Industry is ready for GST

It'll have a positive impact on the economy, industry and consumers

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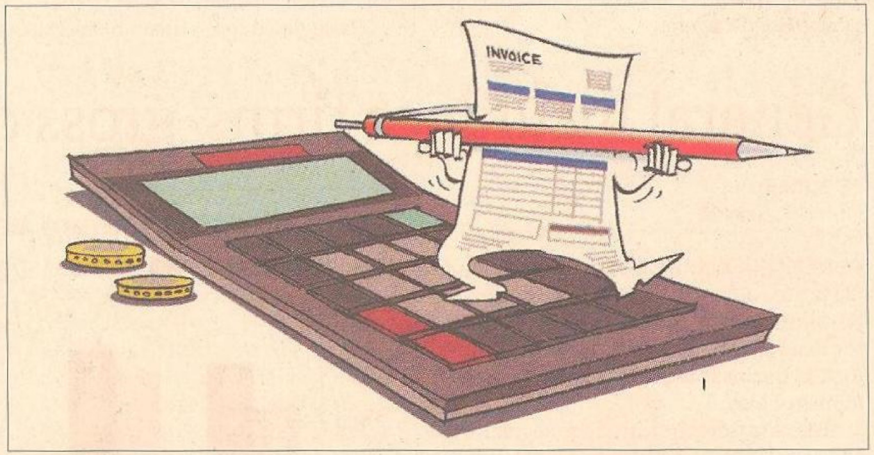

FROM JULY 1, GST will be in force, redefining India's indirect tax system and reshaping the way business is done in the country. Almost two decades in the making, the new tax system represents a historic success story in our economic reforms journey.

While the benefits of GST to the economy, industry and consumers are well-known, it notably represents a structural reform. The process of drafting the new system was unprecedented as it took place through a committee of finance ministers from all states, taking off from the original empowered committee created in 1999 for the introduction of state-level VAT. State governments from different political parties with different ideologies came together with the ministry of finance on a single platform for the larger national good. With free discussions and consensus-building, this created requisite buy-in from all states. Such a model could be replicated for future policy development on issues such as labour reforms, land acquisition, agricultural policies, etc.

The empowered committee has given way to the GST Council, a permanent body chaired by the finance minister and mandated under the Constitution to deal with all indirect taxation (except customs duties), adding huge efficiency to the process. So far, in over 15 meetings, all decisions have been taken through consensus, without the need for voting, a commendable example of all members being on the same page.

The legislative process for GST introduction too was undertaken through consultations among central and state governments in a spirit of give and take. The GST involved a Constitutional Amendment Act, Central GST Act, Integrated GST Act and Union Territory GST Act, wherein UT GST Act and State GST Acts were to be passed by each state and UTs with legislative assemblies. With a few states yet to make the enabling legislation, the laws and rules are mostly agreed upon.

Another notable point is the GST is based on a vast overarching IT network—the GST Network (GSTN). All enterprises over a certain turnover size would need to be registered on this network, and each transaction by these enterprises would go through it. It is estimated that over 3 billion transactions would be processed every month in the system, automatically matching each invoice from sellers to buyers and updating returns on taxes paid at each stage. This robust online system covers the entire country and partners with private sector players, including Infosys at the apex and 34 general service providers. The consolidated data generated from this system could feed into real-time economic policy-making.

The differentiation of players in the economy—between manufacturers, traders and service providers—would be merged as suppliers. All nodes of the supply chain adding value to a product would be part of the same system, enabling each to avail seamless input tax credit. The requirement of registration is applicable to all those with over ₹20 lakh turnover (₹10 lakh for specified category states including Sikkim) except certain categories, operating in a single state.

A massive structural reorganisation of the administrative machinery has been carried out. The Central Board of Excise & Customs (CBEC) will now be the Central Board of Indirect Taxes & Customs (CBIC), after getting legislative approval. With almost 4,000 ranges in various divisions and commissionerates across 21 zones, the CBIC will ensure taxpayer services across the country.

GST will make India a single market for the first time, subsuming numerous central and state taxes and ensuring harmony of tax rates across the country. Apart from the larger economic gains, industry will benefit in many ways. Choosing manufacturing locations, setting up storage facilities and pricing of goods was often determined by applicable tax rates. With a product being subject to the same tax rate in all parts of the country, firms will be able to take informed decisions based on production efficiencies, wage structures and natural advantages of a location. Interstate movement of goods will become faster and cheaper as inspections at state borders will no longer be required.

With Input Tax Credit (ITC) as an incentive, the number of enterprises in the tax net is likely to go up. Enterprises will benefit from lower taxation on inputs as cascading