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## An analytical study of implications of 28% GST on online gaming: Industry, government and consumer perspective

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### Abstract

In this article, the effects of the Indian government's decision to tax the online gambling sector with a 28% Goods and Services Tax (GST) are discussed. It offers information on the industry's estimated size, the impact on consumers, the viewpoints of the industry and government, As the government seeks to reduce gambling, suicides caused by debt accrued through online gaming and enhance GST collection and the industry views these goals as necessary to build strong, profitable businesses that increase employment and tax revenue while increase in entry fees and less prize money for consumer.

**Keywords:** Online gaming, GST, employment, gambling

### Introduction

One of the fastest-growing internet industries in India is the online gaming industry, which has seen extraordinary growth. The GST Council recently announced its intention to apply a 28% Goods and Services Tax (GST) on the full-face value of online gaming transactions, which is a significant event that has shocked the sector. Stakeholders in the industry are deeply concerned about this action because they worry about its possibly disastrous effects on the sector's growth, investment, and employment prospects. The government appears steadfast in its decision despite pleas from many parties, which raises concerns about the future of the industry and the potential effects on consumers.

### Goods and Services Tax (GST)

As a result of the 101st Amendment to the Indian Constitution, this indirect tax—which customers do not directly pay to the government—became effective on July 1, 2017. It is levied against producers, retailers, and service providers.

- There are five tax slabs, with rates of 0%, 5%, 12%, 18%, and 28%, used for tax collection.

### GST Council

Article 279A of the Indian Constitution gives the President of India the authority to establish a joint forum of the Center and States known as the GST Council. This council is responsible for amending, reconciling, or making recommendations to the Union and the States on GST, including the types of goods and services that may be subject to or exempt from GST, model GST laws, etc.

### Online gaming market in India

As compared to 8% in China and 10% in the US, the industry increased at a CAGR of 38% between 2017 and 2020. By 2024, it is anticipated to expand at a CAGR of 15% and generate Rs 153 billion in sales. In terms of new paying users (NPU), India has experienced the world's fastest growth. India saw a 26% increase in transaction-based game revenue, with 95 million paying players in 2021 compared to 80 million in 2020

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**What is the online gaming?**

Online games are described as "games that are offered on the Internet and are accessible by a user through a computer resource or an intermediary" by the Ministry of Electronics and Information Technology (MeitY) in its draft rule.

**What is the real-money online gaming industry?**

When playing real money online games, players must make a deposit in cash or another form with the hope of winning back their money. These online gaming sites may focus on fantasy, e-sports, or skill-based games. It also includes card-based games like rummy and poker.

**Prominent companies**

A few of the well-known businesses in the field are Games 24\*7, which also runs Rummy Circle, Dream 11, MPL, Ace2Three, and Gameskraft, in addition to many others.

**Present tax and future tax scenario**

The government currently charges online gambling

companies a GST of 18% on their Gross gambling Revenue (GGR) or platform fee. In addition, a TDS of 30% is subtracted from gains. The GST has not yet had any extra effects on the value of bets placed by online players, aside from the platform fee that is charged by the online gaming company.

By equating skill-based online games (non-gambling games) with online games of chance (gambling games), the GST Council announced a 28% GST duty on the total game value for online gaming, horse racing, and casinos in India.

This means that a player must pay 28% GST on the money they deposit to play the game. He will also be responsible for the platform charge and the 30% TDS on net gains.

Let's imagine that a player bets \$100, plus a platform fee of \$10. A player would have previously paid 1.80 as GST.

Following the ruling of the GST Council, he would now be required to pay 28 as GST, which may be subtracted from his first payment. In the aforementioned scenario, the player would now only have 62 (i.e., 100, which is the bet less the 10 platform fee less the 28% GST = 62) to play with.

**Present tax and future tax scenario**

Particulars	Present scenario – GST @ 18% on platform fees	Proposed scenario – GST @ 28% on entry amount
Total entry amount per player	100	100
Total entry amount (assuming 2 players in a game)	200	200
Platform fees (10% of entry amount)	20	20
GST (18% on platform fees/28% on entry amount)	3.6	5.6
Amount left for winners in prize pool, after deduction of platform fees and GST	176.4	124

**Industry Perspective**

The value of the industry will plummet as a result of the sharp increase in the GST on deposits, which renders the business unprofitable. Industry executives predict that this will result in:

**Jobs**

Thousands of direct and indirect jobs are currently supported by the online gaming industry, which is anticipated to expand significantly over the coming few years. Over 1,00,000 direct and indirect jobs have been supported by organizations like WinZo. By 2025, it is predicted that the gaming industry will have produced over 5,000,000 direct and indirect jobs. However, analysts and business executives claim that as a result of the decision about the GST valuation, the industry will need to plan for significant layoffs.

