

## Amazon Faces Tax Hurdle in India

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Amazon's expansion plans of \$2bn into its e-commerce business in India has faced some major regulatory obstacles with the government in the southern state of Karnataka, where its local operations are headquartered. The company is accused of violating India's FDI (Foreign Direct Investment) regulations by trying to make a "backdoor entry" into India's retail business. Karnataka tax authorities have stopped Amazon from selling products from its warehouse by cancelling licenses of third-party merchants storing their products in Amazon's warehouse near Bangalore.

India's FDI prohibits direct online retail, so e-commerce companies such as Amazon, Flipkart and Snapdeal operate as marketplaces in India. The companies do not own the products but act as platforms where it hosts the buyer selling the product, and buyer-seller transactions occur on these platforms. In such transactions, the website only acts as a facilitator, subject to pay a service tax on the commission received for providing the services.

However, the issue underlying Amazon in this case derives from technological advances such as data mining and analysis where e-commerce companies developed software to predict and forecast customer preferences. E-commerce companies have started storing these "predicted" goods in their warehouse to save outbound time and costs on logistics. After products are sold from the warehouse, the company receives payment from the buyer, keeps a portion for itself, and sends the remainder to the merchants where merchants then pay value added tax (VAT), or sales tax to the state government. This type of transaction is the core dispute between Amazon India and the Karnataka government especially since types of e-commerce is not specifically mentioned in the tax laws of Karnataka or other states of India.

Tax officials in Karnataka argue that since Amazon is in practice, acting as more than just a service provider, and ownership for goods under "Fulfillment by Amazon" passes onto it, Amazon should be paying the VAT instead of the merchants.

However, Amazon disagrees, arguing that it only acts as a service provider, and is not entitled to any ownership of the products. "I'm sure tax issues are going to be a headache for all the e-commerce companies," [said Arvind Singhal, chairman of Technopak Advisors](#), the New Delhi-based retail consultancy. "The Indian government, whether central or state, has not really looked into ecommerce, even though it's a big trend for the future. There is very little clarity even what the nature of this business is," he said.

"We understand this to be a case where the laws have not kept pace with the new-age online business models," [Amazon said in a statement](#). They went on further to add, "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."