

GOODS AND SERVICES TAX

5 Years & Counting Towards Unity



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The goods and services tax completed five years of its journey on June 30. Its implementation was easier said than done. Getting consensus among all the stakeholders under a federal structure in rolling out such transformational reform was a mammoth task. As was the migration of millions of taxpayers to the new regime.

The reform has been successful in fulfilling its prime objectives of simplifying the tax regime, and eventually turning India into one unified marketplace with an assessee-friendly tax administration. The central and state governments worked together through the implementation process for the success of this mega reform.

The impact of GST is now visible in formalisation of enterprises, wider tax base and higher tax revenues. Small businesses, which were not quite used to paying taxes earlier, are now covered under its ambit. A preliminary analysis of

the GST registration data reveals a 50% increase in the number of indirect taxpayers. There has been a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises and want to avail of input tax credits (ITC).

Though the GST journey may have had its hiccups, it has proven its worth during this initial period of five years. The most commendable aspect has been the consultative approach adopted by GoI while taking corrective measures to ensure effective implementation of GST. This was seen in the midway corrections by tweaking tax rates, deferring some of the provisions, and devising a simplified return format to replace the service tax (ST-3) return format.

Despite repeated economic disruptions due to the pandemic and lowering of tax slabs during the initial period, thereby impacting revenue collections, the average monthly revenue collections have been over ₹100,000 crore. In addition to being a tax change, GST is also a business change. It has removed the state barriers, making transportation of goods seamless across states. The inter-state GST (IGST) mechanism has simplified and enabled the central



No longer a mad scramble

government to collect taxes on inter-state movement and distribute this among the recipient states for enabling tax credits.

Consumer protection introduced under GST by way of anti-profiteering provisions has ensured that the benefits of input tax credit or reduction in tax rates are passed on to consumers. The advance ruling process under GST is effectively providing clarity. Industry has also worked a way out for its financial impact, made changes in the processes and tax accounting, communicated with vendors and customers, and got them ready for the changes. Initially, capital was blocked due to delay in refund of IGST on export of goods and accumulated input tax credits due to inverted tax structure. But GoI launched special drives and successfully cleared the backlog.

The entire ecosystem has gradu-

ally become accustomed to this regime, and a conducive business environment has emerged with a higher level of transparency, and lower costs of transaction and compliance. GoI is now working on further improving the GST system. Some provisions of the GST law need to be simplified and inconsistencies need to be removed.

A single centralised registration would certainly be a great relief for services having a pan-India presence to reduce unwarranted administrative and compliance costs. Review of the inverted tax structures is crucial, along with the inclusion of tax on services and capital goods in refunds. Industry is also looking forward towards the reduction in the number of tax slabs and coverage of all sectors under GST for providing seamless input tax credit across sectors leading to cost reduction.

Overall, GST implementation in India is well on the path of achieving stability in terms of compliance, buoyancy in tax revenues, expansion of base and formalisation of the economy. This giant tax reform has truly met its key objectives in its first five years.

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