**Investment / FDI**

Between 2014 and 2020, the gaming market in India brought in USD 575 million. But only in 2021 and the first quarter of 2022 did USD 1.7 billion get into the Indian online skill gaming market. Currently, three online skill game companies have achieved unicorn status. However, the implementation of this GST rate may deter prospective investors—domestic and foreign—from viewing India as a promising investment location.

**Big ad spends**

"In FY22, the top 15 revenue-producing online gaming firms, including Dream11, Gameskraft, Games24x7, A23, and MPL, produced a combined Rs 9,093 crore. These businesses spent about 5,000 crore rupees, or more than half of their total revenues, on advertising and promotions. According to Keerthi R. Kumar, Business Head-South at FoxyMoron, a

digital marketing firm that is a division of ad agency Zoo Media, if gaming companies' ad revenues decline as a result of the 28 percent GST's impact on online gaming, it may have an influence on the primary advertising medium they rely on.

**Indian companies face threat of being overtaken by foreign competitors**

The current government move is thought to be harmful to India's interests, which has caused alarm in the online gambling sector. In addition to endangering the development of several Indian start-ups. Online gaming is a global industry, thus the increased taxes levied in India would unintentionally benefit businesses operating outside. This situation unfortunately portends doom for the domestic gaming industry. If the tax is not extended to these overseas businesses, gaming companies operating outside of India would benefit.

**Impact on Consumers**

Online gambling in India will be subject to a 28% GST starting in 2018, which would directly affect a number of factors such prize pools, high entry fees, alternative illegal options, etc.

**Higher entry fees:** Customers will eventually be affected by this greater tax since they will be required to pay higher entry fees.

**Decrease Prize Pools** (Up until this point, GST of 18% was assessed on the Gross Gaming Revenue (GGR) or platform fee, which ranges from 5 to 20% of the amount of bets placed. An online gamer, for instance, has bet Rs 100, which includes a Rs 10 platform fee. A player would so contribute Rs 90 toward the prize money. In this instance, GST of 18% was

charged on the platform cost of Rs 10. Saket Patawari, Executive Director, Indirect Tax, Nexdigm, stated that in view of the GST Council's decision, an upfront GST of 28% will now be payable on the total wager amount of Rs 100. Once the platform charge is subtracted, this would result in a significant decrease in the player's contribution to the prize money. The player's contribution in the aforementioned case would now be Rs 62 (Rs 100 wager amount less Rs 10 in platform fees and Rs 62 after deduction of 28% GST).

Online gaming may be less popular and accessible for many people as a result of the higher cost, which may deter people from playing. Further, this scenario might encourage some players to look for alternate possibilities on unregulated, offshore, or illegal platforms, which could lead to an increase in addiction to unlawful gambling.

### Government Perspective

In order to deter gambling, especially among the younger generation, the government has defended its decision to impose a 28% GST on online gaming. Lower GST rates, in the opinion of GST Council members, will encourage betting and gaming. To deter people from indulging, the government puts greater taxes on gambling, cigarettes, and alcohol. Gaming is a risky and addicting pastime. Each week, there are reports of people taking their own lives owing to debts from playing online games. Along with greater taxes, the government has to impose limits based on factors like age, wealth, and so forth because the addiction has primarily affected adolescents and teenagers and 28% GST on internet gambling will bring in Rs 20,000 billion yearly, according to the Revenue Secretary

### Conclusion

The GST Council has decided that the online gaming industry must pay GST on the complete pot, or the sum of all player contributions, in addition to the platform fees that businesses charge. Online gaming is now subject to a 28% GST, which has significantly polarized the business and the government. Industry participants consider that the choice will harm the sector's ability to expand and survive. Because of the high tax rate, users may seek for unlawful offshore platforms and job opportunities, which could result in revenue losses for the government. While it's possible that the government wants to discourage gambling, suicides caused by debts from online gaming enhance tax revenue for the government. To deter people from indulging, the government increases the tax rates on alcohol, cigarettes, and gambling.

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