

Hail the new indirect tax regime

Manufacturers no longer have to study tax rates across states before deciding on the most competitive investment locations and can base their decisions on availability of resources and skills

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AS THE GOODS and Services Tax (GST) completes one year of its implementation, the Indian industry lauds the successful transformation of India's indirect tax system. The massive adjustment process has been far smoother than expected and the multi-dimensional benefits of GST are now increasingly evident across the economy.

GST represents a singular cooperation process of the central and state governments. Unanimous decision-making is indeed a hallmark of the GST Council. The GST is a dual tax and replaces 17 indirect taxes earlier imposed by the central and state governments. The former complex and convoluted tax structure is now replaced by a single rate applicable in the entire country, unifying the fragmented Indian market. Manufacturers no longer have to study tax rates across states before deciding on the most competitive investment locations and can base their decisions on availability of resources and skills. GST has removed tax cascading, aligned manufacturing to natural advantages, and brought in huge efficiencies across the system. Based on industry feedback, rates on certain goods and services have been tweaked and rationalised.

Another transformational dimension of GST is the GST Network: the single integrated online platform for tax payers and tax authorities, which drastically cuts down costs and time involved in paying taxes. The portal is capable of processing millions of returns and has been constantly tweaked to ensure efficient tax payment, returns, and registration. The successful rollout of the e-way bill with few glitches is yet another key feature of the GST regimen. The e-way bill system was launched on April 1, 2018, first providing for interstate

movement of goods and then gradually introduced in the states, covering the entire country by mid-June. The system eliminates barriers at state borders, cutting down transportation time and costs, ensuring the seamless movement of goods.

The initial few quarters of GST implementation were a period of tests and trials for industry. A responsive administration permitted delays in filing of returns, which was important for small enterprises in understanding the transition and adapting to the new provisions. The government also took into account industry feedback for changes in the composition scheme and periodicity of filing returns, among other issues. Initially, there were delays in tax refunds on exported goods due to errors in filing returns, export documents and IT glitches, but, this has been addressed through special clearance drives.

Over the ten months of the GST operation, a revenue of ₹9.15 lakh crore has flown into the government treasury, higher than expected. The landmark of ₹1 lakh crore tax inflow in a single month was crossed for April 2018, while the May 2018 figure was just slightly lower, indicating the potential for the future. About 70% of eligible businesses are filing returns on a routine basis. Some 6.30 crore e-way bills have been generated by end of May. Fears of higher tax incidence for consumers have also been belied. As per informal feedback received from industry members, the support from business for the GST is almost universal. Industry widely recognises that the new indirect tax system is the right step towards making tax payment simpler and easier. Sales have remained on track after GST, and businesses are largely satisfied with the registration, valuation and input tax credit process.

Going forward, we expect that certain areas such as electricity, oil and gas, alcohol and real estate would be included under GST at the earliest, which will lead to seamless input tax credit availability across all sectors. Meanwhile, interstate movement of these items needs to be allowed at concessional rates through issue of C Forms. A key issue that can be tackled quickly is compression of tax rates to just 2 or 3 slabs. This would continue to simplify the process while eliminating uncertainties in identification of goods under specific heads.

Delays in refunds to exporters lock up their working capital and they need to be systematically addressed. Additionally, the benefit of composition scheme under GST is available to limited taxpayers, and should be extended to service providers and for interstate supplies also. Under the recently introduced e-way bill, it is important that penalties are avoided and vehicles are not detained or seized in the normal course of business. Further, simplification of compliance and filing of returns, automated speedy refunds, treatment of existing incentives, centralised registration for those supplying services across states and resolving some technical issues would add to the overall success of GST. Government could also consider a centralized Authority for Advance Rulings (AAR) to clarify certain issues, as existed in the previous indirect tax regime.

Overall, there is no doubt that GST has surpassed expectations to emerge as a potent instrument for boosting the competitiveness of industry and raising economic growth rates. As the most transformative and far-reaching reform of India's indirect tax system since Independence, it will continue to bring huge benefits to consumers, industry and governments in times to come.