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SPECIAL ISSUE

Everything on GST

- Union Budget - 2018
- Strategic Partnership and Outsourcing : Pharma companies
- Consumers Behavior Towards Online Grocery Shopping
- Mapping Export Prospects of Citrus Fruits
- Emerging Trends in E-commerce

GST

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IS GST BOON OR BANE TO SMALL TRADERS OR TAX PAYERS?

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ABSTRACT

Goods and Services Tax (GST) is India's most ambitious and remarkable indirect tax reform, launched on July 1, 2017, after deliberations and preparatory work over a number of years. Its objective is to levy a single uniform tax across India on all goods and services, through a simplified and transparent tax structure by reducing the tax burden for both producers and consumers, and increasing tax collection for the government. It must attract small traders to develop the habit of tax payment by domestically, it will help improve governance, strengthen the tax institutions, facilitate Make-in-India by Making-One-India, and impart buoyancy to the tax base. Promoting an Ease of Doing Business, and ensuring that the benefits of the tax system reach the consumers are other major goals of the new system. Success of such a major change always depends upon its effective implementation. This paper discusses the burdens on the trader's point of view and benefits enjoyed by them. It also explains how GST contributes for economic development through various central government initiatives.

Keywords: Crop diversification, determinants, poverty, Simpson's index

ADDITIONAL COMPLIANCE BURDEN TO TRADERS:

GOODS

It is true that there will be additional documentation requirements on all those who are now part of the GST net. But the filing requirements will comprise filing one set of forms per month (not three as has been alleged because filing the first automatically fills the two others). This will not be an additional burden because similar and sometimes more onerous, requirements existed under the previous state VAT and Central Excise regimes (Table 2).

For example, as the Table below shows, under the pre-GST regime, three separate returns to three different authorities had to be filed in respect of the three major taxes that are now subsumed under the GST.

SERVICES

Previously, since only the Centre imposed the service tax, agents had to register with and hence file to, only one authority. Now, agents will have to register in all states that they operate in and record in each of them. In the discussions in the GST Council, attempts were made to preserve the previous, simpler system, but states were nearly unanimous in insisting for multiple registrations as a way to ensure that they receive their due share of revenues. They argued that the increased compliance requirements will be faced only by a small number of agents with a pan-India presence, and whose ability to comply will be commensurately greater. Going forward, there is scope for more centralized procedures to minimize the compliance burden.

Box 3: Benefits of GST for Small Tax Payers

- No tax up to an aggregate annual turnover of ₹20 lakh for both CGST/ SGST/UTGST for manufacturer/service provider/trader
- The exemption threshold is ₹10 lakh for eight North Eastern States, Uttarakhand and Himachal Pradesh for both CGST and SGST
- Those below the threshold limit many opt for voluntary payment of tax with input tax credit (ITC) benefits.
- No requirement of registration or filing returns if below the threshold limit for manufacturer/service provider/trader
- Option to pay tax under composition scheme (i.e. to pay tax at a flat rate without credits) is available to small taxpayers (other than the specified category of manufacturers and service providers) having an annual turnover of up to ₹1 crore (₹75 lakh for special category states except for Jammu and Kashmir and Uttarakhand)
- Composition GST rate: traders 1%, manufacturers 2%, and restaurants 5%
- In the service sector, composition scheme is available only for restaurants .
- Small taxpayers are not required to give HSN code in their returns.
- Special dispensation for job works to help workers in GST regime .

Box 4: Uniformity in Tax Regime – Input Tax Credit (ITC) Mechanism

- Seamless flow of ITC to eliminate cascading of taxes
- Simple ITC mechanism across all taxes .
- The credit of tax paid at every stage is available as set off for payment of tax at the subsequent stage. If the seller wants to avail of ITC facility, both entities, the seller and the buyer, should be registered with GST Network. The seller should also be paying taxes regularly. ITC is permitted based on the principle of matching of bills for which credit is claimed by the seller with the details given by the buyer. Credit is admitted only for the matched portion of transactions.

Box 5: Ease of GST Registration and Filing Returns

The standard format for every process of registration chain such as an application for registration, acknowledgment, query.etc.

Amendments of registration shall be made without any specific approval from the tax authority (except for some core information).

Box 6: Standardized Form for making any claim for refunds

The claim and sanctioning procedure will be entirely online and time-bound.

The refund claim will be credited to the bank account of the applicant.

Table 2: Number and Frequency of Returns to be filed: before and after GST

Before GST		GST structure
State VAT	1 per month plus 1 annual	1 per month plus 1 annual
Service Tax	2 per year plus 1 annual	
Central Excise	1 per month plus 1 annual	

ST CONTRIBUTES TO 'MAKE IN INDIA' PROGRAMME

The four levels of GST rates and the exemption category will go a long way in providing opportunities for small and medium enterprises to benefit from the simplified and transparent GST system.

