



## GST TURNS' TWO – JOURNEY SO FAR AND WAY AHEAD

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### Abstract

*Goods and Services tax (GST) is significant fiscal reform to stream line the administration of indirect taxes in India. Due to shared jurisdiction between states and centre, a dual GST law enforced in midnight of 1<sup>st</sup> July 2017 after around decade long deliberations. GST is Destination based consumption tax with objectives of elimination of cascading; reducing human intervention between department and assessee (replace it with electronic interface); ensuring seamless input tax credit.*

*This article is an attempt to appraise the journey of GST (at its second anniversary), so far (based upon tax collection along with its different components and number of returns filled among others parameters like compensation amount to states and tax rate with number of items falling in each rate class) and way forward.*

The goods and services tax (GST) is indubitably, remarkable fiscal reform with far-reaching consequences. On 1<sup>st</sup> July 2019, GST enters into its' third year. Two year ago in the mid-night of 1<sup>st</sup> July 2017, central hall of parliament become the witness of roll out of GST - a destination based, value added tax on consumption by both centre and state; after wait of more than decade from conceiving the need and up-till the enforcement.

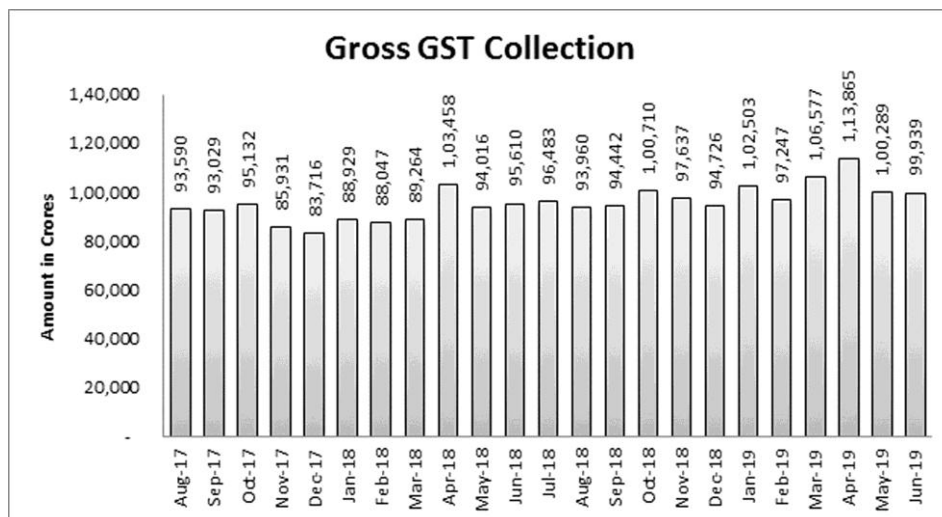
Whereas on one hand GST is expected to ease the compliance and reduces the cost; at same time ensure seamless input tax credit, with wider tax net; reduce or eliminate cascading effect; cut down transportation and logistics with e-way bill;

technology driven tax system; given India a common economic market – 'One Nation - One Tax'.

The performances in key aspects so far, are afore said;

### 1. Tax Collection

Tax reforms considered optimal, if tax revenue remain unaffected or least affected. Tax revenue from the GST is not only steady, but also witness the slight growth, despite the rate cut on many item. Graph below shows month wise gross collection from GST.

