

Getting ready for GST – The immediate do's

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India is ready to enter the grand league of nations that have embraced a comprehensive system to tax goods and services based on the destination based consumption principle. Goods and Services Tax or GST is set to be ushered in with relative certainty on this landmark tax reform becoming a reality. The Constitutional Amendment Bill tabled in the winter session of Parliament comes immediately after hectic parleys of the members of the Empowered Committee which appeared to indicate another set of roadblocks, but the Centre eventually gave in to the inclusion of compensation in the Constitution, and brought the States on board. Entry tax, of course, has been proposed to be brought in despite States being opposed to such a move. The grand bargain along with compensation appears to be the stopgap solution to allow States to tax petroleum products at least in the interim.

Take industry and consumers on board

With the stage set for a tectonic shift in the commodity tax landscape of the country, it is time to reflect on certain immediate 'to do's' for the industry and the bureaucracy. The industry encompassing manufacturers, importers, service providers, traders and dealers should ask for drafting of the Central GST and State GST Bills in stages and, for involving its members in such drafting right from model legislation stage. The government should be prevailed upon to bring out interim drafts to be placed in the public domain for broad based discussions, in order to accommodate views and suggestions to the extent that they will meet the objectives sought to be achieved. Industry and businesses who are the agents for this mega change and the consumers who will actually bear the burden of GST should therefore, be part of the drafting process and be consulted at every stage. The government should come out with a website and place all relevant data and information therein along with updates on GST reform with options for mailing of suggestions and comments through such portal. The new government, quite active on social media and perceived as pro-business, should be comfortable in launching a campaign to sell GST to the masses.

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Credit system in GST – Attitudinal changes must

The entire edifice of GST stands on credit mechanism with every stage in the supply chain getting taxed only on the value added, through the mechanism of input tax credit as the burden of the tax itself gets finally shifted to the ultimate consumer. An ideal system of GST should not burden the industry which assists in increasing the convenience of collection for the government by collecting and remitting the tax on its behalf. The experience of implementing credit system i.e. from the period of Modvat to the present Cenvat credit regime by the CBEC will greatly assist in capacity building exercise of State VAT officials. States have a decade of experience in administering ITC system under VAT but the CBEC has been administering credit mechanism across goods and services for 10 years now. States are going to levy service tax for the first time and on day one, credit is expected to flow across goods and services. But the Modvat-era attitude of the Union revenue administration can play spoilsport to the grandiose reform making it a frustrating experience for the businesses and yet another burden for the consumers. The Finance Minister should take this factor into account and major measures to bring attitudinal change in administrators and tax officials should be implemented to save the new tax regime from getting derailed in implementation.

GST Rate – Clear the air

The PR exercise suggested above should also cover the proposed GST rates. Shorn of fiscal jargon like Revenue Neutral Rate or RNR (tax collection under new rate versus tax collection under old rate(s) remain unchanged), the government should sort out issues with States, make up its mind on the likely GST rates and inform the industry and consumers well in advance. The kind of stories that float all around indicate that Central GST will be around 12.77% and State GST will be 13.91% and the total GST rate will be 27%. Variations in the desirable GST rate are wide even among the various expert panels and economists with one school advocating 20 to 22% as an ideal GST rate while some even bat for total of 13% GST. Higher rate is justified on the ground that credit is available at every stage and therefore, tax burden is only on value addition. With pruning of exemptions and businesses being oriented towards invoice-based supplies in the GST era, payment of tax @ 27% by the end consumers on a single transaction is a reality. We shall postpone our arguments on GST rate(s) for now as the intention is to impress on the policy makers to take producers, service providers, dealers and consumers into confidence in the pre-launch stage that the rate will not be astronomical.

A related concern on the rate and liability for industry should be drafting of terms of contracts and agreements, particularly those spanning the period beyond 2016, by expressly specifying the person liable for GST, extent of liability and mode of enforcement of such liability. Service providers engaged in infrastructure projects and other long gestation projects should provide for these terms unambiguously.

GSTN & IT infrastructure

Implementation of a robust IT infrastructure is stated as a pre-requisite for implementation of GST. For this purpose, Goods and Services Tax Network – Special Purpose Vehicle or GSTN-SPV was formed as Section 25 company in 2013. The Government of India and State Governments together own 49% of the shares while other entities hold 51%. According to the financials of this company, it has fixed assets of around Rs. 12 lakhs and it has received around Rs. 3 crores as grant from the government. If April, 2016 is the launch date for GST, efforts shall have to be made to build IT infrastructure on priority basis. Reports indicate that user fee will be payable for using the services of GSTN which will range from registration to filing of return. In fact, CBEC will also be liable to pay such user fee to GSTN unless any exemption notification is issued for the services provided by GSTN to the CBEC. Payment of user fee will arise only on implementation of GST. During pre-launch period, the government should infuse more funds and GSTN shall deploy them immediately to build the infrastructure. GSTN should also come out with model application or software for accounting purpose for SMEs for effective compliance with GST. A discussion paper covering various IT issues including compatibility of various software for export of data online to GSTN for filing returns, should be released so that such costs are factored in by businesses when they plan their investments in IT. A host of other issues need to be addressed during the pre-GST period and we shall discuss them in the days to come.