GST will help in creating a unified common national market for the country, giving a boost to foreign investment, and 'Make in India' campaign. It will prevent cascading of taxes as Input Tax Credit (ITC) will be available across goods and services at every stage of supply.

In the earlier pattern, many problems and uncertainties were noticed in the indirect tax administration. Non-uniformity of taxes across states created uncertainty and confusion in business decisions. There was no mechanism for rebates on taxes paid on the previous stages of the value chain, and hence, led to a cascading effect (tax-on-tax). Effective implementation of GST will result in redressal of all these and many more, by way of simplifying tax compliance, reducing the restrictions on inter-state movement of goods, mitigating the tax burden, facilitating the timely realization of tax refunds, and so on. **This, in turn, will also help in sharply improving the country's global ranking on 'Paying Taxes,' in the World Bank's Doing Business Report, where India is ranked poorly at 172 out of 190 countries.**

4. GST, by merging all indirect taxes into a single tax, has made compliance much easier for businesses. Using IT platform of GST Network (GSTN), which is a shared infrastructure between the Centre and States, provides reliable and efficient IT backbone for the smooth functioning of the GST. Tax payers can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax officials. This makes the compliance process easier, transparent,

faster, paperless and sets the stage for enhanced productivity and efficiency of businesses going forward.

5. Harmonisation of laws, procedures, and rates of tax under GST is governed by common law and procedures, throughout the country under a single administration.
6. It will boost export and manufacturing activity, generate more employment, and thus increase GDP with gainful employment leading to sustainable economic growth.
7. More efficient neutralization of taxes, especially for exports, thereby making our products more competitive in the international market, and give a boost to Indian exports.
8. Improvement in the overall investment climate in the country will benefit the development of various states.

GST FACILITATES 'EASE OF DOING BUSINESS.'

9. Uniform CGST, SGST, and IGST rates will reduce the incentive for tax evasion by eliminating rate arbitrage between neighboring states, and that between intra and interstate sales.
10. The average tax burden on companies is likely to come down which will lead to the reduction in prices, and lower prices mean more demand, and more consumption, which in turn leads to the greater level of production. GST brings a uniform online, fast and transparent tax administration across all states making compliance much easier, and saving money cost as well. MSMEs also stand to benefit from the provision of input credit on taxes under GST, which would help them to become more competitive.
11. A Digital MSME Scheme has been launched, which among other things will support all field organizations of the Central government to provide the cloud based solution for the MSME units to become GST reliant. With the National Institute for Micro, Small and Medium Enterprises

(NIMSME), Hyderabad as the nodal center for GST training and GST strategies, with a GST cell, all field organizations of the Ministry of MSME have been conducting GST awareness training programmes and workshops to acquaint MSME representatives with the procedural aspects of GST. In the website of the office of Development Commissioner (MSME), an exclusive link has been provided for GST-MSME with the relevant information for implementation.

12. Reduction in the multiplicity of taxes that are at present governing the indirect tax system leading to simplification and uniformity.
13. Reduction in compliance costs - No multiple recording keeping for a variety of taxes – so lesser investment of resources and manpower in maintaining records.
14. Simplified and online procedures for various processes such as registration, returns, refunds, tax payments, etc. A Special Purpose Vehicle (SPV) of GST, known as GST Network (GSTN)) has been created for this purpose. GSTN Portal: www.gst.gov.in
15. All interaction to be brought through the common GST portal – so less public interface between the taxpayer and tax administration.
16. Will improve the environment of compliance as all returns are to be filed online and input credits to be verified online.
17. Common procedures for registration of tax payers, refund of taxes, uniform formats of the tax return, common tax base, a common system of classification of goods and services will lend greater certainty to the taxation system.
18. Timelines to be provided for important activities like obtaining registration, refunds, etc.
19. There is electronic matching of input tax credits all across the country, thus making the process transparent and accountable.

20. Simpler Procedures for Small Businesses:

Small retailers doing a large number of small transactions up to a value of 200,000 per transaction to unregistered customers; are not required to issue the invoice for every such transaction. They can issue a consolidated invoice at the end of each month for all transactions done during the month. However, they should issue the invoice where the customer so demands. Similar to keep the compliance burden low for small taxpayers, GST Law provides that tax payers with the annual turnover of up to ₹1.5 crore need not mention the HSN Code of the goods in the invoices.

21. **The long-term benefits of GST include impact on financial inclusion.** Small businesses can build up a real-time transaction record of tax payments digitally, and this can be used by lending institutions for credit rating and lending purposes. Currently, small businesses are credit-constrained because they cannot credibly demonstrate their financial capability.

Benefits to Consumers

22. Final price of goods and services is expected to be lower due to the seamless flow of input tax credit (ITC) between the manufacturer, retailer and service supplier.
23. It is expected that a relatively large segment of small retailers who constitute the informal or unorganized sector, will either be exempted from tax or will bear very low tax rates under the compounding scheme. Purchases from such entities will cost less for the consumers.

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