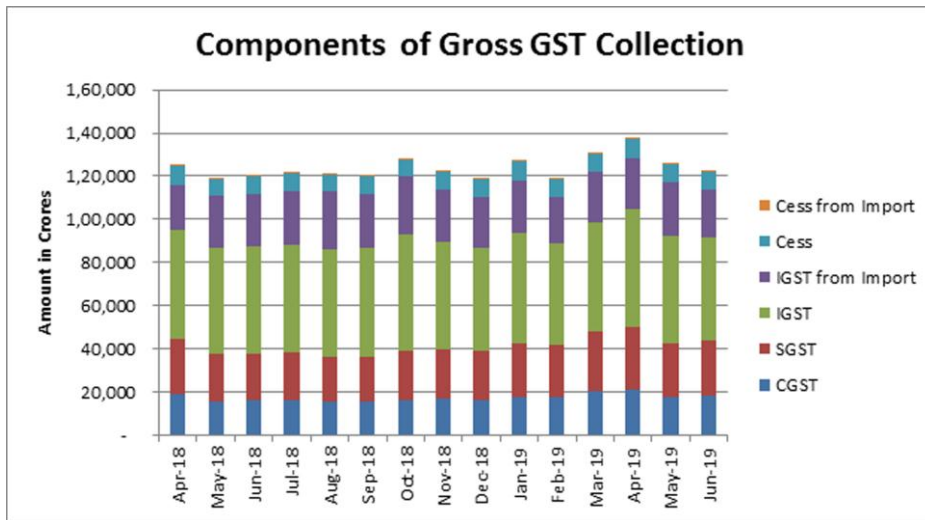


Source – Different print releases at <http://pib.nic.in>

**Analysis** - Average monthly gross collection since the GST introduced up-till month of June 2019 is INR 96,048 crores, with improving average over the year.

- From August 2017 to March 2018, average monthly gross collection was INR 89,705 crores
- During 2018-19 average monthly gross collection was recorded at 98,114 crores, which was 9.37% higher than 2017-18 (From August 2017)
- For ongoing fiscal year 2019-20, till month of June average monthly gross collection is 1,04,698 crores, which is 6.71% higher than monthly average of 2018-19 and 16.71% higher than 2017-18 (From August 2017).

**Design of GST** in India is complex, not in tune with some of other economies; which have single rate of GST with simple administration too. Major reason for same is the shared scope to levy and collect indirect taxes in India, among centre and states. States were not intended, to forgo its' authority of levy and administration including collection; in favour of centre; which results into dual GST (CGST and SGST apart from IGST, Which is applicable in case of Inter-state sale or Imports)

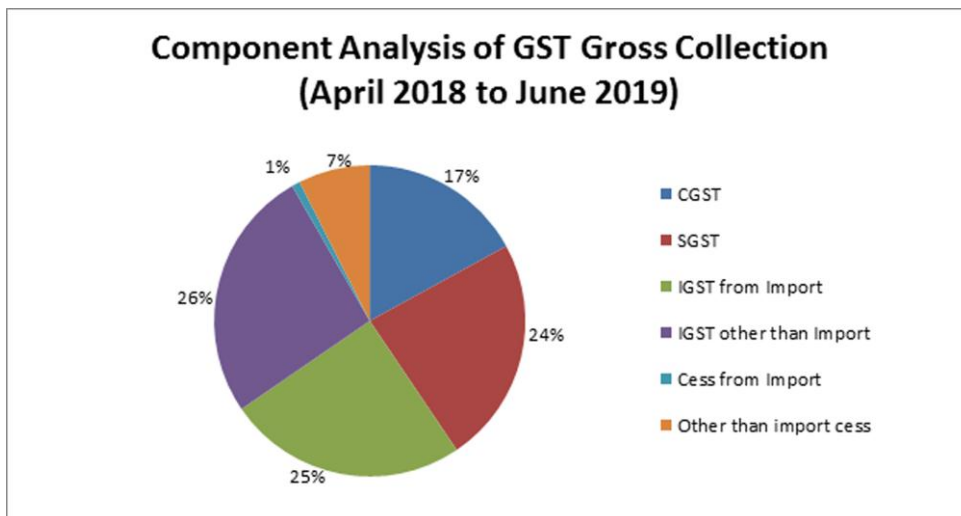


Source – Different print releases at <http://pib.nic.in>

For period from April 2018 to June 2019, average monthly collection (in Rs. Crores) of each component (as %age to gross collection shown in pie-chart below) is

CGST	SGST	IGST from Import	IGST other than Import	Cess from Import	Other than import cess
16,617	22,927	24,252	25,614	838	7,270

Source – Different print releases at <http://pib.nic.in>



## 2. Tax rate slabs and Allocation of items among slabs

Indian economy witnessed problem of fiscal deficits with inevitable economic instability, hence instead of using single rate (as used in France and Singapore) of GST (ranging between 12 to 18% near to revenue natural rate ranging between 11.6 (Factored at 80% compliance) to 18.86% by Dr. Arvind Subramaniam committee, using three different approaches); multiple tax rate used to maintain balance between revenue to government and to tax goods/services of basic necessity at lower rate.

