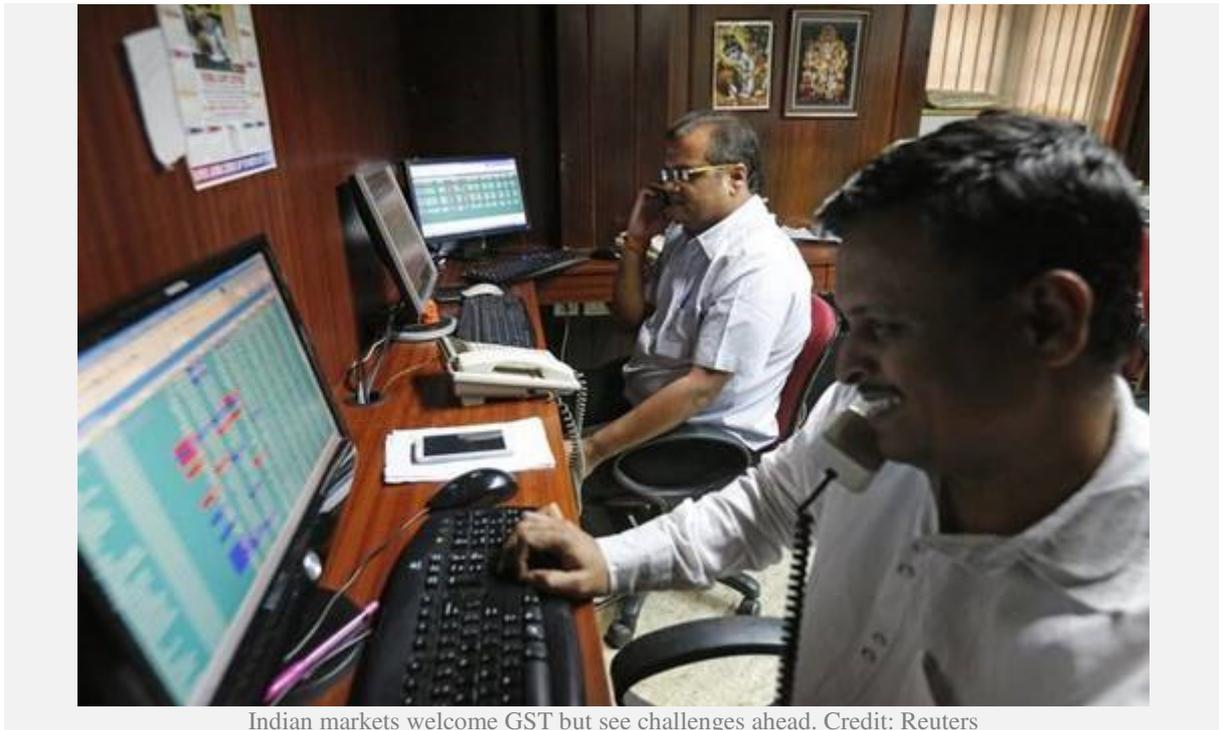


# GST Transition May Not Be Pretty, but That Will Not Detract From Its Larger Efficacy

BY [CHANDRAJIT BANERJEE](#) ON [26/06/2017](#) •

In an overhaul of the entire tax system, there are bound to be several hurdles to its smooth transition and implementation.



Indian markets welcome GST but see challenges ahead. Credit: Reuters

The [Goods and Services Tax](#) (GST) is set to be rolled out as per the timeline of July 1 announced earlier. Those who were expecting it to be postponed yet again after many deadlines were missed over the years may not be ready for its implementation, but the overwhelming number of enterprises are keen that the transition take place as quickly as possible.

The GST represents a massive structural reform that will change the way business is done in the country and add huge efficiency to the economy. The Indian model has several firsts to its credit, being a dual tax system. The participation of state governments in its evolution adds a whole new dimension to policymaking and enables their commitment to its success. Further, the [GST Network](#) (GSTN) is much ahead of what could be expected of a country in India's present stage of development. It represents a good partnership of the government and the private sector, which has been closely involved in its conceptualisation.

Elimination of tax-on-tax, seamless input tax credit, a single internet-based interface between all nodes of the supply chain and the tax authorities, and so on are well known benefits of GST. Less known advantages are the availability of big data and tracking of each transaction, providing interesting inputs to future policymaking.

While doubts have been expressed about the state of readiness of the GSTN, the small enterprise and the consumer for implementation of GST, we feel that these may be overplayed. In an overhaul of the entire tax system, there are bound to be several hurdles to smooth transition. However, this will not detract from its efficacy over a period of time.

