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A Road Map To GST

Here's what India needs to do to get the biggest bang from GST rules

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With the constitutional amendment in Parliament already completed and legislation by the required number of state governments expected shortly, the introduction of the Goods and Services Tax (GST) is on the fast track. The commitment of the Centre and state governments in this landmark tax reform is laudable and we in Indian industry deeply appreciate their common endeavour in this cause.

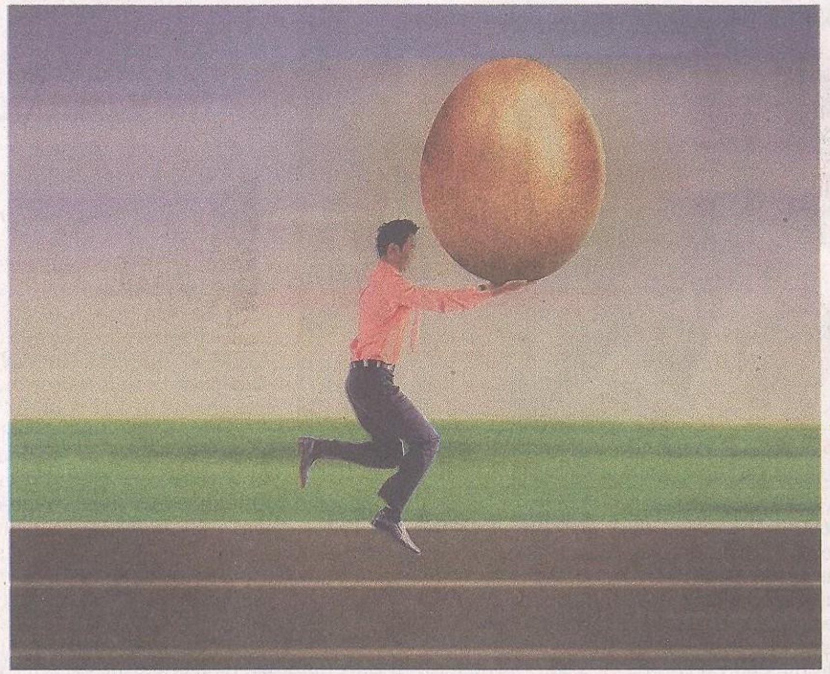
The Empowered Committee of State Finance Ministers (ECSFM) has played an exemplary role in this process, converging diverse views and evolving a suitable model for GST. This new tax will make India a single market and greatly enhance ease of doing business. It will make the entire economy more efficient and productive by lowering transaction, transport and logistics costs, and can add at least 1 percentage point to the GDP growth rate. The forthcoming introduction of GST effectively means that India has transited to a new level in its economic evolution.

The next stage in the GST journey is to ensure that a simple, effective and efficient tax model is worked out. The inputs of industry and tax practitioners are central to the overall effort and we look forward to working with the ECSFM and the forthcoming GST council on getting the modalities right.

While we do expect that introducing a reform of this scale – embracing all tax authorities as well as millions of taxpayers – will not be without its challenges, the correct systems and parameters would facilitate this transition and make its acceptance and rollout smooth.

The first order of the day would be to work out the standard rate based on the revenue neutral rate or RNR. Chief economic adviser Arvind Subramanian headed a committee that studied the different options. The RNR as identified by the committee was placed at 15% with the standard rate suggested at 17-18%.

We in CII are in agreement with a standard rate of 18% with merit and demerit rates, which we believe would be acceptable to consumers given the current indirect tax profile of the country. It would also encourage compliance by industry and minimise tax avoidance.



Introduction of GST will require a huge effort in shifting existing systems of tax payment and book-keeping. Multiple changes would be needed across areas such as sourcing and distribution strategy, working capital management, registration and tax credit transactions, and tax accounting, among others.

This overhaul of the entire system of doing business may not be immediately possible. After the GST law is finalised, we hope that industry would have the necessary time to implement the required system changes.

GST would also need to take into consideration existing tax incentives that have been granted for different purposes. For example, the Centre has offered excise exemptions or refunds in the northeast, Jammu & Kashmir, and certain difficult geographical terrains to encourage new industrial units to be set up or expanded.

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Similarly, some state governments too have attempted to boost industrial growth by exempting or deferring the existing value added tax (VAT). We would call for these incentives to be suitably incorporated in the GST law so that there is no sudden withdrawal and industries have time to adapt to the changed conditions with requisite grandfathering clauses.

The transition would pose challenges relating to shifting from the present structures with respect to the tax credit which may be applicable but may not have been taken. CII has identified certain cases where it may be necessary to amend the proposed law to provide for availment of credit.

A key intention of introducing the GST is to make India a single market and alleviate the multiple formalities involved in transit of goods between states through waybills, transit forms, entry forms, inspections at checkpoints, etc. It is estimated that due to these procedures, goods take longer to move between Delhi and Mumbai than between Mumbai and Europe. In line with this objective, the GST law should provide for seamless movement of goods without tough administrative requirements that will delay transit and add to costs.

A further requirement to simplify ease of doing business as envisaged in the GST regime is to minimise registrations. Currently, the GST law requires all suppliers to register in each state where taxable supply of goods or services are made. Effectively, this means that suppliers in multiple states would have to obtain separate registrations, which is particularly difficult for companies with operations across India such as banking, telecom or airline companies. It is recommended that a single registration should be introduced to avoid such a cumbersome exercise.

There are several other issues that the GST law may need to consider, including refund of taxes paid under certain circumstances, provision of return of goods, and inter-state job work. As the ECSFM continues on its deliberations and consults with stakeholders, we are confident that it would take into consideration the suggestions of Indian industry, which is greatly looking forward to a timely and efficient GST introduction.

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