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GST: SUCCESS OR FAILURE?

The midnight of July 1, 2017, was a historic moment in the Indian economic history when the multitudes of indirect taxes were merged into one Goods and Service Tax (GST). GST is a revolutionary step taken by the Government of India to make Indian economy stronger than before. As GST is a newly introduced tax system in India many people still are unaware of what is GST? Is it good for Business? Is it good for common man?

At the simplest level, GST reduces the number of instances where taxes need to be paid thus reducing the possibility of manipulation on the part of the tax authorities and is assumed to be a much transparent mode of administering taxes.

It will alleviate the burden of cascading taxes for individuals. It is also expected to boost revenue collection in certain states and to reduce the prices of goods.

India is a collective economy where each state has its own set of rules for them. This makes the growth of the country slow, causes difficulties to the businesses and higher possibilities of tax evasion and corruption. To make the tax payment process simpler and create a win-win environment for both, government as well as businesses, and to reduce the corruption, GST bill was introduced in India which is very important.

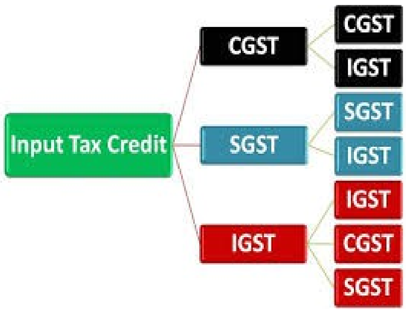
What taxes are levied under GST?

Since India is Federal Country, Central Government and State Government both have powers to levy taxes. Under GST Regime, Centre and State both have power to levy GST. Therefore GST is divided into three parts:

1. **Central GST (CGST)**
2. **State GST (SGST)**
3. **Integrated GST (IGST)**

GST will be divided into two components, one is CGST which is levied by Central Government and other is SGST which is levied by State Government. However, there will be one more type of GST, Integrated GST (IGST). IGST will be levied on inter-state transactions. Since, there are chances that people will get confused in case of

transactions between two persons of two different States and there will be difficulty setting off dues of taxes between two States, thus IGST will be levied by Centre. Now, Centre will apportion the State's portion of GST from IGST to relevant State.

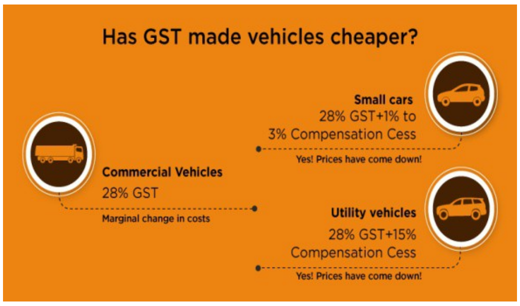


Goods and Service Tax or GST is a reality as business operations have been taking place across the States under new taxation policy in India. There are certainly expectations that this tax reform will boost the Indian economy; however there are doubts as well that it will have both positive and negative impacts on industries. So what is the impact of GST on various sectors in India?

I. <u>Automobile Sector</u>

The automobile Industry is coping up with the GST regime as the government is very cautious particularly for this sector. The industry of automobiles is tremendously big **which tackles the manufacturing of a very large chunk of cars and bikes every year. The population across the nation is also the major factor of this turbulence as it constantly seeks for dynamic technology and newer models. The GST subsumes almost all the taxes under its ambit like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will further benefit the procedural ways of the automobile industry.**

Overall it is defined that the GST impact on the automobile industry is less than the previous tax scheme due to the lowered tax scenario. As the automobile industry has already gone through some tough situations like demonetization and after which emissions norms rule hit the grounds of automobiles sector. It is now done that the industry will get benefits out of GST with minimum hassle-free procedures **and rate fixation across the nation.**



Classification of Tax on Vehicles before GST and after GST

Two wheeler-After the implementation the tax levied is 31% only. That said, the difference in the new tax scheme would not be significant and hence will not affect the buying sentiment of the sector in the long run

	Before GST	After GST
Engine size below 350cc	30.2%	28%
Engine size more than 350 cc	30.2%	31%

Commercial vehicles – After the implementation of GST the tax levied on commercial vehicles ranges from 28% to 29%.