Tax reforms considered optimal, if tax revenue remain unaffected or least affected and inflation remains in control. Malaysia is one of best example, where GST was rolled out (In 2018) within three years from its enforcement (In 2015) due to bad implementation which lead to high cost of living. In India, due care was given while designing the rate structure of GST' to keep perception among public positive; by keeping half of customer price inflation index item in exempted list and remaining in either of 5 or 12 % category; to keep prices under control. Government keeps the luxury and non-merit goods in high tax slab and option of charging extra cess is still lying with government to keep revenue collection intact.

Current structure of tax rate and item falling under each of rate slab are as follows;

<b>Rate (%) of tax</b>	0	0.25	3	5	12	18	28
<b>Items (In numbers)</b>	164	5	19	321	285	608	36

## 3. Enhancing Tax Net (Scope)

Scope of GST is wider and comprehensive then any earlier law, in domain of indirect taxes. After large discussions and deliberations, real estate sector was also included in GST net. Still the Electricity, Alcohol are out of scope of GST and Petroleum Products despite within the scope of GST law, are at GST councils discretion. Large portion of states revenue depends upon excise duty on Alcohol for human consumption and Electricity, hence state government are critical stakeholder in decision to bring these into GST tax net

## 4. Centre-State Relation

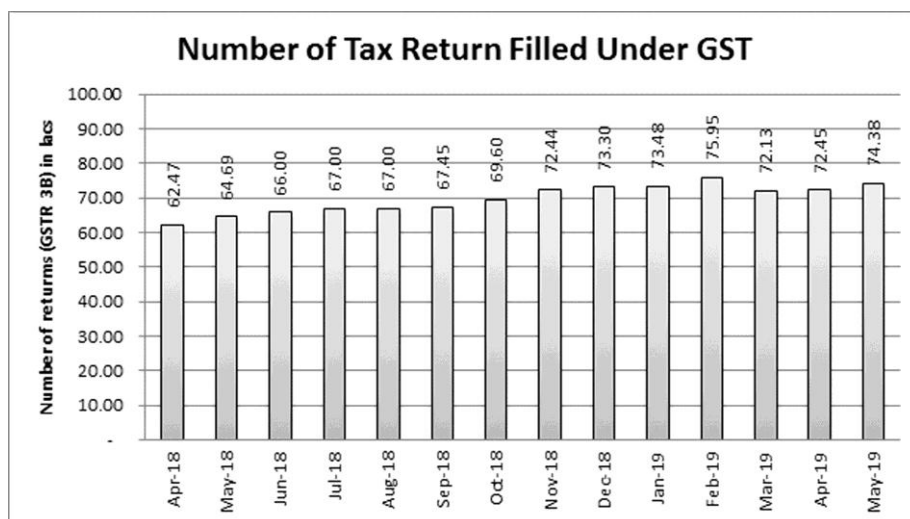
Prior to implementation, some of the states due to fear of revenue reduction; oppose GST. Then Centre took bold step for audacious tax reform, by bearing the revenue risk ensure the state to make their loss of revenue good that too with annual growth rate of 14% for five years from date of implementation. For year 2017-18 total of INR 48,178 crores was paid as compensation to states, highest compensation was claimed by Karnataka of INR 7535 crores; Mizoram and Nagaland seek nil compensation for same period.

GST council arrangement with constitutional validity has worked well, despite share of voting power among state and centre. On large-some Centre and States relations remain coordinial, this is depicted from decisions taken; as most of them have been unanimous. Council has proactively addressed issues as and when they arose; council met for 35 times since its constitution.

