

With excise hike, Chidambaram plays knockout game

Gaming Industry Worried About 4% Hike In Excise Duty On Packaged Software; Says New Launches Will Be Badly Hit

Ritwik Donde & Jacob Cherian MUMBAI

March 4 2008

FINANCE minister P Chidambaram raised his weapon, took one aim and shot down the citadel. No, he wasn't playing a computer game, but just increasing the tax burden on the country's fledgling gaming industry, which is now worried over increased piracy and lower profit margins. The four percentage point hike in excise duty on packaged software has not gone down well with the gaming industry. Companies which have lined up new launches are the most-hit, because their costs will go up now, raising a question mark over the success of their products. For instance, Mumbai-based Trine Studios is on the verge of launching its latest game 'Streets of Mumbai,' but CEO Sangam Gupta said this duty on packaged software bugs him. "The costs will have to be bumped up now and it will be the distributors who are most likely to take the hit as their margins are likely to fall," he told ET.

The packaged software companies are now worried that the hike in taxes would affect their future sales apart from boosting the black market in software. According to Indiagames founder and CEO Vishal Gondal, "The government has failed to understand the biggest problem facing the gaming industry- piracy. The best way to tackle this problem was to make the software cheaper, negating the USP of pirated sales. But what this hike would do is just take the gaming software companies back to square one in their fight against piracy." A recent Business Software Alliance report says that India's software piracy rate stood at 71% as at the end of 2007, a one percentage point drop from the previous year. India's losses due to piracy were pegged at \$1.3 billion.

While box sales could take a hit, the online sales model for games could gain correspondingly, Dhruva Interactive CEO Rajesh Rao said. Online subscriptions would work as people would rather pay small amounts over a long period, instead of a large amount up front. The online gaming industry is expected to be nearly \$200 million by 2010 according to IAMAI. "As packaged games become more and more expensive, the choice for the gamer is becoming even simpler," said games2win.com founder and CEO Alok Kejriwal. Moreover, the online games do not attract the 12% hike even if they are sold online on demand, as they do not come in packed, so they would still continue to charge service tax on downloads, the excise would not be applicable to the online gaming portals, he added. As per Nasscom, India's gaming industry is expected to cross \$424 million by 2010, representing a compounded annual growth of 72% over 2006-2010.