AUGUST 2018 • Vol. 4 • Issue 5
MONTHLY • Pages 64
₹ 200

RNI No.: DELENG/2015/67140; Published on: Every month; Posted at Lodi Road HPO, New Delhi on 9-10th of every month

THE AWARE CONSUMER

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GOVERNMENT PERSPECTIVE
Technology, Not People, Led To GST Disruption

OPINION
Need For Reforms

PLUS REPORT • MY MARKET • THE LAST MILE

VIEWPOINT

BEJON KUMAR MISRA | bejonmisra@consumerconexion.org

A New Era Of Fiscal Federalism

> The government's indirect tax department has identified "thousands of crore rupees" in tax leakage as it strengthens its data analytics capabilities after a year of GST implementation.

A YEAR AGO, India began a fresh journey into the indirect tax world, by entering into a new era of GST 'one nation, one tax'. It has been a path-breaking reform, subsuming a number of federal and state taxes and paving the way for a uniform system of taxation. India became a common market, the removal of cascading made the goods more competitive in the international market and the availability of seamless credit on most goods and services has removed inefficiencies from the supply chains of most commodities.

GST has brought in a new era of fiscal federalism where the Centre and states share the powers to tax all goods and services, and all decisions taken in the GST Council are by consensus, after debate and discussion. Switching to GST has also resulted in bringing India at par with global laws, which adds to the ease of doing business in India and has increased profitability and efficiency, which, in turn, has attracted foreign investments.

Under GST, services industry has had to change its business processes on account of increase in compliances due to decentralised registrations as against the ease of single registration prevalent earlier.

The most praiseworthy aspect, however, has been the proactive and consultative way with which the government has taken corrective actions, be it administrative simplification or changes in rates. Yet there is a long way to go. Apart from having a simple return and stronger GSTN portal, the law needs changes to bring it nearer an ideal GST. The credit scheme has to be broadened, rates need to be rationalised, and the multiple rate structure needs to converge to, at best, a two-rate structure. The tax base has to be widened to tax select petroleum products and real estate in the future. The provisions of TCS, TDS and reverse charge on supplies from unregistered dealers, among other things, need to be re-looked at, to keep the law simple. Making GST refund mechanism simpler and streamlined is also the need of the hour to facilitate the exporters, thereby enhancing ease of doing business in India.

While a lot has been done, a lot more needs to be achieved in the years to come. The foundation has been laid, the industry has aligned its business processes to GST and the revenue is showing an upward trend. It's time to bring in the changes in law and procedures and make India truly a model GST jurisdiction.

Message from the Editor-in-Chief

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A World Class Ecosphere For Business To Flourish

ONE YEAR BACK, in the indirect taxation arena of India, with a very bold and politically challenging move, the Government rolled out the Goods and Services Tax (GST), a reform that has been deliberated for almost two decades.With the roll out, the problems that erupted were more formidable than possibly envisaged, bringing a temporary pause to economic activities in India.

Technical glitches, very new methods of compliances by business entities, cross dependence on the business activity chain for data accuracy all created a state of panic in the business world.Political parties standing up for political score and tax evaders for obvious reasons cried foul. However, the government moved with conviction. GST across the states was smoother than what was expected...one of the very rare occasions in the country, where Central and State Governments achieved consensus. Industry supported it, with a few exceptions, such as from the textile sector and small businesses at certain places; consumers were confident that it would lead to reduction in prices and the Government was expecting buoyancy in revenue collections.

It's been one year since the introduction of the GST in India. In view of the magnitude of changes it required, it may be premature to pass a final verdict on its success. However, its impact is enough for reflection on

what worked and what did not. This is a good time to explore new ways of doing business, which are more efficient and largely driven by commercial imperatives. It is also the right time to assess the risks we need to mitigate as we navigate through this phase of frequent twists and turns in GST laws and processes.

There is hope that GST 2.0, which is at the works currently, will be a much improved version compared to the first one.The Government's report card after 365 days of implementation of the GST reflects an overall positive impact in terms of macro-economic growth and simplification of processes and digitalisation.

Yet, there is still some work by the government that needs to be done to ensure that the GST creates a world class ecosphere for business to flourish, in turn enabling to promote the welfare and prosperity of its citizen with development and good governance.

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India's first chief statistician, Economist Dr. Pronab Sen explains why glitches were inevitable and why a single tax slab isn't possible yet.

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As on April 2018, the GST collection crossed 1 trillion. Total assesses stood at 8.71 million and total returns filed were around 6.04 million.

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GST has brought in 'one nation one tax' system, but its effect on various industries is slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.

OPINION

53 | NEED FOR REFORMS

Taxes are essential to govern the country but their collection should be conducted without causing disruption to the business which drives tax. A good indirect tax fiscal system should be clear and comprehensive in scope of levy, should allow a seamless flow of input tax credit and have minimal tax tiers.

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In India, 5% of the GDP is spent on Healthcare – 4% by the private sector. The Indian Healthcare Industry has been exponentially growing in the recent years, and the Ministry of Health targets the development of 50 new technologies by the end of this year to treat diseases, such as cancer and tuberculosis.

THE AWARE CONSUMER
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www.consumerconexion.org

AUGUST 2018 • Vol. 4 • Issue 5

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The AWARE CONSUMER is printed and published by Bejon Kumar Misra at F - 9, Second Floor, Kailash Colony, New Delhi - 110048 and printed at M/s. Spectrum Printing Press (P) Ltd., Shed No. 23, Computer Complex, DSIDC Scheme I, Okhla Phase II, New Delhi - 110020

Place of Publication: E - 45, Ground Floor, Greater Kailash Enclave - I, New Delhi-110048

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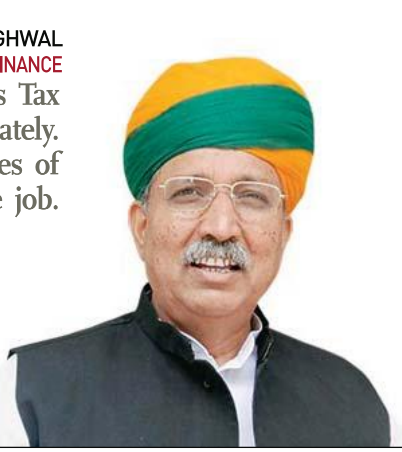
Total number of pages - 64, Including Covers

ARJUN RAM MEGHWAL
MINISTER OF STATE FOR FINANCE

The government is monitoring implementation of the Goods and Services Tax (GST) regularly and teething issues are being resolved immediately. Authorities are also keeping a tab on the impact of GST on prices of various commodities. A team of 180 officials and 30 ministers, are on the job.



ROUNDUP

Nowhere To Hide As GST Data Unearths Tax Leakage, Fraud

Ayan Pramanik

THE GOVERNMENT'S INDIRECT tax department has identified "thousands of crore rupees" in tax leakage as it strengthens its data analytics capabilities after a year of goods and services tax (GST) implementation. The GST Council has initiated analytics of a large pool of data and text gathered during the past year and released a request for proposal (RFP) for a dedicated fraud analytics work. The fraud analytics activity is aimed to weave in more intelligence, tax accountability, and widen the tax base.

"So far, we were able to identify anomalies of thousands of crores of tax leakage, and the government is on it," a source at the indirect tax departmentinformed.

The system collects data of traders at multiple layers of compliance such as GSTR1, GSTR3B and drawing information like value of product, tax rate, tax amount, sales and purchase details. Tax leakage is considered to be one of the key concerns for the GST Council. Analysts, GST Suvidha Providers (GSP) said both the government and businesses see "inconsistency" in data collected during compliance.

"From tax collection perspective, one of the concerning area is tax evasion (leakage or frauds). In order to detect such cases early, data analytics is planned to be used. Accordingly, we have released an RFP for selection of a partner. So we will be performing pure analytics on whatever data is collected, where we will be able to identify anomalies (if any) in the data sets and help

DATA BRIEFING

For instance, footwear priced at less than INR500 attracts a GST rate of 5% and those priced above INR500 at 18%.

tax officials initiate appropriate actions," said Anand Pande, CISO, GSTN.

The GSTN fraud analytics project aims to leverage the power of big data and advanced analytics which will enable GSTN to extract better insights from data and enhance system for reducing fraud evasion.

The fraud analytics solution is "to run on near real time data and help key stakeholders at the Centre, states and UTs to get quick insights into data through powerful user interface and visualisation", the RFP details. The solution is also envisaged to perform predictive search, create network between entities, etc, to detect and prevent frauds thereby providing the most relevant results.

Data analytics has significantly improved accountability on both the government and businesses sides, said analysts. For instance, both numbers and texts are mined to understand why a disparity persists between consumption of power and turnover of a trader.

"We are getting more detailed queries and the companies find it time consuming to get those compliance information. For example, if for a particular company the power consumption is going up but the turnover isn't, that means there should be further investigation," said N Balaji, Partner, Advisory Services - Analytics, EY.

