

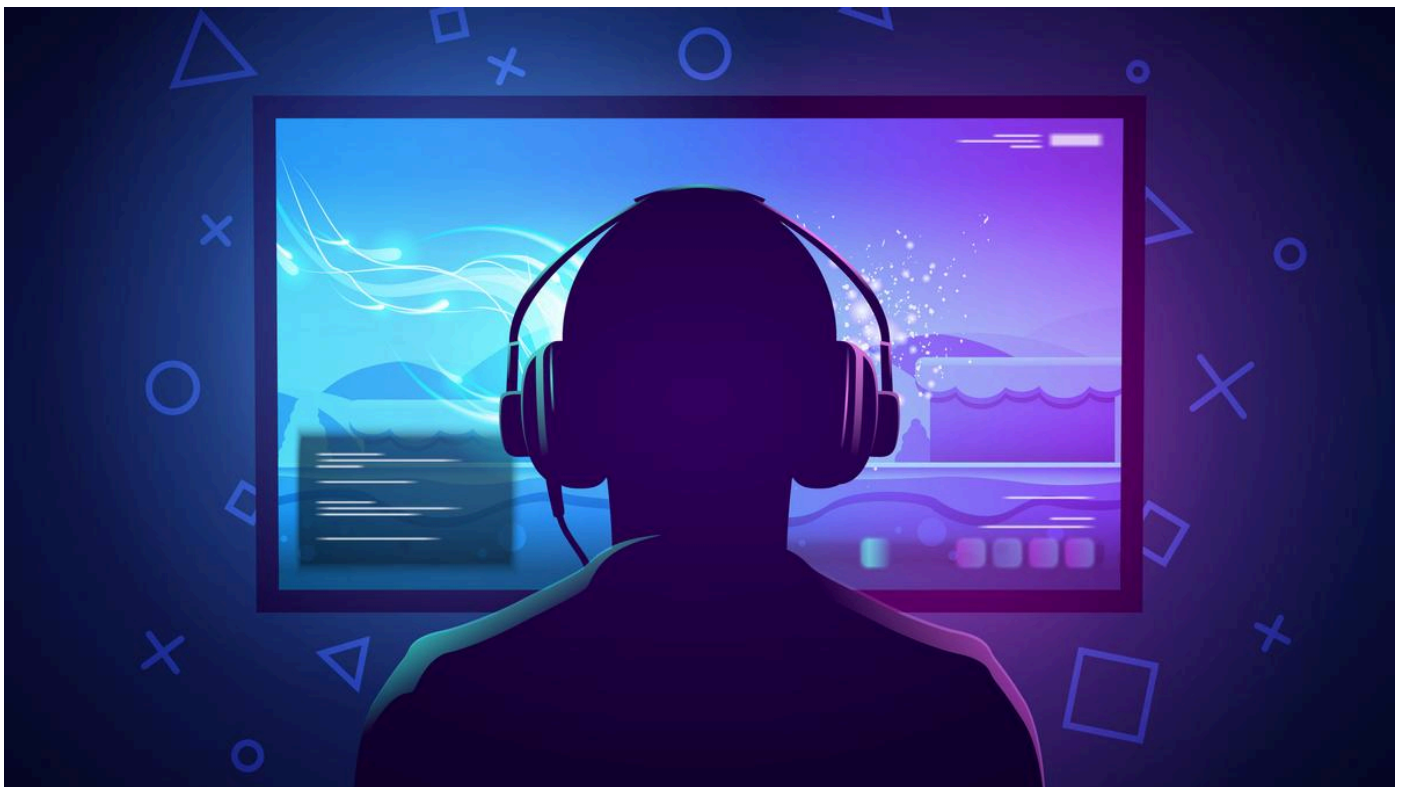
Is the government stifling the online gaming sector? | Explained

Online skill-based gaming has the potential to harness programming, design, and storytelling talent to leapfrog India to the top of the tech leader board globally

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For representative purposes. | Photo Credit: Getty Images

The Economic Survey 2024-25 has called for “accelerating and amplifying the deregulation agenda”, and has urged the government to “get out of the way” so that businesses can go about their business. While this sounds enticing, what does deregulation mean in practical terms? How should the government take the deregulation agenda forward?

The gaming sector's potential

Target areas for deregulation can be found by surveying the regulatory landscape to identify where the heavy hand of the government is hampering growth. One such domain is the online gaming sector. **The judiciary brought attention back on the need to deregulate the sector through a 2025 Supreme Court stay order on the Union government's retrospective GST demand on the online gaming sector to the tune of ₹1.12 lakh crore.** How did this come about?

Online skill-based gaming is a sunrise sector, where three startups have already transformed into unicorns. It has the potential to harness programming, design, and storytelling talent to leapfrog India to the top of the tech leader board globally. India, with 650 million smartphone users and half the population below the age of 35, can outshine other countries in online gaming from the perspective of technology innovation and financial returns. A PwC report pegs online gaming as among the fastest growing sectors in India, accounting for ₹33,000 crore in 2023, and projected to reach ₹66,000 crore, growing at a CAGR of 14.5% between 2023-2028. Online gaming could create an additional 2-3 lakh direct and indirect jobs in the next few years, in addition to the two lakh jobs already generated.

Tax imposition

While the State governments of Karnataka and Telangana are rolling out policies to promote animation, visual effects, gaming, and comics sectors, such positive steps have paled against the instincts of the tax collector. Union and State governments have unanimously slapped a 28% GST on online gaming, a rate usually reserved for public 'harms' such as gambling, liquor, and tobacco. Some State governments had even imposed bans on online gaming, classifying them as part of gambling, which the courts overturned and termed unconstitutional, as "games of skill" are legal and cannot be classified as gambling. Such futile legal diversions waste government and industry resources.

The apparent trigger for such regulatory interventions was the conflation of online gaming with online gambling. There are lessons for those in the online gaming sector from this confusion. Clearly families and regulators are concerned about users' problematic online practices. The industry should therefore strengthen protections against excessive use. For example, by analysing data it possesses about users' behaviour, it can create individually-customised safeguards which prevent problematic practices on their platforms.

The Union government's effort to wring the online gaming sector dry is a black warrant for online gaming, as smaller startups will go bankrupt or simply shut shop. It will also spur the growth of illegal gambling and betting sites, which are already flourishing, typically operating offshore beyond the reach of our regulators.

An effective way for the government to commence its new wave of deregulation would be to rationalise GST rates and co-craft a regulatory framework with the online gaming industry. But the first step is to drop the unjustifiable retrospective GST demand which threatens to eclipse this sunrise sector.

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