	Before GST	After GST
Commercial vehicles	30.2%	28%
Buses with 10 to 13 passenger capacity	30.2%	43%

- **Vehicle prices –Assuming that the proposed tax rate of 18-20 percent is accepted, the vehicle prices are expected to decrease. The vehicle costs are relied upon to be more reasonable and consequently will make request. Despite the fact that regardless it stays to be checked whether there would be a double assessment structure for little and enormous autos.**
- **Working Capital- this would be huge concern for the dealers as the supply is taxable in GST. On the date of vehicle transfer, GST would be paid and would lock the capital. Now the dealer would be required to pay GST on the same day as he receives the advance and it will hurt their outflow. Another cash lock would be when be when the auto manufacturers would offer free services warranties as sales benefit to their**

Customers (at the time of sale of vehicles). They would pre-pay GST on the issue date of the coupon while customers would be using the service on a later date.

Conclusion

Implementation of GST would reduce the cost of manufacturing of cars due to the subsuming of different taxes levied currently. Under GST, the taxes would be charged on consumption state rather than the origin state, which would give a boost to the growth rate of the automobile industry.

II. <u>Telecom Sector</u>

India's web of telecom industries is world's second largest wireless market, which includes over a billion of active users. Telecom sector of India can basically be divided into three parts, the telecom service providers, infrastructure providers and equipment manufacturers. The tower companies had been involved in legal activities referring the accrual of tax credits. There was strict requirement of a system which can uphold the seamless tax inputs for this particular sector by which the finalized result might not be a burden.

The euphoria of GST brings in sets of cheers, but nothing can be implemented with 100 percent accuracy and without having any issues. There are some sector-specific issues related to GST, especially with the telecom sector. The GST plans related to telecom sector of the country may be needed to figure out once again, as it seems to come as a mixed packet of sweet and sour candies for this sector. Struggling with high taxes, the sector is already under a burden.

Talking about the advantages, GST comes with an ease in operating the business and having a unified tax approach. It is expected to reduce tax avoidance and increase input credit. But as we have mentioned above, good things can not come without having any drawback in it. The tax rate after GST is now 18 percent from the previous 15 percent resulting in a load over the telecom sector which is already under financial burden.

The in sight is that, the telecommunication firms currently works for area or circle wise service, but generating a state-wise revenue will result a large number of IT firms and accounting systems, and will need a great increment in compliance effort, multiple

audits, multiple assessment, and a chain impact of taxes on account of credit blockages in each and every state.

Next in sight which arises in the current scenario is of petroleum. The GST will also impact the oil and gas sector and eventually we would get to see the after effects on the depending sectors as well. Telecom sector of the country is the second largest diesel consuming sector after railways. If petroleum products remain outside the GST bill then it will be very difficult for tower companies to set of their input liabilities.

The Telecom Sector is already under severe debt and a burden of license fee. The current debt stands at around 4 lakh crore (Telecom debt unsustainable-TOI). On one hand, government is initiating 'Digital India' and on the other hand telecom services (phones, broadband etc) is getting costlier most of the operators will pass on the increase to the consumers in order to cope up with GST. Therefore it contradicts the initiative of digital India in order to give the boost to the digital India initiative.

The industry has expressed its apprehension over the higher tax rate saying that it will further stress the already bleeding sector. "Telecom industry hails GST as an iconic reform but we are disappointed with announced rate of 18%. It will augment the existing burden of the industry further. This is also likely to slow down the planned roll out of infrastructure across the country". Said by Rajan Mathews, director general of industry body COAI.

The industry's hue and cry over a meager 3% hike seems to be out of place. Since the entry of Reliance Jio the sector has undergone a complete transformation. The tariffs for data usage have fallen to rock bottom levels for all operators whereas voice calls are now free for not just Reliance Jio customers but also most postpaid customers of Airtel, Vodafone India and idea cellular.