STRUCTURE OF GST RATES

FURTHERMORE, DETERMINATION OF the applicable rate of the GST has an additional layer of complexity. On select categories of goods and services, the Government has decided to fix the GST rates on the basis of their value and the special features of the product or service under consideration rather than on classification under their tariffs-a harmonised system of nomenclature (commonly known as the HSN description). For instance, footwear priced at less than INR500 attracts a GST rate of 5% and those priced above INR500 at 18%. A similar logic applies to determination of applicable GST rates for hotel stays (charged on the basis of the published tariff rate). For instance, if the tariff rate is INR7500 or more per day, the GST is payable at 28%, otherwise it is reduced to 18% or less). Compared to global GST practices, this is a unique approach to determination of tax rates.

Effectively, in many cases, the Government has chosen to levy the tax on the basis of the status of the buyer instead of the product, and this has resulted in a great deal of complexity. Additionally, in certain cases, a distinction has been made, based on the mode of supply of products, which is unheard of anywhere in the world. For instance, in the case of goods procured through e-Commerce, additional compliance-related requirements have been proposed.

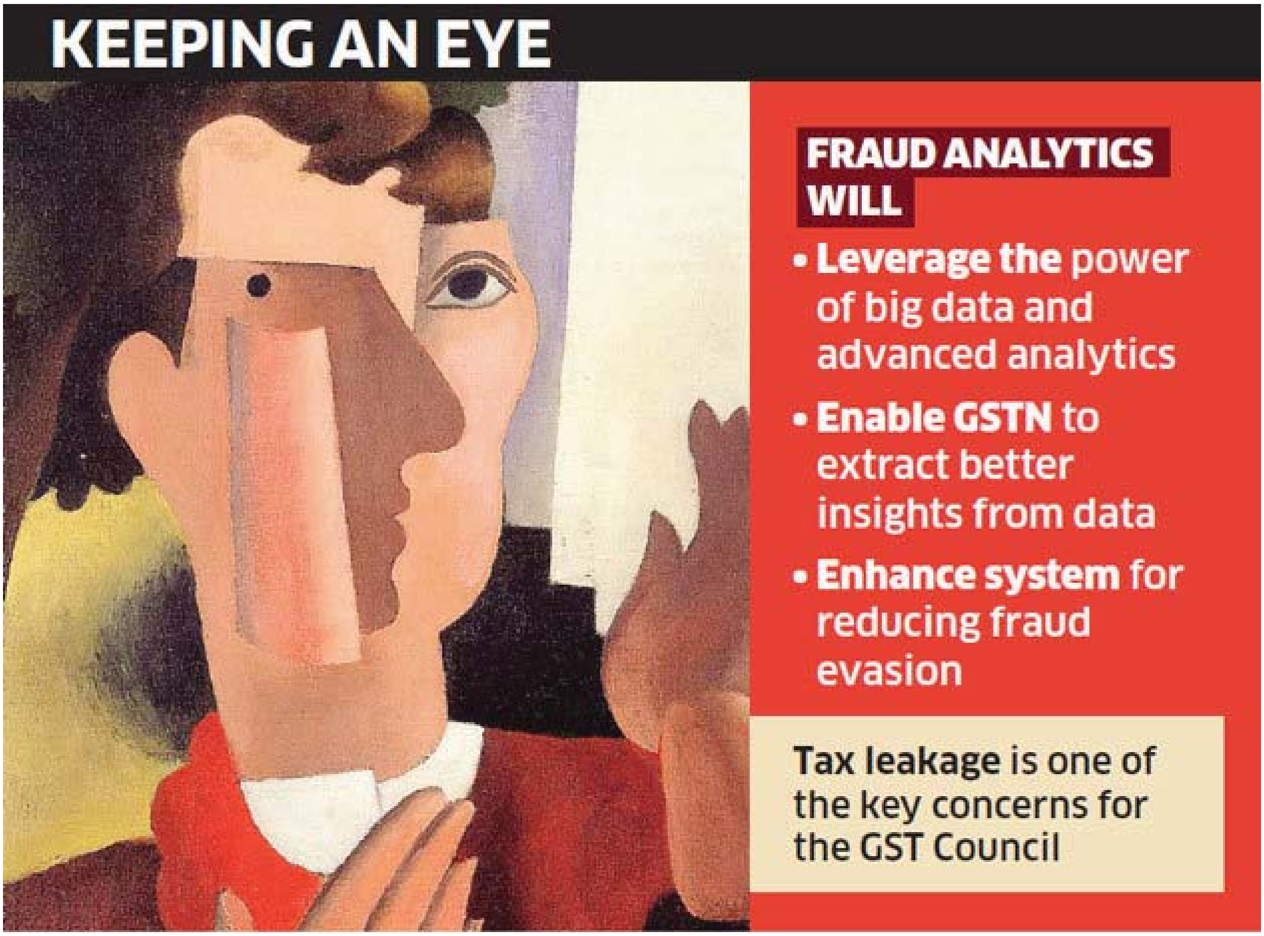
Around 50 products still remain in the 28% tax bracket and are classified as 'luxury or sin goods'. However, it is debatable whether products such as ACs, refrigerators and cameras still merit classification as luxury goods and warrant a higher GST rate. It is therefore important that policy-makers revisit their definition of the term 'luxury items', considering standards of living in today's world.

Another feature of the new regime, which adds to its complexity, is the applicability of the GST on related party transactions, even without a consideration. The GST law

STRUCTURE OF GST RATES

Value-based classification	Footwear with a retail price of more than INR500 is taxed at a different rate from those that cost less than this amount.
	Apparel and clothing accessories that have a sale value of more than INR1,000 are taxed at a different rate from those that cost less than this amount.
	Cotton quilts that have a sale value of more than INR1,000 are taxed at a different rate from those that cost less than this amount.
	Hotel rooms are taxed on the basis of their tariff rates.
Specification-based classification	Apparel and clothing accessories are taxed differently, depending on the material used to make them, for instance, fur, leather, etc.
	The rate of tax applicable on electrically operated vehicles is different from that levied on other motor vehicles.
Status of buyers	Transportation, catering, housekeeping, security, cleaning services, etc., when provided to educational institutions, are exempt from tax.
	Services including transport of passengers through a regional connectivity scheme airport, when provided to the Central Government, are exempt from tax.
	Supply of construction work contract services, when provided to the railways, monorail and metro, are taxed at a different rate from such supplies made to other recipients.

Source: Government notifications



Painting: Man with a Red Kerchief by Roger De La Fresnaye.

prescribes payment of the GST even on transactions that do not entail payment of any consideration. Therefore, not only is identification of such transactions a challenge, but determination of the value on which the GST is payable is equally complex.

The following table illustratively summarises applicability of the GST on the basis of its different attributes:

RATIONALISATION OF RATES

GST rates applicable to various goods and services have been rationalised time and again. The number of goods under the 28% tax bracket has been reduced from more than 200 goods to almost 50 goods. A special concessional tax rate has been prescribed for precious metals and supplies to exporters (merchant exporters). Furthermore, the rate applicable to most commonly used items such as tamarind powder, hair oil, wrist watches, sunglasses (including spectacles to correct vision), razors and razor blades and LPG supplied for domestic consumption has also been reduced. Similar reductions have been made for specified services such as restaurants, tailoring and construction of metro or mono rail projects. Moreover, various exemptions have been grantedfor goods and services for example, legal services provided to the Government, etc.

Industry is hopeful that the Government will further rationalise the rates on some more mass consumption products, such as white goods, e.g., washing machines, refrigerators and air conditioners. This will lead to a reduction in their prices and spur the demand for such products.

Re-engineering of supply chain

The GST has brought about many changes, and companies have used this opportunity to create value for their businesses across their procurement, manufacturing, distribution and logistics functions.

Supply chain-related costs are divided into two broad categories, fiscal costs (Central and state taxes) and physical supply chain costs (costs attributable to transportation, warehousing, inventory, etc.).

With the advent of the GST, supply chain costs and efficiencies not only involve tax-optimisation strategies, but the value proposition is visible across all its touchpoints, specifically in the areas mentioned below:

Procurement

A unified tax and seamless availability of credit has reduced the cost of supply and created re-negotiation opportunities in procurement of raw material. In the Retail sector, we have observed cost reduction in the range of 3% to 5% across different categories through re-negotiation with vendors.

Manufacturing

Exemptions in Excise Duty available in the erstwhile tax era have been transitioned to the GST regime in the form of a budgetary support scheme. Therefore, manufacturing units located in Jammu & Kashmir and the North Eastern states are enjoying tax benefits and will continue to do so for the next few years. ◗

KNOW YOUR VENDOR WELL

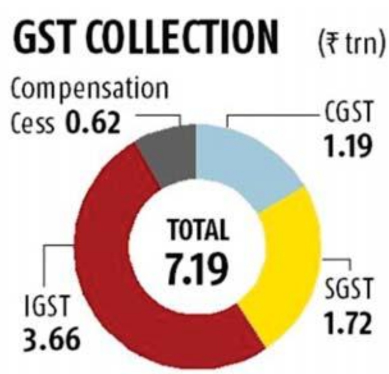
One of the fundamental shifts that companies need is to ensure that the books of account that they maintain are fully in sync with GSTN has and they are reconcilable to an external third party.

