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Startups to watch out for in 2017



'Google Tax' detrimental to startup ecosystem: Experts

By PTI | Dec 25, 2016, 04.41 PM IST

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MUMBAI: The [equalisation levy](#), also known as [Google Tax](#) which the government is imposing on online [advertising](#) revenue by non-resident [e-commerce](#) companies earned in India, is expected to adversely affect the startup ecosystem going forward, according to tax experts.

The levy which is at 6 per cent presently became effective on June 1. If passed on to startups, the applicable tax is expected to be in excess of 22 per cent, including the 15 per cent [service tax](#) and could further increase if GST comes into effect.

"The fact that the levy has been notified in addition to taxes payable by a businessman on imported online services unduly increases the cost of doing business for startups which in turn stifles innovation," Nishith Desai, managing partner of Nishith Desai Associates said here.



The equalisation levy, presently at 6 per cent, if passed on to startups, the applicable tax is expected to be in excess of 22 per cent, including the 15 per cent service tax.

A white paper released by the Internet and Mobile Association of India (IAMAI) and law firm Nishith Desai Associates, states that small scale technology driven companies generally do not have enough capital to engage employees inhouse for all necessary business activities.

"It is safe to assume that many of the auxiliary services that a startup needs to function like advertising, marketing, accounting etc are typically sourced from third-party online service providers," the report said.

The paper further noted that emerging startups burn a lot of cash in the first few years before becoming profitable and when the levy is expanded to include a vast number of other digital services the burden is set to multiply exponentially, hampering even more serious cost to innovation.

Further, industry experts believe that the levy could be increased to 8 per cent from the present 6 per cent along with the scope, which could be exacerbated when GST becomes applicable, the report said.

The white paper urges that a cap should be placed on the rate of taxation at the very least, and the number of notified services subject to the levy should not be expanded until there is an impact study undertaken by the government.

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