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Under the GST regime, states get the power to levy tax on services also and, therefore, requiring a service provider to take state-wise GST registration instead f a centralized service tax registration under the current regime. The multiple state-wise registrations would tremendously increase efforts and cost of compliance for telecom companies (telcos). In fact, telcos would be required to file at least three returns on a monthly basis per registration (i.e. state-wise registration) under GST, unlike single centralized registration on a pan-India basis and merely 2-3 returns per year under the current indirect tax regime. The impact of GST on the telecom sector, and its health, is likely to be marginal.

III. E-Commerce Sector

India's e-commerce market is expected to generate $100 billion online retail revenue by the year 2020. The uprising of Electronic Commerce in India has also resulted in conception of online marketplaces. A Marketplace is an e-commerce platform owned by the E-Commerce operator such as Flipkart, Snapdeal, and Amazon.

Introduction of GST may be a big positive for the e-commerce industry. With no tax laws in place for the industry currently, tax is imposed based on the understanding of various state governments. GST will help resolve many supply chain issues surrounding e-commerce. With a uniform tax structure across India, goods can be priced and margins calculated properly without worrying about where the product is finally shipping.

Ambareesh Muthy, founder of Pepperfry.com said, "The biggest benefit of GST is transparency and simplification of tax. Since each state has its own tax, GST will lead to common tax and ease in transportation of goods. It will make life easy for those who sell across the state".

The e-commerce industry has certainly been viewing the GST as an ultimate remedy to end its endless tax woes. The e-commerce companies already operating in the country will not have to struggle with the complicated as well as complex tax regime and regulatory structure that prevails currently.

With initial drawbacks of having to adjust to a sudden change in tax regime, E-Commerce industry is set to reap the most benefits out of the new transparent tax

reform. There's some relief for E-Commerce Industry with the following points helping them grow:

- **It helps sellers who have warehouses across the country in many states, and sell their goods in many States. Warehousing is going to be much easier for e-commerce players.**
- **The previous system was a complex multi-tiered system with taxes levied at each stage. GST brings a single tax scheme which helps in the transport of goods and ultimately brings costs down for the logistics segment.**
- **Supply chain management for e-commerce players is expected to be less tedious with much less paperwork needed.**
- **Web ordering and shipping approaches are likely to become more consumer-centric against the previous trend of warehouse-centric approaches.**
- **With the cascaded taxes out of the picture, GST is sure to benefit all stakeholders in the long run. Businesses need to only maintain three accounts: CGST, SGST, and IGST.**

GST will also negatively affect the e-commerce industry as a whole and certainly would make life of sellers much more difficult.

- **Confusion Leading to Losses- a lot of sellers will panic and that would eventually cost them. We have already seen cases where 2 suppliers of same product as using different HSN Code hence charging separate GST. Some sellers are worried about tax raids and hence for the safe side they are choosing to quote the highest GST amount applicable for their goods.**
- **Goodbye to Discounts - How sellers can continue to offer discounts? In most likelihood, sellers would have to increase the price of item. This is what will advantage to offline stores in specific categories such as mobile accessories. People will be buying items offline since it would be cheaper than online portals. As a result, we can see online sellers not passing the entire GST tax on customer and therefore sacrificing their own profits.**

- **Nightmare for Small Sellers - The successive governments in India have failed to create jobs. Online selling has become a very convenient way for individuals to make some extra money by become online sellers from their own house. However the rules and regulations with regard to GST will turn away the new sellers and several small sellers would shut their shops.**

- **Reselling Market is Gone - Up to great extend reselling market is gone since government has decided to tax GST for an old item on which taxes have already been paid. It is going to take sheen out of reselling market since GST would substantially increase the price of old goods hence making less attractive to purchase.**

Conclusion

Foreign Direct Investments are growing by the day. With a simpler tax structure in place and easier entry, GST opens up new markets for all e-tailers while SMEs are expected to comply with GST rules; they can apply for a refund later. GST puts into consideration a long-term higher output and wipes out tax evaders. An e-commerce industry needs to be GST ready with a stronger than ever system in place to file their GST returns- every month and annually.