WITH GST, THERE has been a fundamental shift in how your books are maintained. Till now in the entire tax regime, the only version of the truth was how you maintained your books. All your filings flowed from that.

In the GST era, there is one set of reporting that you are doing, but there are several parties who are reporting what their transactions with you are. GSTN as a common database consolidates and has unified view of what your business is. It also has connections with the customs, banking channels, income tax and so on. And it gives the taxman a full view of what you are reporting to each entity.

What this eventually means is that it was easier to be a non-compliant earlier. I could rely on my chartered accountant and tell him, "Okay, this year I want to pay this much tax, please prepare my books accordingly." But, now this would become very difficult because others have reported to GSTN and hence tax authorities know all the details.

One of the fundamental shifts that companies need is to ensure that the books of account that they maintain are fully in sync with GSTN has and they are reconcilable to an external third party. Every transaction that flows into your bank should be aligned to some other transaction which is reported by someone else.



Note: Some portion of IGST and cess was paid in July' 17 as well. If that is included, total would come out to be ₹7.41 trillion

Beyond the filing and the IT part of things it is very important that you know your supplier and your customer well. If your supplier has not paid their tax you will not get input credit. For example, let us take a very simple three party transaction between A, B and C.

Let us say they are transacting and A sells Rs 1 crore worth of goods every month and B works on it further for Rs 1.2 crore and the next party C sells it at Rs 1.5 crore. At an 18% tax rate the overall tax liability for the government would be 18% of Rs 1.5 crore. But, in between if B defaults, then A has already paid his 18%, which is Rs 18 lakh taxes to the government, but B is not able to pass that credit to the next party in chain, which is C. In this transaction, C who was earlier required to pay only 18% of the value he was adding, that is 18% of Rs 30 lakh amounting to Rs 5.4 lakh, will now end up paying tax on the entire Rs 1.5 crore, which means an outflow of Rs 27 lakh. And the tricky part with GST is that C will get to know about B's default only two months down the line.

In this case if B has defaulted, his credit will only be reversed after two months, which means C is already transacting with him for two months post his default. If there are further defaults by B, an outflow of about Rs. 40 - 50 lakh additional could potentially kill a business. This means it becomes very important to know who your vendor is, how well compliant they are and if they are not compliant then you need to change your vendor.

This also means you as a business owner need to ensure that you have sufficient credit at all times. If you are running your business on a tight budget, which most SMEs do, it may be time to reconsider how you run your business. If there is ever a situation where instead of Rs 5.4 lakh your tax liability suddenly becomes Rs 27 lakh you need enough headroom to cough up that amount to remain GST compliant.

If you are not compliant, your GST ratings will suffer. When that happens, you will eventually not be able to find new buyers or your existing buyers will get away from you.

Taxpayers can now change email, mobile number under GST system

The government has introduced a new system to allow taxpayers to update email and mobile number in the GST System. This was introduced as many have complained that "the intermediaries who were authorized by them to apply for registration on their behalf had used their own email and mobile number during the process", the Finance Ministry said in a press release.

The email and mobile number can be updated by the concerned Jurisdictional tax authority of the taxpayer as per the following procedure:

- Taxpayer is required to approach the concerned jurisdictional Tax Officer to get the password for the GSTIN allotted to the business.
- Jurisdiction can be checked through Search Taxpayer option available on https://www.gst.gov.in,. Allotted jurisdiction is displayed in red text
- Taxpayer would be required to provide valid documents to the tax officer as proof of his/her identity and to validate the business details related to his GSTIN.
- Tax officer will check if the said person is added as a Stakeholder or Authorized Signatory for that GSTIN in the system.
- Tax officer will upload necessary proof on the GST Portal in support to authenticate the activity.
- Tax officer will enter the new email address and mobile phone number provided by the Taxpayer.
- After upload of document, Tax officer will reset the password for the GSTIN in the system.
- Username and Temporary password reset will be communicated to the email address as entered by the Tax Officer.
- Taxpayer need to login on GST Portal https://www.gst.gov.in/ using the First time login link.
- After first time login with the Username and Temporary password that was emailed to him, system would prompt the taxpayer to change username and password. The said username and password can now be used by the taxpayer.

SUPPORT THE CAMPAIGN

LOOK OUT FOR THE RED LINE

BE RESPONSIBLE

Medicines such as Antibiotics have a Red Vertical Line on their pack to indicate that these should be consumed only on doctor's prescription. Always complete the full course as prescribed by the doctor.

Campaign Partners

OPPI
MSAI
IAPG Indian Alliance of patient groups
Consortium of Association of community Pharmacist of India & Kuatilya Society for Pharmacoeconomics and Outcome Research
Patient Safety and Access Initiative of India Foundation
a Partnership for Safe Medicines India Initiative

SIGN THE PLEDGE.

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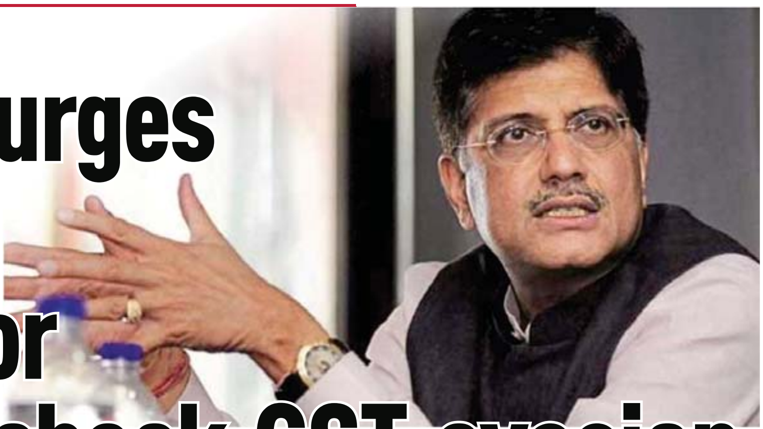


Piyush Goyal urges consumers to demand bill for purchases to check GST evasion

HE FURTHER SAID the government would start a three-digit consumer helpline number to enable them to lodge complaint against erring traders or any other kind of tax evasion. Touted as the biggest indirect tax reform since Independence, the Goods and Services Tax (GST) was rolled out last year on July 1.

"I want to appeal to the people that they should demand a bill whenever they go to purchase any goods. If you start asking for a bill…if there's awareness about this, then we can reduce rates by 4-5 per cent for every item (under GST)," Goyal told reporters. He said if any shop says that they will sell at a lower price if the consumer does not demand a bill, then the consumer should immediately file a complaint, he said.

"We will soon provide a three-digit simple number which will work as a call centre where customers can complain. We will ensure full confidentiality of the complainant," Goyal said. The endeavour will be to start the helpline number within 15-20 days, he said. A nationwide campaign too could be launched for creating consumer awareness about demanding bills for purchases made.

"If everyone starts giving bill then competition will be on quality and customer service and not on ability to cheat the system," Goyal said. He further said the government wants to reduce the burden of taxation on consumers but revenue needs to increase and support of states is also needed to cut rates where it is essential.

Seeking consumers' participation in curbing tax evasion, Finance Minister Piyush Goyal on the eve of completion of one year of GST rollout appealed to them to insist on bill for every purchase saying it would help the government check evasion and reduce tax rate on each item by as much as 4-5 per cent.

With formalisation of economy, the government will have more elbow room to reduce rates, he said. Goyal also assured small businesses if they face any trouble, then they can write to him and it would be resolved. He said amendments would be introduced to the GST law in monsoon session to increase composition scheme threshold from the current Rs 1 crore. The GST Council had last year decided to increase the threshold to Rs 1.5 crore and also decided to amend the law to increase the statutory threshold to Rs 2 crore.

Beware of spurious GST forwards: RAI

Post the implementation of the Goods & Services Tax (GST) in the country, a large amount of false information about GST has been circulating on various social media platforms.Post the implementation of the Goods & Services Tax (GST) in the country, a large amount of false information about GST has been circulating on various social media platforms. As the apex body of retailers, Retailers Association of India (RAI) would like to caution that not all the content that are being circulated are trustworthy or factual.

A case in point is widely circulated message that urges people to ask for a separate bill for every Rs 1,000 spent to save money on GST.

As per the message, the slabs are 0% GST for bill up to Rs 1,000; 2.5% GST on spends of Rs 1,000 to Rs 15,000; 6% on Rs 1,500 to Rs 2,500 and 18% on bill of Rs 2500 to Rs 4,500.

