

Taxman questions Amazon India's fulfilment centre

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BANGALORE: Amazon is facing more trouble from tax authorities in Karnataka who increased scrutiny of the Seattle-based firm's local operations and issued notices to nearly 50 merchants selling their wares on the company's online marketplace in India.

This development highlights the dissonance between prevailing tax norms and the demands of growth in India's fast paced online retail industry.

"We have sent notices to about 50 dealers asking them why we should not cancel their additional place of business. We will initiate the process of cancellation after hearing them," said a senior tax official. The authorities contend that hundreds of merchants cannot declare the Amazon warehouse as an additional place of business under current tax laws.

Amazon India has so far only stated that the company is working with the state tax authorities on this matter. "We look forward to an early resolution in order to avoid closing our local warehousing operations in Karnataka and to stay on course for bringing more investments in the state," said the company in a statement.

Amazon operates a marketplace model in India where it links merchants with customers through its technology platform. The company has seven warehouses across the country, including Bangalore, where it stocks the fastest-selling products at an additional cost to the seller.

Amazon does this so it can ensure speedy deliveries. This service is called Fulfilment by Amazon. About 60% of products listed on Amazon.in are eligible for nextday delivery because of this service. Amazon earns a commission on the services it provides to the merchants and pays a service tax to the Centre. Tax authorities are questioning this model of a "fulfilment centre".

"As per the Karnataka VAT laws, they (Amazon) are acting as commission agents, and hence should discharge their liabilities to the government under the fulfilment model. We have no issues with regard to the marketplace model," said Ajay Seth, commissioner of commercial taxes, whose department has initiated the process to cancel 'branch certificates' issued to the 50 dealers.

Experts said regulators seem to be out of step with the changes in the online retail industry and could end up killing the goose that lays the golden egg. "This is an area that needs urgent attention and clear-cut guidelines by the government.

Current laws don't cater to modern day ecommerce transaction," said Krishnan Ganesh, cofounder of investment platform GrowthStory, which has invested in online retail sites like grocery portal Big-Basket and jewellery site Bluestone.

Ecommerce companies have been facing trouble in various states primarily due to the fact that goods that originate in one state are delivered to customers in a different one. These customers also often pay cash at the time of delivery. Legal experts are of the view that Amazon's tax troubles in Karnataka, could have far-reaching consequences. "It seems that Amazon is not just stocking products of other merchants, it is also delivering from its warehouse to the customer.

That seems to have caused the trouble," Vaibhav Parikh, a partner at law firm Nishith Desai Associates. "If it is found that they have violated law, they might have to change the way their fulfilment works." Flipkart and Snapdeal operate marketplaces and run warehouses.

Flipkart runs around six fulfilment centres or warehouses. Snapdeal launched 40 fulfillment centres in 15 cities in May and had said at the time that it would launch warehouses in 15 more cities. Flipkart and Snapdeal declined to comment for this story. Arvind Singhal, chairman of retail advisory firm Technopak, said such issues are arising as the tax laws in the country are 'archaic'.

"The government at the Centre needs to address the whole gamut of tax-related issues for the retail industry, not just ecommerce. Otherwise, the ecommerce firms will be at the mercy of local tax officials in different states," said Singhal. "Today it is Karnataka, tomorrow could be another state."

In fact, ecommerce firms have been dealing with various tax-related issues in different states. Most do not deliver to Kerala. "Since the logistics provider is making the delivery and collecting cash-on-deliver, it is considered as a dealer and hence liable to pay VAT in the state," said the head of an ecommerce firm, who

declined to be named. The company has now sorted out the problem by getting its courier partner to register in the state and remit to the merchant's account directly.

Such hurdles could stymie growth of online retail in India fear industry members many of whom are calling for speedy implementation of a uniform goods and services tax across the country.