IV. <u>Startups</u>

Analysis of the impact of GST on start-ups shows that they will stand to enjoy the benefits of GST.

- **Higher Threshold for Registration- As per the VAT structure, any business with a turnover of more than rupees 5 Lakhs has to get VAT registration. Under GST this threshold is 20 Lakhs thus exempting many small business including start-ups.**

- **Start-ups can enjoy tax credit on their purchases – A lot of start-ups are into service industry i.e., they pay service tax. Under GST regime they can set of the VAT paid on the purchases with the service tax on their sales, which they cannot under current regime.**

  Example: a start-up buys office supplies of 20,000 paying 5% tax. It charges 15% service tax on services of Rs. 50,000. Currently it has to pay

50,000*15%=7,500 without getting any deduction Rs. 1,000 VAT already paid on stationery.

- **Online simpler procedure under GST- the entire GST process from registration to filing returns and payments of GST tax is online. Start-ups do not have to run around to tax offices to get various registrations under Excise VAT, Service tax.**

- **Simpler Taxation- Start-ups often work on tight budget and cannot devote resources to look after the various tax compliances under VAT, CST, Service tax etc.GST will subsume all of this reducing the time spent for tax compliances.**

- **E-Commerce and other Online Start-ups- Many star-ups are technologically innovative meaning they have a huge presence online. Many start-ups provide goods and services through the internet. GST is applicable all over India so there is no complication for interstate movement of goods.**

- **Increased efficiency in Logistics- The logistics industries in India had to maintain warehouses across states to avoid the CST and state entry taxes on inter-state movements. GST united India removing restrictions on inter-state movement of goods. As an outcome of GST warehouse operators and e-commerce layers have already shown interest in setting up their warehouses at strategic locations such as Nagpur, which is the zero mile city of India and is well connected. Reduction in unnecessary logistics costs will increase profits for start-ups involved in supply of goods through transportation.**

<u>Negative impact on Start-ups</u>

- **Capital Blockage: This is one area where every start-up will feel the pinch. The new tax law makes it mandatory for businesses that have GST registration to block a part of their working capital with the tax department in the form of electronic credit ledger. In a market where most start-ups are operating on wafer-thin working capital and finding it tough to raise funds, this will pose an enormous challenge. My own start-ups get affected due to this change.**

- **Equal Treatment for SMEs: Start-ups in the manufacturing sector have reasons to feel little disappointed with GST. Up until now, manufacturers with annual turnover less than 1.5 Crore were exempted from paying taxes which meant that start-ups with low turnover were shielded from intense competition to a certain extent. With GST this has been brought down to 25 Lakhs. This will mean that small start-ups will be in the same tax bracket as an SME which signals bigger challenges for them.**

- **Missing Trader Problem: There is a concept in GST according to which, you'll get tax credit only if the person before you in the supply chain has paid the taxes as well as filed the return. Even if one supplier in the supply chain doesn't file the GST return, the next supplier in the chain will have to pay 18% tax on the value added by each supplier in the supply chain. This can affect the small industries badly, since at the small level, the profit margin is very less (say 5% or 10%). So, if you have to pay the entire 18% from your pocket, you might end up in a loss. Moreover, the government will receive taxes twice on the entire supply chain. Therefore, in order to prevent this problem, it becomes very important to check the vendor ratings. GSTN will maintain the vendor ratings. So, if a vendor defaults on paying taxes or filing returns, then his ratings will go down. Therefore, before going ahead with any deal with a vendor, make sure you check his ratings on GSTN.**

- **Loss to freelancers: If you do not have a fixed place of business, i.e. if you are a freelancer, then you have to register yourself as a 'casual taxable person' under the GST. In this case, the Rs.20 lakhs limit is not applicable. Even if you do not have a fixed place of business, you still have to register with GST. This rule is very harsh on freelancers.**

- **Technological Challenge: A lot of start-ups don't have the expertise to deal with the online systems. So, they might need the help of intermediaries to help them with the registration process. This will add on to their cost.**