Believing on these spurious messages, consumers across the country are demanding that retailers split the final bill amount in multiple bills to evade taxes, resulting in long queues, wastage of paper and unnecessary hassles at the billing counters.

To stop the spread of this kind of misinformation, RAI would like to clarify that as per GST laws, the above slabs do not exist. The slabs given in GST are based on individual product prices and not on total bill amount. Therefore, getting separate bills at supermarkets and hypermarkets will not help save tax.

Prices of groceries at supermarkets are inclusive of taxes. Taxes shown on cash memo are not additional, but are already included in the selling price. They are mentioned separately on the bill in compliance with the GST law.

ALL YOU WANTED TO KNOW AND MORE

The year 2017 will forever be etched in Indian history as the year that saw the implementation of the biggest and most important economic reform since Independence.

Goods and Services Tax - GST

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.

BREAKING DOWN 'Goods and Services Tax - GST'

The goods and services tax (GST) is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product and a customer who buys the product pays the sales price plus GST. The GST portion is collected by the business or seller and forwarded to the government. It is also referred to as Value-Added Tax (VAT) in some countries.

Which Countries Collect the GST?

France was the first country to implement the GST in 1954, and since then an estimated 160 countries have adopted this tax system in some form or another. Some of the countries with GST include Canada, Vietnam, Australia, Singapore, the U.K., Monaco, Spain, Italy, Nigeria, Brazil, and South Korea. India joined the GST group on July 1, 2017.

How the GST Systems Work

Most countries with a GST have a single unified GST system, which means that a single tax rate is applied throughout the country. A country with a unified GST platform merges central taxes (e.g. sales tax, excise duty tax, and service tax) with state-level taxes (e.g. entertainment tax, entry tax, transfer tax, sin tax, and luxury tax) and collects them as one single tax. These countries tax virtually everything at a single rate.

Dual GST Structures: Canada

Only a handful such as Canada have a dual GST structure. Compared to a unified GST economy where tax is collected by the federal or central government and then distributed to the states, in a dual system, the federal GST is applied in addition to the state sales tax. In Canada for example, the federal government levies a 5 percent tax and some provinces/states also levy a provincial state tax (PST), which varies from 7 to 10 percent. In this case, a consumer's receipt will clearly have the GST and PST rate that was applied to his or purchase value.

More recently, the GST and PST have been combined in some provinces into a single tax known as the Harmonized Sales Tax (HST). Prince Edward Island was the first to adopt the HST in 2013, combining its federal and provincial sales taxes to a single tax at 14 percent. Since then, several other provinces have followed suit including New Brunswick, Newfoundland and Labrador, Nova Scotia and Ontario.

India's Adoption of the GST

India proposed to have a dual GST set up in 2017, which was the biggest reform in the country's tax structure in decades. The main objective of incorporating the GST is to eliminate tax on tax or double taxation, which cascades from the manufacturing level to the consumption level. For example, a manufacturer that makes notebooks obtains the raw materials for, say, Rs. 10, which includes a 10 percent tax. This means that he pays Rs. 1 in tax for Rs. 9 worth of materials. In the process of manufacturing the notebook, he adds value to the original materials of Rs. 5, for a total value of Rs. 10 + Rs. 5 = Rs. 15. The 10 percent tax due on the finished good will be Rs. 1.50. Under a GST system, this additional tax can be applied against the previous tax he paid to bring his effective tax rate to Rs. 1.50 - Rs. 1.00 = Rs. 0.50.

The wholesaler purchases the notebook for Rs. 15 and sells it to the retailer at a Rs. 2.50 markup value for Rs. 17.50. The 10 percent tax on the gross value of the good will be Rs. 1.75 which he can apply against the tax on the original cost price from the manufacturer i.e. Rs. 15. The wholesaler's effective tax rate will, thus, be Rs. 1.75 - Rs. 1.50 = Rs. 0.25.

If the retailer's margin is Rs. 1.50, his effective tax rate will be (10% x Rs. 19) - Rs. 1.75 = Rs. 0.15. Total tax that cascades from manufacturer to retailer will be Rs. 1 + Rs. 0.50 + Rs. 0.25 + Rs. 0.15 = Rs. 1.90.

The country has, since launching the GST on July 1, 2017, implemented five different tax rates.

- A zero percent tax rate applies to certain foods, books, newspapers, homespun cotton cloth and hotel services under Rs. 1000.
- A rate of 0.25 percent will be applied to rough industrial diamonds.
- Five percent tax rates will be applied to apparel below Rs. 1000, packaged food items, footwear under Rs. 500, etc.
- The next rate — 12 percent — applies to apparel over Rs. 1000, frozen meats, cutlery, sugar, biodiesel, etc.
- An 18 percent tax rate applies to certain luxury items including makeup, pastries, swimming pools, footwear costing more than Rs. 500, etc.
- The final bracket, taxing goods at 28 percent, applies to 50 luxury products and those deemed "sinful"

including sunscreen, ceramic tiles, bidis (Indian cigarettes), cars, motorcycles, etc.

The previous system with no GST implies that tax is paid on the value of goods and margin at every stage of the production process. This would translate to a higher amount of total taxes paid, which is carried down to the end consumer in the form of higher costs for goods and services. Implementing the GST system in India is, therefore, a measure that will be used to reduce inflation in the long run, as prices for goods will be lower.

One year of GST: The successes, failures and what's next on the agenda

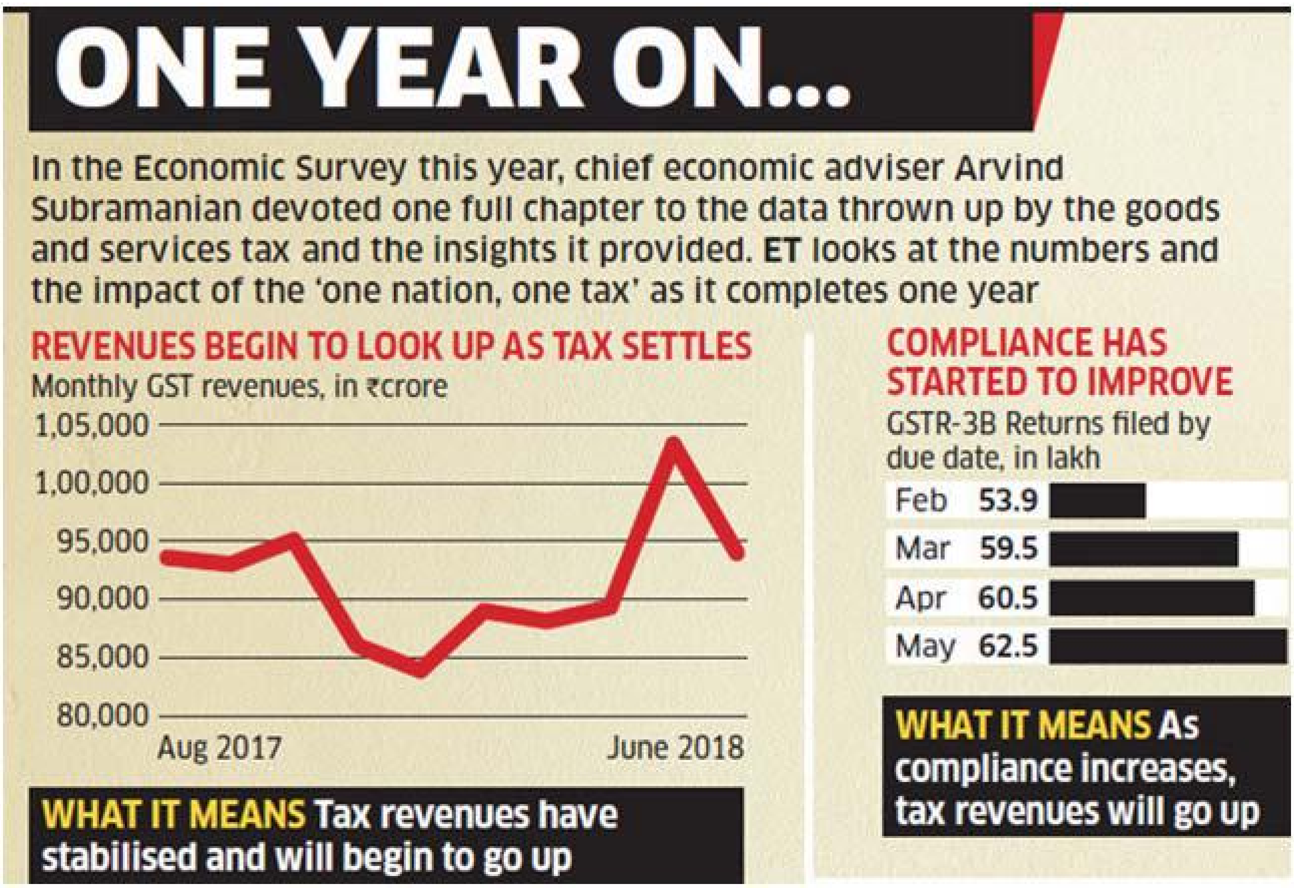
One year into the goods and services tax (GST) regime, early-day jitters have given way to general acceptance that this may not be the most perfect single tax system, but it's working. There are many issues that remain to be addressed, but the fact that some of the knotty ones have been resolved gives rise to confidence that even these will be sorted out. Here's how the past year panned out.

