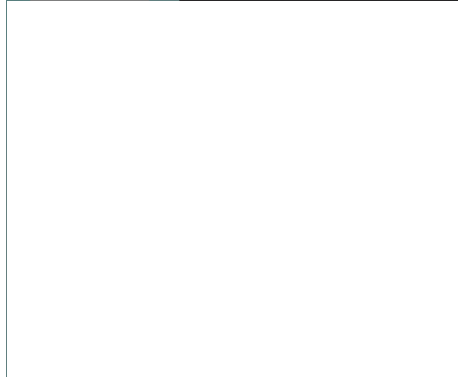
The receipts peg the size of online advertisements worth above Rs1 lakh a year at Rs10,000 crore a year. The 6% tax is to be deducted at source on the payments made to the advertisement platform such as social networking and other sites as well as search engines and paid to the government.



The government is now planning industry-wide consultations on the way forward in taxing the digital economy, following up on a plan announced in Union budget 2018-19 to attribute taxable business presence to offshore digital economy firms.

“Tax receipts from digital economy firms at present is not even the tip of the iceberg. We will hold consultations to decide what would constitute a taxable presence (called permanent establishment in tax treaty parlance) for offshore firms,” said a finance ministry official, who spoke on condition of anonymity.

The idea is to bring offshore digital economy firms having more than a specified number of customers or revenue from India into the tax net for their India income. The official, who asked not to be named, said such firms with a customer base in India will be asked to register themselves here.



The digital economy in India is expected to reach \$1 trillion in the next few years, according to government and industry estimates. A Microsoft-IDC study released earlier this month estimates that 60% of India's GDP will be derived from digital products and services created through the use of technologies by 2021, reflecting the huge market potential that India has to offer. The rapidly growing mobile internet penetration also offers opportunities to global digital companies. India will have 478 million internet users by June 2018, according to a report of the Internet and Mobile Association of India.

A spokesperson for video streaming platform Netflix said the company has registered itself in India and is paying applicable taxes, without specifying how much income is reported in India and why a dispute will be settled in the Netherlands as per its user agreement.

Netflix has forecast that its international streaming revenues will be more than its US home revenue in the April-June period.

Considering the global nature of digital services, India's strategy involves both changes in domestic law as well as tax treaty changes since some provisions of tax treaties offer specific relief not covered by domestic tax laws. The equalisation levy was introduced outside the Income Tax Act—through the Finance Act of 2016—and is not eligible for foreign tax credit in the taxable entity's home country.

“Digital economy is gaining priority globally among tax authorities who are keen to ensure that these firms pay their fair share of taxes in the countries where they have users,” said Amit Maheshwari, partner, Ashok Maheshwary and Associates Llp.

“Efforts like introducing ‘significant economic presence’ in domestic law put India on the negotiating table for digital taxation rights. The EU’s proposal for digital tax norms shows a firm commitment of revenue authorities around the globe to maintain their digital tax kitty,” said Neeru Ahuja, partner, Deloitte India.

First Published: Thu, Apr 26 2018. 11 00 PM IST

TOPICS:

[ONLINE ADVERTISING](#)

[INTERNET ADS](#)

[DIGITAL ECONOMY](#)

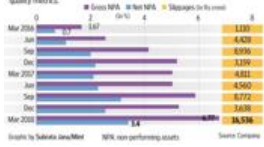
[DIGITAL TAX](#)

[NETFLIX](#)

[EDITOR'S PICKS »](#)

RISK PROFILE WORSENS

Axis Bank reported a historic quarterly loss and perhaps the worst asset quality metrics.



Axis Bank sees its darkest hour as the lights go out on asset quality



SoftBank wants Flipkart to wait for Amazon offer



North Korean Kim Jong Un meets South Korea's Moon in historic summit

Home

Lounge

Specials

Companies

Multimedia

Technology

Opinion

Money

Contact Us

Industry

Science

About Us

Politics

Education

Advertising

Consumer

Sports

Mint Apps

Sitemap

Brand Stories

DesiMartini

Livehindustan

Shine

Subscribe

Hindustantimes

Board Results

Syndication

[Subscribe to our Newsletter](#)

Enter your email

Subscribe

[Privacy Policy](#)

[Terms of Use](#)

[Mint Code](#)

[RSS](#)

Copyright © 2018 HT Media Ltd. All Rights Reserved