- **Reverse Charge Mechanism: Post GST, if your turnover is less than Rs.20 lakhs, you do not need to get yourself registered with the GST. If you are doing business with an unregistered dealer, there is a reverse charge applicable on the buyer i.e. he needs to pay GST on his purchase. He also has to issue an invoice for the purchase made by him from the unregistered seller. This invoice has to be uploaded in the GST system.**

- **Harsh mechanism of 'Input tax credit': Under the GST, input tax credit can only be availed by the buyer if the supplier has paid the tax inside a given window. This is one of the problems which large percentage of start-ups will face in their lifetime.**

- **Decrease in demand for goods: In the present tax system, the manufacturers have to pay no excise duty if their gross turnover is less than Rs 1.5 crore. However, post-GST this limit will be brought down to Rs.20 lakhs. So, the cost of goods and services will increase for the final consumers as the burden of this will be passed on to them. This might in turn, reduce the demand for those goods and services.**

- **The tax burden for Manufacturing Sector: Previously, manufacturing businesses with INR 1.5 crore turnovers were excise duties was paid. The GST has reduced the benchmark to INR 20 Lakhs thus incorporating all small manufacturing start-ups under this cap. This will increase the tax burden on the manufacturing start-ups.**

- **Challenge due to inadequate technology: Initially, the problems may arise with respect to the technology required for GST compliance as all filings and registrations have become online and might pose a problem to comply due to lack of proper technology.**

- **Tax collected at source (TCS): Initially, the cost will be borne by the start-ups. The start-up owner has to pay the TCS and will only get the refunds from the government after filing the return.**

- **Measuring the compliance parameter: A numerical figure (GST Compliance Rating) will guide the prospective buyer to decide upon the credibility with the government much like the personal credit score these days. Businesses will do everything to get and keep a good score, seeing the stringent online micro guidelines not only about entering the data but also about payments. The good credit score would come at a cost of specifically deployed bandwidth and funds.**

- **Harsh reverse charge mechanism: If goods are delivered by a small businessman who is exempted from GST, supplies goods to a firm registered under GST, the buyer has to pay GST on such purchases by self-invoicing and this invoice is to be uploaded at GSTN while filing the returns. This cost borne by the buyer is basically a bad debt.**

V. <u>Retail Sector</u>

Indian Retail sector is one of the fastest growing industries in the world. The Government has approved up to 100% FDI in single brand retail and 51% in multi-brand retail. These stats signify that the retail sector is a dominant as ever and any reform in the country which anyhow affects the working of the sector shall have a huge impact on it. And GST is no ordinary tax reform.

- **Reduced taxes- GST has streamlined everything into one single tax so that it will be easier for the retailer to understand the taxation and to pay it in one shot.**
- **Seamless Input Tax Credit- GST will reduce the burden of tax on the retail sector as it will set off tax starting from the producer's point to the consumer point.**
- **Increased efficiency in supply chain- Since the retail business can be carried out in every state upon single registration, the retailers will not have to maintain warehouses in every state, and this will be very beneficial regarding cost of the**

retailer. This will lead to 20%-30% consolidation of warehouses. Transportation will benefit due to state boundaries becoming insignificant. The long ques and wait time at check posts and state boundaries will be reduced further reducing lead-time. GST will help the retail sector become more efficient in their operations.

- **Tax on promotional items and gifts- As per GST, any supply without any consideration will attract tax. It is common practice in Indian retail sector to offer free products for promotion, such gifts will also be considered for tax and the retailers would have to rethink their promotional strategy.**
- **Growth of Retail Market- Biggest of impacts of GST will be I the widening of potential markets to the retailers. Retailers would be ready to explore markets across diminished boundaries leading to better growth of the retail market.**

Conclusion

The impact of GST on retail sector is very positive from both taxation and operations point of view. Retail industries will have to re-assess their current supply chain strategy and re-model their network.

VI. Technology

The prevailing service tax rate on IT services is 15%. However, the recommended revenue neutral rate is at 15–15.5% and the standard rate is expected to be around 17–18%. Therefore, the cost of IT services will elevate, especially for end customers who do not usually claim the tax input credit. It is expected that once the GST is implemented, the current average tax rate of around 25–35% shall come down to around 18–25%.

