GST 3.0 can be a harbinger of growth

A simplified and tech-enabled robust GST system is critical for sustainable growth and improving the ease of doing business

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I t has been three years since the Goods and Services Tax (GST), India’s biggest tax reform, was introduced on July 1, 2017. Since then, it has been a roller-coaster ride for the government, for industries and consumers due to this transformational law, which replaced a fragmented State and Central based law on indirect tax.

This was coupled with changes and reforms, primarily focused on rationalising rates, simplifying procedures, and curbing tax evasion. Additionally, we have also witnessed stabilisation of one of the world’s biggest online tax compliance systems—the GSTN.

As we celebrate the third anniversary of India’s biggest tax reform since Independence, and talk about the focus areas for the future, let us also look at some of the critical milestones achieved.

Increased in tax base: From over 64 lakh taxpayers migrating into GST regime, India had about 1.23 crore active GST registrations as on March 31, 2020. This growth indicates a significant increase in tax base and a change in taxpayers’ compliance behaviour.

Rate rationalisation: With frequent changes in tax rates, the government continued to focus on rationalising GST rates. On July 1, 2017, around 19 per cent items were under the 28 per cent GST rate bracket, which is now down to only around 3 per cent. Also, about 50 per cent items are in the 18 per cent bracket, 21 per cent face 12 per cent tax, and 25 per cent of items are subject to 5 per cent GST.

Introduction of e-way bill system: Introduction and stabilisation of the e-way bill system was also a major step taken in the right direction. By enabling some 56 crore e-way bills generation in FY19 and around 63 crore during FY20, the system has been largely streamlined and has enabled hassle-free movement of goods across States.

Legislative amendments and clarifications: From its original shape and form as on July 1, 2017, the GST law has undergone significant changes. With almost 700 notifications, 145 circulars, and over 30 orders, significant changes have been made to address taxpayers’ demands, to carry out procedural simplifications and curb tax evasion.

The above statistics are encouraging and show the right intent of the government towards further simplifying the GST law. We shall now proceed to discuss the key challenges faced during these years, which industry hopes will be addressed by the government.

The challenges

The challenges related to GST policies include:

(a) Restrictions on the transitioning of pre-GST credits has resulted in multiple litigations.

(b) Non-issuance of clear-cut guidelines related to anti-profiteering law. This has created confusion and fear in the industry, particularly with those dealing in consumer goods.

(c) Issues around “deemed supply” transactions amongst branches in country and related-party transactions in the country and cross border.

(d) Blockage of input tax credits (ITCs) and limited ability to seek refund—that is, only on exports and inverted duty structure of goods.

(e) Denial of input tax credit on the construction and setting up of related capital expenditure.

(f) Mandatory registration for sellers on e-commerce platforms and impact on working capital for these sellers on account of TCS.

The challenges related to GST procedural issues are:

(a) Blocking of input tax credit by authorities in GSTN system due to non-reconciliation; complex return filing process and issues related to functioning of the GST network system; ambiguity over jurisdictions, particularly on tax audits and investigations; and investigation authorities commencing detailed audits in some cases.

The aforementioned challenges coupled with the impact of Covid-19 have not only affected large companies but also liquidity of MSMEs. Additionally, due to lack of resources, MSMEs are also not able to do their regular compliance.

In view of these, the following are some of the suggestions which the government may consider to improve liquidity as well as simplify compliance: allow refund of accumulated GST credit due to inverted duty structure, triggered by input services as well; permit payment of IGST on import of goods and services, using accumulated input tax credits; make input tax credit of CGST fungible across States; allow transfer of GST credit, as scrips; and allow refund of GST paid on capital goods to exporters.

Compliance can be eased by extending the timelines for mandatory input tax credit reconciliation for taking TFC beyond September; and relaxing the timeline of 180 days provided under Section 16 for taking input tax credit A world-class, simplified, and technology-enabled robust GST system is not only critical for sustainable growth, but also imperative for the ease of doing business. In the next few years, the government may take steps to further simplify the GST law.

Implementing e-invoicing and new returns, rationalising GST rates, reducing litigation related to transitional credits, centralising advance ruling authority, having a single jurisdiction for audits and investigations, and strengthening the GSTN system would be the key areas to watch out for in the near future.

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