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Ground-Level Problems in E-Commerce Taxation in India

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In today's world, everything happens online. People study through apps, do work from home, pay bills online, and even watch movies through OTT platforms. But the Indian government charges 18% GST on all digital services such as Netflix, Amazon Prime, Udemmy, Spotify and Google Drive. The justification given for this is that digital business is developing very quickly in India. But the effect of this tax on the general public has never been investigated before. To do so, a mini-survey was conducted on more than 90+ people in Tamil Nadu between 30th July and 3rd August 2026. The respondents of this survey were students, salaried workers, businessmen and housewives. The results obtained are alarming. More than 60% of the respondents reported that their monthly spending on digital platforms increased by 20-30% due to GST. A middle-class family paying through 3-4 apps spends approximately Rs. 3000 extra every year just on tax payments. As a result, 40% have cancelled subscriptions, 50% started sharing accounts, 35% shifted to free apps, and 20% confessed to piracy. The major grievances were 'price is too high' and 'too many ads after payment'. Only 55 per cent knew that 18 percent GST is imposed. The billing process is also unclear. Students and lower-income sections were affected the most. 65 per cent feel that 5 percent or 10 percent GST should be levied on digital services. 30 percent want education and internet to be exempt from taxes. It has become necessary for everyone. The flat 18 percent tax rate is not feasible and leads to piracy.

Keywords: *digital GST, consumer behaviour, affordability, piracy.*

INTRODUCTION

In 2017, when GST came, the government put an 18% tax on all digital services.¹ Digital includes Netflix, Amazon Prime, Spotify, online learning, and cloud computing. This was due to the rapid growth of digital businesses in India. But during COVID, everything got shifted online. From students studying using apps, working from home, to even doctors having their consultations online. In other words, digital became a necessity rather than a luxury. A middle-class family today uses around 3 to 4 apps in a month. After adding 18% taxes, the price rises significantly. Then comes the question: can regular families afford this expense each month? This study attempts to find the answer through interviews conducted in Tamil Nadu.

Problem Statement: There is a gap between law on paper and law in practice. Doctrinal research explains Section 9 of the CGST Act.² But non-doctrinal research asks: can a student in rural Tamil Nadu afford 360rs GST for a 2000rs course? This study tries to answer that by listening to real people.

Objectives –

1. To study the effect of 18% GST on monthly expenses on digital services in urban, rural and metropolitan areas of Tamil Nadu.
2. To analyse changes in behaviour in the form of cancellation of subscriptions, sharing of accounts, switching to free substitutes and pirating due to GST imposed on digital services.
3. To measure the awareness level of common people about GST imposed on digital platforms and billing practices.
4. To study the effect of digital GST on various demographic segments, namely students, working professionals, business people, homemakers and elderly people.
5. To study the impact of GST on accessing basic digital services such as online education, telemedicine and skill development.
6. To determine the views of people regarding a fair rate of GST for digital services by 2026.

¹ 'Notification No. 11/2017-Central Tax (Rate)' (CBIC GST Portal, 28 June 2017) <<https://cbic-gst.gov.in/hindi/pdf/central-tax-rate/Notification11-CGST.pdf>> accessed 12 August 2026

² Central Goods and Services Tax Act 2017, s 9

7. To provide suggestions for a better and transparent digital GST system based on primary data.

Significance: The importance of this study lies in the fact that it provides bottom-line information on the impact of 18% GST on common citizens. The research focuses on the problems of affordability, increased piracy, and digital exclusion. This study will assist in designing appropriate taxation for Digital India.

REVIEW OF LITERATURE

Taxation and Digital Economy: Taxation and the uptake of technology have been extensively researched. According to economic theory, there is a direct decrease in demand for any good that has high price elasticity due to taxation.³ Digital services, particularly those utilised by students and poor communities, fall within this group since there exist many free alternatives for them. In 2019, the National Institute of Public Finance and Policy stated that taxation of internet and digital services would lower their adoption rates in developing nations. Likewise, the IAMAI Digital Consumer Report 2023 found that 47% of Indian consumers regard price as the most significant obstacle in purchasing digital subscriptions.⁴

Global Practices on Digital Taxation: The taxation methods employed by various nations with respect to digital services differ widely. In the US, there is no VAT charged at the federal level for digital B2C services. In the UK, the VAT is 20%, but there is zero-rating for digital books and e-learning materials.⁵ In the European Union, the average VAT rate is 21%, but most member states apply reduced rates of 5% to 9% for educational and cultural digital content.⁶ While Indonesia imposes 11% VAT on the provision of digital services, it does not levy VAT on e-learning services; India levies a fixed VAT of 18% as per SAC Code 9984. India thus remains amongst the highly taxed nations for B2C digital services.