The following major changes have been reported in the tax rates of the IT products and services.

- **As per the GST law, many items used in the IT industry like Printer, photo copying, fax machines and ink cartridges will now attract GST at the rate of 28% as opposed to the previous 18% tax rate**
- **The software services will be charged at 18% under GST as compared to 15% service tax of the previous system. The tax rate on software CD's (and other electronic packaged software) will also be 18% under GST**

- **The IT companies will have to arrange the hardware and software to make their systems in compliance with GST. This will increase the infrastructure cost and affect the business capability, especially for small businesses and start-ups**
- **One of the good impacts of GST is in the form of Input Tax Credits (ITC) which will be available to IT traders selling goods and services**
- **Export of various IT related services, such as software development, consultancy and BPO services will be zero-rated under GST and companies will be allowed to claim credits on the input tax paid**

There are certain issues related to the implementation of the new tax system, among them are the problematic input tax credit issues, the uncertainty related to the functionality of the GST information technology system, and the uncertainty of the anti-profiteering clause. These challenges could result in the sinking of an otherwise promising policy exertion.

- **.GST'S flip-flops affected software maker's ability to build solutions on time for which business are paying them**
- **An unprepared technology plat form impacts timely filing of tax returns. That leads to working capital issues for companies.**
- **For a country that boasts of having IT services chops, building the GST infrastructure was its crowning glory moment**

GST is an unenviable position as the inordinate amount of changes in the law left it little room to launch a fully ready platform.

VI. FMCG Sector

The post tax rate of the FMCG industry is capped at 18-20 percent. All the major players in the industry have welcomed GST with open arms. However, few firms in the sector are adversely affected by the tax rate charged on their products.

HUL, Colgate, P&G, Marico will largely benefit under GST. This is on account of two factors:

a. **Distribution costs come down since several warehouses may be closed since they are no longer necessary. This could mean a reduction in the costs of these companies.**

b. **The tax rates are also largely positive news for FMCG sector, since taxes on soaps and other cosmetics are in the 18% tax band, which is slightly lower than the earlier tax rates.**

Again, the scenario will be either neutral or negative for those companies who fall under any concessional tax bracket or taking some kind of exemptions. The FMCG sector is also taking big steps in consolidation with the GST and has been working round the clock to meet the deadline of GST.

There are instances where tax rate under GST is higher than the earlier tax rates, and in such cases, several dealers could increase their stick levels in the run up to GST. On the other hand, I those cases where the GST rate is lower, dealers would try to keep minimum stock and dispose of non-moving stock before the onset of GST.

Ultimately GST impacts the FMCG sector by readjusting tax brackets and reducing distribution costs for various companies. Some companies will "gain" with lower taxes and distribution costs, and thus may respond by increasing product volume and lowering prices, while others may "lose" with higher taxes, and thus need to compensate by increasing prices.

CONCLUSION

It is perhaps too early to say whether GST is a success or failure, but the initial signs are not promising. The law and procedure will require extensive revision to make GST a success. The impact of GST on retail sector is very positive from both taxation and operations point of view. Retail industries will have to re-assess their current supply chain strategy and re-model their network. . Under GST, the taxes would be charged on consumption state rather than the origin state, which would give a boost to the growth rate of the automobile industry.

The key to making a success of GST would be to prioritise the objectives and not try to do too much with one instrument. GST was projected and sold to us as something that will enable cross-state credit on all taxes (which was not available in VAT/CST though it was available for Central Excise duties and service tax). If the government focuses on

fine-tuning GST to achieve this objective smoothly, the result may be great. Peripherally it may achieve the other objective of curbing black money and promoting tax compliance, but this should not be the primary focus.

The Government should also remove all procedural irritants like the requirement of filing returns only in the correct sequence, linking tax payment with the return, nit allowing return filing if there is some mistake ion calculation according to the portal and numerous other such issues that make the tax payers life miserable.

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