## 5. Invoicing, Payment and Return Procedures

GST subsumes 17 forms of taxes and 13 types of cess. So in line with expectations cost of tax management under GST is less expensive, in comparison to earlier regime. Payments under GST law are easier and paperless.

GST is digitally driven. In order to assure seamless ITC, the matching of output of supplier with Input of purchaser is cumbersome; more so over filling detail of the entire sale invoices by supplier is also tedious. To overcome this problem concept of monthly single return in form GSTR 3B and quarterly return (in cases where turnover less than 5 crores) adopted.



Source – Different print releases at <http://pib.nic.in>

From the graph shown above it is clearly visible that no. of return filled under GST improved over the period. Number of returns (in GSTR 3B) filled for April month of 2019 is 72.45 lacs, which is 9.98 lacs more than year ago for month of April 2018, similarly for May 2019 74.38 lacs returns filled which is 9.69 lacs more than same month year ago (May 2018). Relation between returns and gross GST collection is positive co-efficient.

Further in budget speech of 2019, on 5 July 2019 Hon'ble Finance Minister, Nirmala Sitaraman announced about an 'Central Electronic Invoice System' to generate invoice online, so that return can carry pre-filled applicable data from online invoices automatically; it is expected that such system will be in place by January 2020.

## 6. Inevitable Gains

### 6.1 Revamping logistics with reduction in transportation cost

With introduction of e-way bill from 1<sup>st</sup> April 2018, logistics become less time consuming even in across state border cases. "Trucks moving 300-350 km a day in the pre-GST days are now moving 400-410 km. faster turning wheels have led to a drop in cost of logistics," said Pirojshaw Sarkari, CEO, Mahindra Logistics.

As per report (issue way back in July 2017) from 'Road Transport and Highway ministry' claimed that India currently has very high logistics costs, about 14% of the total value of goods as against 6-8% in other major countries. With the introduction of GST, these costs will be brought down to about 10-12% due to efficient inter-state flow of goods, accelerating demand for logistics services.

ICRA conducted a study on 50 transport companies and 15 customer-oriented companies to find out the effects of GST on transportation and warehousing. It was found that the removal of inter-state check posts has been the main factor in reducing the transportation timing. "The impact is more pronounced in States like Kerala, West Bengal, Maharashtra, Madhya Pradesh and Bihar, which were known for notoriously high waiting time," said the report by ICRA.

### 6.2 One Nation – One Market

GST is true sense 'One Nation – One Market', with very less exception. One Rate can be further added to this tag-line of 'One Nation – One Market'. There is one rate of tax on particular good or service (classified based upon HSN) through-out the nation, hence business planning across state border become reality.

### GST – Miles to go on from now

- a. Forecasting of future to plan strategically is key to success of every business. Uncertainty of circumstances may fail planning and result adversely. Large portion of operation aspects of GST witness such uncertainty during first 2 years of GST, which shows GST is still unstable law
- b. Tax administration and compliance – In filling process of GST returns the vendor reconciliation is complex. Compliance becomes further though when for service provider who require multiple registrations. Responsibility of tax administration is shared between states and centre due to shared jurisdiction. Anti-profiteering measure need to be clear and refined.
- c. In GST framework, due to exception to registration and composite scheme (provided to small suppliers), seamless ITC is not a reality; and hence still niggle in some of cases. Even refund cases of input taxes, where in applicable (e.g. Exporter); is need to be easy and within timeline provided

### **Conclusion**

Without any exception, GST is a leap step towards streamlining of indirect taxes in India; with 'One Market – One Tax' motto. It eliminates cascading effects. It digitalise the registration, payment and return processes, in order to replace human interaction with electronic interface; between tax department to assessee; to curb unwanted mala-fide practices. Tax collection starts increasing slowly and compliance too, in term of number of tax return filled as % to total registered person.

Since enforcement, there is wide range and number of frequent notifications and circulars; which depicts that; GST is not settled law from operational aspects; hence, it may be too early to critically appraise such a landmark tax reforms.