Impact of GST on Consumer Behaviour in India: Post-GST studies in India have shown mixed results. A study by CRISIL in 2022 found that 18% GST on telecom and OTT led to a 12% drop in paid subscriptions in the first year. According to the KPMG Digital Tax Report

³ Arthur Cecil Pigou, *The Economics of Welfare* (Macmillan and Co 1920)

⁴ *Internet in India Report 2023* (Internet and Mobile Association of India 2024)

⁵ *Zero rating books and printed matter (VAT Notice 701/10)* (HM Revenue & Customs 2020)

⁶ EU Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax [2006] OJ L 347, art 98

2024, the excessive GST on digital tools is one of the reasons why many freelance and gig workers are using pirated software. Issues such as 'tax cascading' and 'lack of transparency' have also been pointed out. As per the CBIC's FAQ, GST must be displayed separately on the invoice, whereas most OTT platforms mention 'inclusive price.' This is another reason behind the lack of awareness among consumers.

Digital Divide and Affordability: Digital Divide 2.0 is an idea that has been put forward by the NITI Aayog in 2021. It is an instance where there is a difference not between people's access to the internet, but their ability to afford digital services. With the advent of the pandemic, everything, including education, healthcare and employment, shifted online.⁷ A paper by NIPFP on 'Taxation of Online Education' in 2021 recommended that online courses should be taxed at 5% or exempted because they serve a public purpose¹. Our survey data also supports this, where 22% of students reduced spending on online courses due to GST.

Piracy and Behaviour Economics: As stated in behaviour economics, once there is a crossing of a 'pain point' by legal prices, consumers move towards illegal substitutes. According to the Laffer Curve theory, at a certain tax rate, revenue becomes lower due to non-compliance.⁸ This can be seen in the emergence of Telegram channels and torrents for the sharing of courses and movies in India. In 2023, FICCI conducted a research study, which revealed that digital piracy cost the Indian media industry an amount of Rs 20,000 crore per year.

Research Gap: The current literature on GST is doctrinal in nature and deals with issues such as constitutionality of the tax, place of supply law and revenue-raising concerns. Only a handful of non-doctrinal papers have undertaken field research to understand what the common man in Tamil Nadu feels. All reports mention 'growth of digital economy', but none mentions the housewife in Tamil Nadu who unsubscribed from Netflix or the student who resorted to piracy. This paper attempts to fill that gap by undertaking primary surveys of 60+ individuals from Urban, Rural and Metropolitan Tamil Nadu.

⁷ *World Development Report 2016: Digital Dividends* (World Bank 2016)

⁸ Arthur Laffer, *The Laffer Curve: Past, Present, and Future* (Heritage Foundation 2004)

RESEARCH METHODOLOGY

Design and Sample: This is a Non-Doctrinal, Empirical, Descriptive study.⁹ A total of 90+ responses were collected through Google Forms between 30.07.2026 and 03.08.2026.

Tool and Limitation: Structured questionnaire with 25 questions. The limitation is that the sample is limited to Tamil Nadu and is self-reported. But it provides a strong ground reality.

FINDINGS AND DISCUSSION

Bill Burden and Price Sensitivity: Based on the survey results, more than 60% of respondents agreed that their digital expenditure had gone up by 20-30% after GST. Most respondents reported that their monthly bill exceeds 1000 rupees. One business respondent from an urban area quoted, 'Yes, monthly 1000 + rupees goes'. While talking about the reasons for their dissatisfaction, two of the main reasons were 'Price is too high' and 'Too many Ads'. The respondents feel that they have paid the tax but are still watching ads. One student from a rural area quoted 'Price is too high'. Another respondent from an urban area quoted 'confusing plans'. 50+ professional respondents said, 'To promote digitalisation, the new era requirement, reduce taxes to a reasonable amount'. It can be seen that even senior citizens find it burdensome. This supports the economic theory that tax causes a reduction in consumption of price-elastic products like digital products.