Inflation rate didn't rise: GST, it was widely feared, would cause inflation to rise, as with many countries that launched a single tax regime. That hasn't happened in India. The recent spike in consumer inflation has been due to high food and fuel prices, unrelated to GST. What helped? The much-criticised multi-slab structure. It ensured the levy was as close as possible to the existing rate, which meant the incidence of tax didn't rise. The second factor was the anti-profiteering authority. Though the body was set up after the GST rollout, the prospect of its establishment was enough to ensure businesses did not abuse the transition.

Single national market: Long queues of trucks at state borders disappeared as checkposts were dismantled, creating a seamless national market. These barriers had restricted movement of goods across the country, leading to huge delays and increasing transaction costs for the logistics sector, eventually translating into higher costs for consumers.

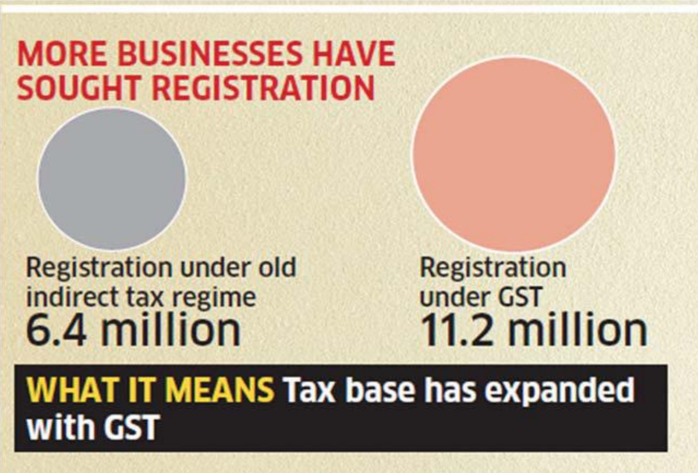
One tax nationally: A consumer in Kanyakumari now pays the same tax on an item as one in Jammu & Kashmir. GST has also allowed businesses to streamline distribution systems—production, supply chain, storage—to make them more efficient, having previously been forced to design them keeping state taxes in mind.

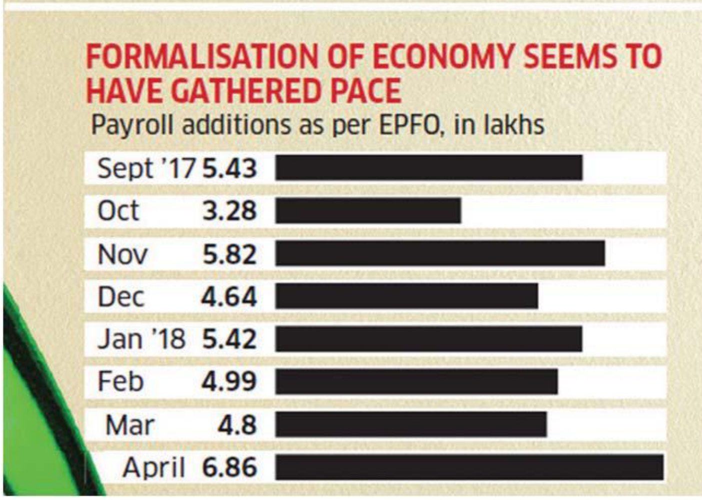
Formalisation kicks off, tax base begins to widen: One of the expected benefits was that GST



would encourage formalisation of the economy. Evasion would stop making sense, thanks to transparent digital processes and incentive of input credit and invoice matching. With number of registrations crossing 10 million, it seems more businesses are signing up for GST. Rise in the Employees' Provident Fund Organisation subscriber base provides further evidence of the same. More people filing income tax returns could also have something to do with GST.

Everyone wins: As many as 17 taxes and multiple cesses were subsumed into GST, aligning India with global regimes. Central taxes such as excise duty, services tax, countervailing duty and state taxes — including value added tax, Oct roi and purchase tax — were all rolled into one. The new regime provided for free flow of tax credits and did away with cascading due to tax on tax, boosting company financials and resulting in reduced prices for consumers. It also ensured a single law for the whole country with uniform procedures and rules, which reduces compliance burden and business complexity. The government sacrificed revenues, but improved compliance should cover any gap.

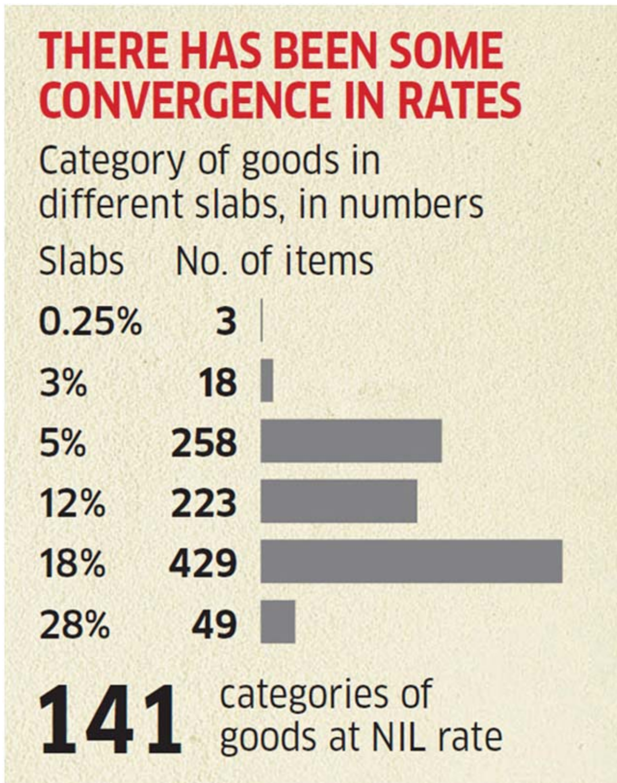


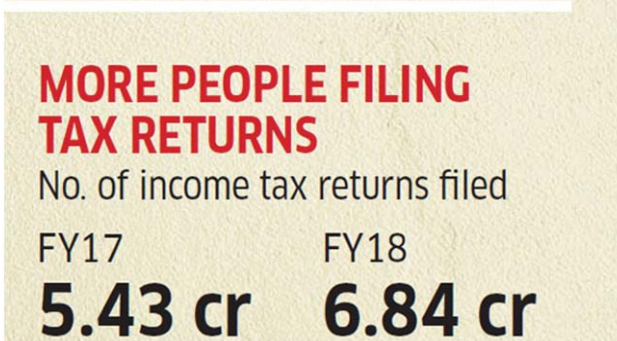


WHAT HASN'T WORKED

Compliance has miles to go: The biggest dampener was the compliance process, as information technology glitches took more than the anticipated time to be resolved. The filing system that was put in place in the beginning was quickly abandoned as businesses struggled with compliance. A new return form is being crafted to help make the process much less painful for businesses and is likely to be available soon.

Cumbersome registration system: Multiple registration requirements have complicated things for industry, which was expecting simplicity. In many cases, registration is required in all states. Companies fear that multiple audits and assessments due to multiple registrations could make life more difficult for them going forward.





BIRD'S EYE VIEW: PLOTTING THE POLICY MAP

GST Council met regularly through the last year to solve glitches in the new tax regime. **ET** looks at the policy journey in the last year.

JULY 1, 2017 GST rolls out nationally except in Jammu & Kashmir

JULY 17, 2017 First GST Council meet post launch, recommended increase in compensation cess rates on cigarettes

JULY 27, 2017 Summarised return in Form GSTR-3B prescribed for July 2017, more time for filing

AUG 5, 2017 20th GST Council Meeting, deliberation on anti-profiteering, job work for textile and textile products to be taxed under 5% rate, GST rates for certain services revised

SEPT 9, 2017 GST Council extends GSTR-3B to December 2017

OCT 6, 2017 GST Council defers TDS/TCS provisions/reverse charge mechanism on procurement from unregistered persons

NOV 10, 2017 GST Council approves big ticket changes in GST

Rate changes in 213 items

- From 28% to 18% **178 items**
- 28% to 12% **2 items**
- 18% to 12% **13 items**
- 18% to 5% **6 items**
- 12% to 5% **8 items**
- 5% to nil **6 items**

5% GST without ITC on both AC and non-AC restaurant services

DEC 16, 2017 GST Council makes Inter-State e-way Bill compulsory from Feb 1, 2018. Intra-states before June 1, 2018

JAN 18, 2018 Rate changes for 21 more items. 40 services exempt from GST

FEB 1, 2018 E-way bill launched for interstate sales but deferred following glitches

APR 1, 2018 E-way bill rolled out for interstate supplies. Staggered rollout for intrastate. The national rollout complete now

MAY 4, 2018 GST Council cleared design of new simple return. Approved proposal to convert GSTN-SPV into a fully owned government company

New cesses crop up: While GST scrapped a multiplicity of taxes and cesses, a new levy in the form of compensation cess was introduced for luxury and sin goods. This was later expanded to include automobiles. A new cess on sugar is also being examined.

