Winnings from Online Games

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Introduction

Income from online games is taxable under Section 115BBJ of the Income-tax Act, 1961, at a flat rate of 30%. The Finance Act, 2023, introduced a new scheme for taxing such winnings, effective from the assessment year 2024-25. Tax is deducted at source (TDS) under Section 194BA at the rate of 30% at the time of withdrawal or at the end of the financial year if no withdrawal is made.

Meaning of an online game

"online game" means a game that is offered on the internet and is accessible by a user through a computer resource, including any telecommunication device.

Taxability of Winnings from Online Games

- Net winnings from online games is taxed under Section 115BBJ at a rate of 30%, irrespective of whether it is a game of skill or chance.
- Net winnings are computed as prescribed under Rule 133 of the Income-tax Rules.

TDS Provisions on Online Gaming Winnings

- Section 194BA applies to all online gaming winnings from 01-04-2023.
- Tax is deducted at 30% on the net winnings:
    - o At the time of withdrawal.
    - o At the end of the financial year if no withdrawal is made.

No Basic Exemption Limit

- The benefit of the basic exemption limit is not available

No deduction/allowance

- No deduction, including those under Chapter VI-A (e.g., 80C, 80D), is allowed for income from lotteries, puzzles, races, games, gambling, or betting.

Tax on Winnings from Online Games

TAX ON WINNINGS FROM ONLINE GAMES

Scope of Section 115BBJ

- Applicable to all online games, regardless of whether they involve skill or chance.
- Overriding effect over other provisions, meaning professional gamers and casual players alike are subject to this tax.
- Includes winnings from fantasy sports, e-sports, and education-based games.

Computation of Net Winnings

Net winnings are determined using the following formula:
Net Winnings = (Withdrawals + Closing Balance) – (Opening Balance + Non-Taxable Deposits)

- Non-Taxable Deposits: Deposits made from already taxed income or non-taxable sources (e.g., borrowed money).
- Taxable Deposits: Any amount credited as winnings, including direct payments outside the gaming account.
- Withdrawals: Any amount withdrawn by the user, except transfers between accounts within the same platform.

If winnings are paid in-kind or outside the gaming account, an equivalent money value is assumed to have been deposited and withdrawn simultaneously.

Tax Deduction at Source (TDS) under Section 194BA

- Deductor and deductee can be any person.
- TDS at 30% applies to net winnings.
- Deduction occurs at the time of withdrawal or, if no withdrawal is made, at the end of the financial year.