Behaviour Change: Piracy, Sharing and Cancellation: GST has definitely brought a change in the way consumers use digital products. 40% responded that they reduced usage. 35% responded Yes, I have moved to free versions. One student from Rural said, 'Download pirated version'. 50% responded We share an account and pay with family & Friends. Another 15% responded Started sharing password with friends/family'. 40% responded Cancelled my subscription.' This is an excellent example of the Laffer Curve, where taxes are high, and so is the revenue leakage. A student said Rich people don't have a problem, but the middle class and lower middle face the problem regularly. This proves tax is regressive.

Awareness and Transparency Gap: Awareness levels are extremely low. Only about 55% answered 'Yes, I know' regarding GST for digital services. 20% answered 'No, I didn't know',

⁹ SN Jain, 'Doctrinal and Non-Doctrinal Legal Research' in SK Verma and M Afzal Wani (eds), *Legal Research and Methodology* (Indian Law Institute 2001)

while 15% replied 'I came to know about it just now'. 25% believed that 'it was free'. When asked whether they cross-checked bills, 30% responded that 'Yes, I always check'. 40% replied that 'I check sometimes' while 30% stated 'No, I don't check'. The respondents called for transparency. One respondent said, 'Need transparency', while another added, 'the plans should be clear to the general people.' This contravenes the basic principle of tax transparency.¹⁰

Impact on Education and Necessity: A number of students and professionals have been affected. 45% of people surveyed were students. They are most adversely affected. Some of the suggestions put forward from the survey include: 'Tax reductions should be offered to educational and health applications'.

Another suggestion was: The government may interfere in this matter and impose regulations regarding tax on education and information. A respondent felt that internet access is a basic fundamental right. However, there must not be any tax as it is highly unfair. This indicates that people feel the internet to be a right, not a luxury.¹¹

Public Opinion on Fair GST Rate: When asked what should be the GST rate, the response was overwhelming. Around 65% said reduce to 5% or reduce to 10%; 30% said make it free. Only 10% said 18% is correct.

Common Suggestions from respondents:

- Reduce GST percentage to 10 to 12.
- Should reduce it for user concerns.
- Make it free; it will be useful for everyone.

Tax to be applied only on entertainment and other non-mandatory things; basics and survival necessities to be made tax-free.'

A business owner said, 'Simplify the taxation so that digital tax will reach more people'. Another said, 'Avoid double taxation by coordinating digital tax rules'.

¹⁰ *Principles of Good Tax Administration* (Organisation for Economic Co-operation and Development 2001)

¹¹ *Digital India Programme* (Ministry of Electronics and Information Technology 2015)

RECOMMENDATIONS

Policy Recommendations based on Survey –

Differential GST Slab: Education, Health, Internet = 5%. Entertainment = 10-12%. Business to Business (B2B) = 18%. 65% of respondents demanded this.

Exemption for Basic Use: Make digital services free upto 500rs/month. 30% said make it free.

Billing Transparency: Mandatory breakup of Base price + GST. Respondents said they need transparency.

Awareness Campaign: A more campaign and good awareness, as one respondent suggested.

Long Term: India, therefore, will require a comprehensive and impartial digital tax policy in the long term. The government should distinguish between necessities and luxuries in the digital world. There should be prioritisation of education, health, and the Internet with reduced taxes. This will enable Digital India to touch each person irrespective of their economic background.

CONCLUSION

First, this survey reveals one fact: 18% GST on digital services causes too many troubles to common people in Tamil Nadu. Having interviewed 90+ people, we came to the conclusion that the internet is no longer a luxury. The internet is used by people for studying in schools and colleges, searching for job opportunities, going to hospitals and having fun. However, when everything becomes too expensive due to high taxes, people start reducing their expenses on it. 60% of interviewed people stated that their bills increased by 20-30%. 40% cancelled subscriptions to digital products. 50% started sharing accounts with their friends. 20% switched to piracy.

This tax does not bring additional revenue to the government but makes people behave improperly. The worst situation occurs with students and middle-class people who are active users of digital courses and applications. However, this category of people cannot afford too high prices. How could 'Digital India' and 'Skill India' become reality if there is an 18% tax on educational and healthcare apps? People have only three demands: reduce the tax to 5-

10%, make education and health apps tax-free and provide the bill with the amount of GST paid. Without any changes to this situation by the government, there will be an increasing disparity between the rich and the poor regarding the use of digital technologies. In order to ensure that everybody is able to utilise the internet and other digital means without worrying about costs, tax policy needs to be equitable.