Refunds problem for exports: The refund mechanism for exporters, including data matching law, besides procedures governing them, have irked the sector, particularly smaller entities that saw their working capital requirements rise. Though several efforts have been made to address the issue, it may require more intervention.

WIN FACTOR: CONSENSUS & AGILITY

War room saved the day: A GST Feedback and Action Room was set up to take care of initial launch issues. The government remained open to addressing issues as they cropped up, with feedback flowing in fast via phones, messages and even Twitter. Return filing dates were deferred, tax slabs were rejigged to address industry and consumer concerns and procedures and rules were amended to ensure hardships were alleviated. The officers' committee — comprising state and central officials — still meets regularly to draw up options for the GST Council to act upon.

GST Council delivered: The GST Council, comprising central and state representatives, was the kind of federal arrangement that could have easily been bogged down by ego and politics. The Centre has a 33% vote while the states account for 66%, with any dispute needing 75% support to be resolved. It has never had to vote on any issues, with just one dissent recorded so far. There may have been bickering and differences of opinion, but matters were always thrashed out and a painstaking consensus achieved. The council has found solutions to most issues and these have not been shoddy compromises but sound decisions that have only improved the single tax. The council has provided a template for more such structures where the Centre and states could work together.

Next on the Agenda

There is consensus among experts and industry that GST has made vast progress from its early days of teething troubles. It has settled in as far as the consumer is concerned, but businesses want to see improvement. A simpler tax filing regime, fewer slabs and a broader tax base are some things the government needs to address in the year ahead

Expansion of tax base

There are many goods that are still outside the GST net, which comes in the way of seamless fl ow of input tax credit. Key items outside its ambit are electricity, alcohol, petroleum goods and real estate. Among fuels, it may be possible to bring natural gas and aviation fuel within GST. But it may not be easy to do that with diesel, petrol and kerosene as most states are opposed to such a move. Getting real estate under GST may also be diffi cult as it will require a constitutional amendment.

Tax slab rationalisation

There are as many as six slabs, excluding exempt goods. Though most goods fall in the 12%, 18% and 28% brackets, there is a case for merging slabs to reduce complexity and classification disputes. The 12% and 18% bracket could be merged into one single slab in the 14-16% range.

Lower tax rate

There has been a substantial reduction in the number of products in the 28% bracket with goods moved to the 18% one. There is further scope for cutting the peak rate on all products other than 'sin' goods. Products such as cement, paint, air conditioners, washing machines, refrigerators etc should also see a reduction in the tax rate to 18% from 28%.

GST returns simplification

This is the biggest item on the agenda as far as businesses and compliance are concerned. The government has already taken an initiative in this direction with the proposed consolidation of all periodic returns into one. The committee set up for this task has been working on the new format and the IT-related changes required. A new and simplified return filing process may become effective in the next six months.

Legislative changes

Over the past year, several issues that need to be fixed through legislative changes have accumulated. Some of these relate to input tax credit, and the requirement of paying tax up front on various transactions such as deemed exports and subsequently claiming a refund. The government could introduce changes in the monsoon session to fix these niggles.

More data analytics

The government has already started detailed analysis of a number of data sets to plug leakage. The format of the e-way bill has been designed to capture invoice related information so that the government can use data analytics to identify concern areas and plug revenue leakages. Businesses have already started receiving notices about discrepancies between amounts mentioned in different GST returns and those reported on the e-way bill portal. Income tax return forms released for this year have also sought specific information in relation to GST. The government can use the granular data to check tax evasion.

Anti-profiteering agency

The agency, which was constituted for a period of two years, has been functional for about six months and issued a few orders following investigations. The GST Council needs to decide whether to wind it up after two years or keep it going until the tax regime matures.

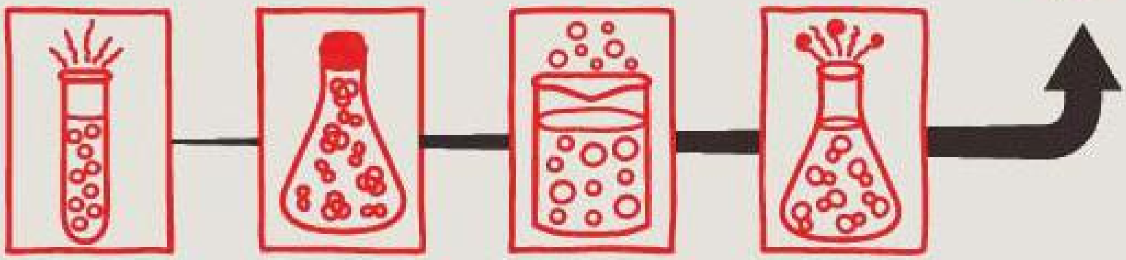
FIGHT THE FAKES

SPEAK UP ABOUT FAKE MEDICINES

VISIT FIGHTTHEFAKES.ORG

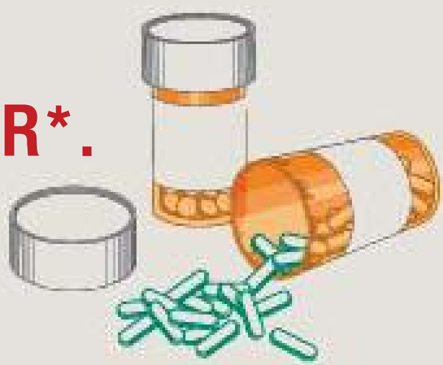
FAKE MEDICINES HARM – NOT HEAL

There are a lot of shady ingredients found in fake medicines that are directly responsible for serious disability and even death. This includes poisons such as mercury, rat poison, paint and antifreeze.



Fake tuberculosis and malaria drugs alone are estimated to

KILL 700,000 PEOPLE A YEAR*.



*International Policy Network

NOT A MERE TAX REFORM

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase.

DESPITE SOME TEETHING problems in managing compliance- related requirements, implementation of the GST is seen as being directionally positive. As it progresses on its journey, it is clear that the GST is not merely a tax reform, but a complete overhaul of the entire business scenario.

The GST is seen as an important change and critical for businesses to remain competitive in the market. Today, when we are celebrating the first anniversary of its implementation, it can be said that the Government has been proactive in bridging the gap between the expectations of India Inc. and actual implementation of the GST. Nevertheless, there are still some gaps that need to be bridged on a priority basis to boost domestic and foreign investors' confidence in India's taxation system.

A period of one year for implementation of such a transformational change is hardly adequate to put in place a perfect tax system. Keeping this in mind, we have discussed below some key indicators to reflect on the experience of the first 365 days of the GST in India.

The macro economic impact

The GST, as described by our Hon'ble Prime Minister Mr. Modi, is a “good and simple tax”, and marks a fundamental resetting of the Indian economy. It redefines the way business is done (with increased formalisation), expands the market for goods and services (replacing many small and fractured markets with a single common one) and totally overhauls the Indirect Tax regime. In view of all these benefits, its impact on the macro-economy cannot be anything but good.

Let us now look at three macroeconomic fundamentals that can be expected to be affected by the shift to the GST regime, i.e., GDP growth, inflation and the fiscal deficit.

Impact on GDP growth

One of the main discussion points during the implementation phase of the GST was its impact on the Indian economy, specifically on the GDP. The Government and industry had high hopes that the GST would be instrumental in reducing economic distortion and give the necessary impetus to India's economic growth.

The Economic Survey predicted that the GDP is likely to be between 6.5% and 6.75% in 2017-18, compared to a GDP of 7.1% in 2016-17. This meagre dip in the GDP in the initial phase of implementation of the GST was expected in view of the scale of changes it brought about in business and tax administration.

According to the latest numbers, growth picked up significantly in the last quarter (January-March 2018) of FY 2017-18. Recent statistics indicate that our GDP growth rate increased by 0.7 percentage points in each successive quarter of 2017-18. Manufacturing, a sector that could have been adversely affected by the GST, grew by close to double-digits at 9.9%, while investment, as reflected in the formation of gross fixed capital, grew at 14.4% in the last quarter.

Reports from financial institutions indicated that the dip in the GDP is likely to be short-lived and eventually grow to around 7-7.5% in 2018-19. This is largely due to the simplified tax structure and the concept of 'one nation one tax'.