To begin with, there has been a comprehensive campaign for building awareness and providing information in all parts of the country by the government, industry associations and tax experts. In the [Confederation of Indian Industry \(CII\)](#), we have been organising webinars for several months, and since April, specialist 'tax clinics' are being held across the country. These two-day training sessions, accredited by National Academy of Customs, Excise and Narcotics (NACEN), explain rules and processes involved in GST, covering issues such as registration, transition provisions, input tax credit and filing of returns. Similarly, government officials have fanned out to industrial centres to reach out to small enterprises and industry associations. Many large companies have undertaken training sessions with their vendors as well.

### **Nearly 2 million unregistered**

Further, most of those registered under the existing system have already moved to the new registration. Of 8.3 million eligible registrants, 6.5 million are now listed in the GSTN. The remainder, expecting a deferment or for other reasons, will no longer hold out now that the date has been set, and are likely to be fully compliant by the time returns are to be filed.

The next stage is for enterprises to have their IT system in place. This is where some traders may face challenges, relating to lack of access to computers, insufficient network availability or knowledge gaps. While the smallest of enterprises do not have to register, it is assumed that enterprises with higher revenues than the threshold would have a computer on hand and would already be used to paying taxes online. So the number of business facing compliance issues may not be significant.

The GSTN, where the invoices are to be uploaded, will automatically move on to the next stage of matching invoices of suppliers and purchasers to generate the next return form to highlight the returns which do not match. The enterprise will then need to take this up with its business partners and sort it out. At the third stage, the correct matching will be validated. After this, the enterprise will receive the applicable input tax credit.

While this entire process is expected to be seamless with the convenience of a single interface between all suppliers and buyers and with the tax department, in practice incomplete forms, mistakes in filling details, or delays in filing could require enterprises to spend more time than earlier on sorting out the anomalies. In itself, this would impose a certain discipline on businesses – if they wish to obtain input tax credit, they would need to ensure that they file returns without glitches. This may take some time before it is streamlined and hopefully, the

GSTN would ensure quick credits so that working capital is not held up and confidence in the system is built up.

### **Pile up of stocks**

Among other possible initial glitches, stocks are likely to create problems in the transition phase. Traders have been keen to dispose of existing stocks as they would not be able to benefit from credits for the full amount. In most cases, it is not easy to dispose of stocks accumulated over the past year or so, and businesses will end up bearing some costs on account of this factor.

The shift to GST would create several practical problems relating to new definitions. For example, healthcare is exempt from GST and taxes on inputs may thus add to final prices. Similarly, some sectors benefited from incentives for interstate transfer of goods on submission of the C-form for central sales tax. This will no longer be applicable as CST has been eliminated. There were also incentives provided for investments in North East states and hill states, which should have been continued for some time to enable transition.

### **Exemptions and anti-profiteering**

Key items such as electricity, petroleum products, and real estate have been left out of the purview of GST and it is unclear how the crucial input tax credit would apply to suppliers in these sectors. These should be brought into the GST regime at the earliest and could take place once states are assured about higher revenues flowing in.

A smooth GST implementation would also depend on rules for anti-profiteering and e-way bills. Anti-profiteering measures have been introduced to ensure that lower costs arising from availability of input tax credit are passed on to the final consumers. However, pricing is often dependent on multiple factors, and it would be challenging in practice to determine impact of tax credit. Businesses should take care to adhere to MRP and tax authorities would need to be sensitive while addressing possible cases of undue profiteering.

The decision on e-way bills has been deferred for the time being by the GST Council. There are several possible ways to replace the existing interstate checking system which led to long delays at state borders, and it is best to adopt a measure which would be in keeping with the spirit of a single market.

The industry recognises that introducing an entirely new and vastly improved tax system will cause initial hiccups. The GST Council has been sensitive to potential issues and has extended the time for filing of returns for the first couple of months. The government is also taking pains to assure the industry about administrative leniency in the initial stages. Several initiatives have been taken to assist smaller enterprises in filing returns, including through common service centers, and over 4,000 offices of the new Central Board of Indirect Taxes and Customs (replacing Central Board of Excise and Customs) are expected to ensure smooth implementation.

The central and state governments and political parties have exhibited strong interest in ensuring the success of GST, and businesses too are eager to benefit from the gains of this transformational tax at the earliest. With these synergies, GST implementation is not a cause for undue worry but a reason to celebrate.

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