Impact on CPI

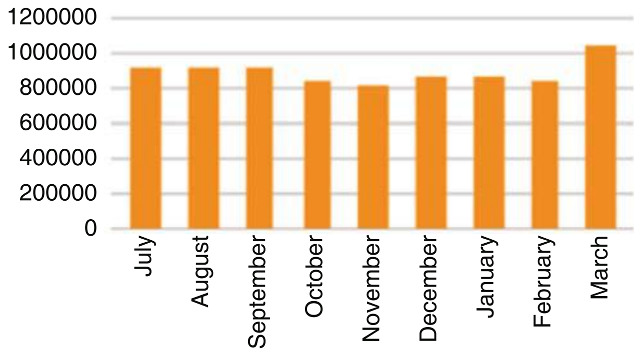
There is no clear evidence that the GST has reduced inflation. The Consumer Price Index (CPI), which was at a low of 2.4% in July 2017 moved up to 5.2% in December 2017, only to dip to 4.3% in March 2018 and then move up again to 4.6% in April 2018. With primary articles accounting for close to 50% of the GDP, the impact of GST on these is likely to be more muted than in the case of the Wholesale Price Index (WPI). Unfortunately, the movement of the WPI mirrors that of the CPI, suggesting that it is much too early to draw any clear conclusions regarding the impact of the GST on inflation in the country.

Impact on revenue collections and fiscal deficit

The Government expected a substantial increase in revenue collections with smooth rollout of the GST by following an extensive implementation plan. However, instead there was a dip after steady collections during the first two or three months of its implementation. This was largely due to processing of transitional credits claims and a reduction in tax rates on several mass consumption goods.

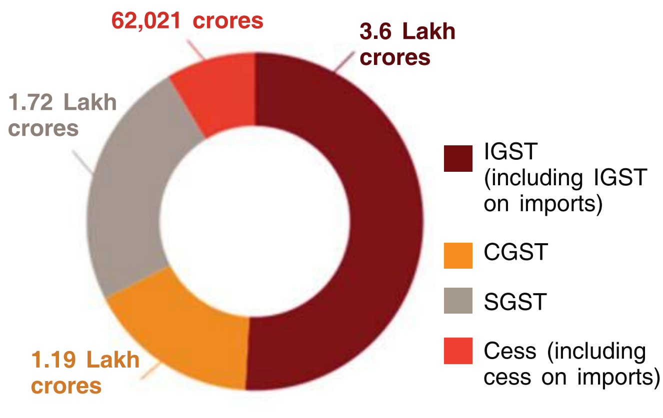
Revenue collections (for March 2018) crossed the INR1 lakh crore mark for the first time in April 2018. After this high mark, collections dipped to INR94,016 crore in May 2018. Average monthly collections for FY2017- 18 fell short of the expected INR90,000 crore, makingthe Government's Budget estimate for 2018-19 seem even more ambitious. Nevertheless, there is no doubt that collections during the first year of implementation of the GST were good enough to enable the Government to achieve its fiscal deficit target for the year (with the final figures being 3.53% compared to its target of 3.5%), although only for 11 months. However, this augers well for future collections as well as the Government's fiscal goal.

Gross revenue collection (amount in INR million)



Source: Pib.nic.in

Tax type-wise revenue collection



Source: Pib.nic.in

These collections (as depicted in the figure above) are for the period July 2017 to March 2018, and include domestic collections for eight months and import collections for nine months after rolling out of the GST. Therefore, the collections amount to INR1.19 lakh crore of the CGST, INR1.72 lakh crore of the SGST, INR3.66 lakh crore of the IGST (which includes import collections) and INR62,021 crores of cess (which includes the cess on imports).

Furthermore, after settlement of the relevant IGST between the CGST and SGST component, the CGST collection was approximately INR2.49 lakh crores and SGST collection around INR2.91 lakh crores during the period till March 2018.

As we know, the Government has divided all taxpayers between Central and state tax officials. Therefore, in spite of officials from the Centre and the states working closely, the GST has created significant competition among the officers, and revenue collections have become the benchmark for their performance.

May Not Be The Best In Class, But It Is Far Better Than The Earlier System

Mythili Bhusnurmath

A 'GOOD AND simple tax' is how Prime Minister Narendra Modi described the goods and services tax (GST). Finance minister Arun Jaitley went one better in his speech when launching it at a specially convened midnight session of Parliament on June 30, 2017: "There will be a check on inflation, tax avoidance will be difficult, rates will be lower compared to earlier, the country's GDP will benefit, and the extra resources the states and the Centre will get will be used to serve the poor."

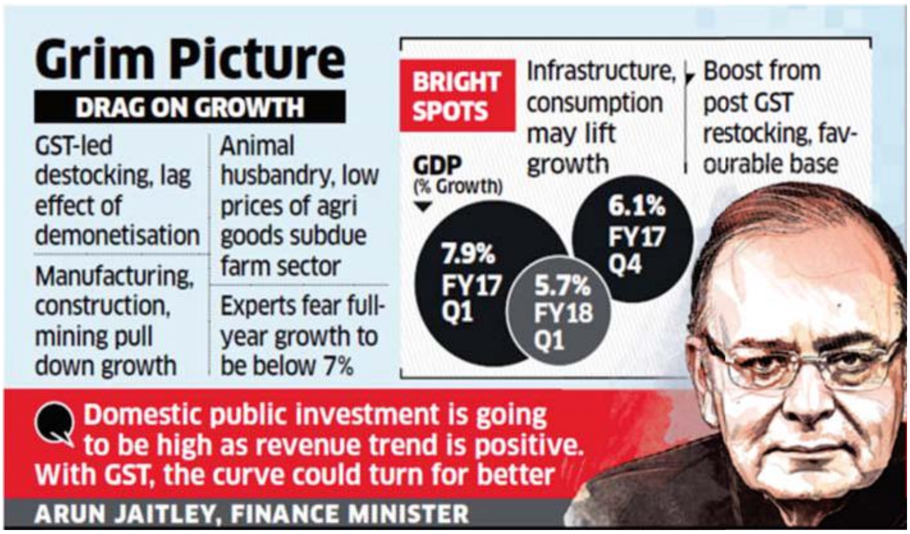
In theory, GST was win-win. It subsumed 17 taxes and 23 cesses, ending the cascading of taxes (paying tax on tax) that reduced efficiency and pushed up prices. But none of its proclaimed benefits was expected to flow overnight. Indeed, given the compromises inevitable in pushing through such a landmark reform—especially its ramifications for sub-national tax autonomy in a federal democracy—the benefits could only be expected by and by. Even so, one year down the line, where are we vis-a-vis GST's promised benefits?

But first, a couple of caveats. To begin with, it is impossible to establish a one-to-one relationship between a tax and macro-economic fundamentals like inflation or GDP that are influenced by a host of domestic and global factors.

Second, the GST we have today is a patchwork, stitched together by the compulsions of fiscal federalism. It is very much a work-in-progress, and is likely to remain so for some more years before we get to the desired goal of a simpler, more broad-based tax structure. Third, the full impact of the change is likely to be felt over a much longer term.

So, how has GST delivered on the promised benefits? Take inflation. Have prices come down? Yes and no. While prices of many goods, especially essentials, have come down post-GST, services are more expensive.

However, given the relatively lower weight of services in the consumer price index (CPI), inflation has declined in July 2017-April 2018 relative to the comparable period last year. Though the actual impact will vary across households depending on the share of services in their consumption baskets—since services have a lower share in consumption baskets at lower income levels— GST can be regarded as broadly beneficial on the price front.



Improved Tax Compliance

Has tax avoidance decreased? It's early days yet, but there is reason to believe that, at the very least, tax avoidance has become more difficult. According to the finance ministry, compliance levels have steadily increased and are expected to improve further once the e-way Bill system (introduced from April 1, 2018) stabilizes and invoice matching (to be introduced from September 2018) becomes a reality.

Increasing formalisation of the economy and linkage between direct and indirect tax return filings (small businesses are required to quote their GST identification numbers in their tax return forms for 2018-19) are also expected to check evasion.

Are tax rates lower? Not really. Indeed, the rate on many services has increased compared to the period prior to GST. But as revenues pick up, it should be possible to reduce rates.

Remember the initial attempt was to arrive at revenue-neutral rates. But once revenues rise and sectors at present excluded from GST—electricity, real estate, alcohol and petroleum products—are brought into the tax ambit, it should be possible to reduce both tax rates and the number of slabs from the six—0%, 5%, 12%, 18%, 28% and 28% + cess—we have at present.

Collections

Has GST added the promised 2% of GDP? On the contrary. Growth fell in the first year of GST's implementation. From 7.1% in 2016-17, GDP growth rate fell to 6.7% in 2017-18. However, if one looks at sequential growth, the picture is quite different.

Quarter-on-quarter growth picked up to 7.7% in Q4 2017-18. And for the year as a whole, it's likely to touch 7.4% in 2018-19, though how much of this is attributable to GST is debatable.

Has GoI collected more revenue? According to the finance ministry, the total revenue collected under GST between July 2017 and March 2018 was `7.41lakh crore. Collections surpassed the `1 lakh crore mark for the first time in April 2018. And though they declined to `94.02 crore in May 2018, all available indications suggest collections will grow in FY19. Against a monthly average collection of `89, 885 crore in the last fiscal, GoI expects to mop up an average of `1lakh crore this fiscal.

Sure, glitches remain. But these are largely in the operational domain and relate to issues such as return filing, invoice matching, reverse charge mechanism and technology. What is clear is that positives outweigh the negatives. So, unlike Malaysia, there is no turning the clock back on GST.

Technology, Not People, Led To GST Disruption

Dilasha Seth

"The government understands the need for reducing GST slabs and rates." – Finance Secretary Hasmukh Adhia

Revenue Secretary Hasmukh Adhia | Photo: PTI

TECHNOLOGY FAILED THE smooth transition to the goods and services tax (GST) regime, even as officers did a marvelous job, Finance Secretary Hasmukh Adhia said.

Talking to reporters on 'one year journey of GST' at industry chamber FICCI, Adhia clarified that he was not referring to the people in GST Network (GSTN), the technology backbone of the indirect tax system, but the technology per se.

"Since we had to meet a certain deadline, we needed to hurry up the process. Somewhere, I made a reference about the technology failing us, but that does not mean that the people in GSTN failed us. Marvellous people work at GSTN, and despite their efforts, the technology still failed us," Adhia said.

He added that the government could intervene where human intervention was needed, but when it came to changes in technology, a small change required at least 8 weeks.

"If I asked for a small change in software, the technology team would ask for at least eight weeks. That was because making a single change in the software required many other incidental changes. It gave us a bit of a problem."

Even though there are technical issues that need to be sorted out, the nation has come a long way since the implementation of the biggest tax reform India has seen.

"We gained a bit in the process of simplification by introducing GST, but that does not mean there is no scope to improve the existing system. We are still convinced we need to do a lot more," he added.

Till recently, GSTN was a private body developing the front-end technological infrastructure with the help of Infosys. In the last meeting, the GST Council decided to convert it into a government-owned company in light of data security concerns.

Photo: ANI

"Milk, Mercedes can't be taxed at single GST rate", says PM Narendra Modi

To criticism that the GST was 'hurriedly implemented', the PM said the government had been responsive, with issues identified and redressed in real time.

Archis Mohan

PRIME MINISTER (PM) Narendra Modi ruled out a single slab for the goods and services tax (GST), stating that milk and the Mercedes could not have the same rate.

The GST regime was rolled out on July 1 last year. The central government on Sunday marked its first anniversary with an event in New Delhi, while Modi took to social media to showcase its advantages.

In an interview to Swarajya, a news website, Modi responded to criticism of his government's version of the GST. He ruled out a single tax slab, pointed at the gains of the past one year, and admitted to teething troubles having plagued the regime in its first year.

To the Congress party's criticism that there should be a single tax rate, he said: "It would have been very simple to have just one slab but it would have meant we could not have food items at 0 per cent tax rate. Can we have

Adhia also said the Council will consider bringing petroleum products under GST it could happen in phases.

Five petroleum products, diesel, petrol, crude oil, natural gas and aviation turbine fuel, are currently outside the purview of GST and states have the right to impose value-added tax on these items.

“One of the demands that is there before us, we will see... everything will happen in stages,” Adhia said.

Central Board of Indirect Taxes and Customs Chairman S Ramesh said although there is a demand for bringing petroleum products under GST, the GST Council will have to finalise modalities.

Finance ministry officials had indicated earlier that natural gas and ATF could be the first to come under GST, since it was easier to build consensus among states, compared to other petroleum products.

The government understands the need for reducing GST slabs and rates, but has to keep revenue consideration in mind.

“We are trying to make the refund process completely automatic. This is the next thing. In terms of simplification of rates and slabs, we do understand the need for it, but we did what was best in the given scenario,” he said.

The government is working on simplifying the return filing process, which is expected by early next year.

“We have done a lot but it does not mean there is no scope for improvement. We still believe we need to do a lot more and are working in that direction," Adhia said. GST has four broad slabs, 5 per cent, 12 per cent, 18 per cent and 28 per cent, and an additional cess on demerit and luxury items. The GST Council has reduced rates on over 250 items since the roll-out in July 1 last year.

milk and Mercedes at the same rate?”

“So, when our friends in the Congress say that they will have just one GST rate, they are effectively saying they will tax food items and commodities, which are currently at 0 or 5 per cent, at 18 per cent,” Modi said.

To criticism that the GST was “hurriedly implemented”, the PM said the government had been responsive, with issues identified and redressed in real time.

The PM did not rule out the possibility that tax rates could come down further on some items. He said the government had reduced taxes on nearly 400 groups of items, and around 150 groups have a 0 per cent tax rate.

Modi also responded to the Opposition's charge that the GST was “anti-people” by sharing on Twitter and the NaMo app the advantages the tax reform had brought for the common people. With the assembly elections scheduled in three key North Indian states in the next five months, and the Lok Sabha elections due in less than nine months, the PM tweeted that “decreasing prices”, because of the GST, were “helping poor and middle class”.

He also reached out to small businesses, a key support base of the Bharatiya Janata Party (BJP), and said the tax reform had provided “increasing opportunities for small and medium entrepreneurs”. With the hashtag “GST for New India”, the PM tweeted that the GST had brought growth, simplicity, and transparency. He said it had boosted formalisation, enhanced productivity, and furthered “ease of doing business”.

The PM said the GST had been designed to “eliminate inspector raj with the help of information technology”, and suggested that the GST roll-out was consistent with his vision of “minimum governance”.

The PM in his last radio broadcast had said the tax reform was an example of cooperative federalism with decisions in all 27 GST Council meetings having been reached by consensus.

Modi said the number of enterprises registered since Independence until June 30, 2017, was 6.6 million. He said in just one year after the introduction of the GST, the number of new enterprises registered was 4.8 million. He said around 3.5 billion invoices were processed, 110 million returns were filed, and 100 million e-way bills generated. “Would we be looking at such numbers, if GST were indeed very complex?” Modi asked.

The PM said checkposts across the country had been abolished and there were no more queues at state borders. “Not only are truck drivers saving precious time but also the logistics sector is getting a boost and thereby increasing the productivity of our country.

Would this be happening if GST was complex?” he asked.

“GST was a massive change, requiring a complete reset of one of the world's largest economic systems. The reform merged 17 taxes, 23 cesses into one single tax. When it was finally introduced, it was our endeavour to make it simple and ensure sensitivity of the system. There are often teething troubles seen when a reform of this magnitude is carried out, but these issues were not only identified but also addressed in real time,” the PM said.

Modi said it was a work in progress, an evolving system that his government was calibrating, based on feedback from state governments, people, media, and other stakeholders. “A lot of feedback from the people, traders, etc, has been incorporated,” he said.

While the Congress pointed out that United Progressive Alliance 2 could not implement the GST because of opposition from Modi and the BJP, the PM said: “We consolidated the states and developed proactively a consensus, where earlier governments had failed.”

On whether rates will come down further, the PM said: “Talking about rates, earlier many taxes were hidden. Now, what you see is what you pay. The government has reduced taxes on nearly 400 groups of items... If you look at the rates, for most of the day-to-day commodities the rate has actually come down….”

1 NATION TAX MARKET

GOODS AND SERVICES TAX

JAGO GRAHAK JAGO

Attention Consumers!

Consumers to benefit from lower GST rates on a large number of goods & services

More than 95% items are in / below 18% GST slab.

The GST Council has, in its meeting held on 10th November, 2017, recommended GST rate cuts spread across many sectors and many commodities. The highlights are:-

- 28% GST pruned substantially from 224 headings to just 50 headings.
- GST rates changed on a number of goods to rationalise and minimise classification disputes.
- Clarifications issued to address the grievances on issues relating to rates & taxability of certain goods & services.
- Rates cut on specified goods and services to help the handicraft, restaurants & aviation sectors.
- These changes have become effective from 15th November, 2017.

28% to 18%

- Furniture, mattress, bedding and similar furnishing
- Liquid or cream for washing skin
- Trunk, suitcase, vanity cases, brief cases, travelling bags and other hand bags, cases
- Detergents, washing and cleaning preparations
- Shampoos; Hair cream, Hair dyes (natural, herbal or synthetic) and similar other goods; henna powder or paste, not mixed with any other ingredient
- Perfumes and toilet waters
- Beauty or make-up preparations
- Lamps and lighting fittings
- Primary cells and primary batteries
- Sanitary ware and parts thereof of all kind
- Articles of plastic, floor coverings, baths, shower, sinks, wash-basins, seats, sanitary ware of plastic
- Ceramic tiles of all kinds
- Miscellaneous articles such as vacuum flasks, lighters
- Wrist watches, clocks, watch movement, watch cases, straps, parts
- Article of apparel & clothing accessories of leather, guts, furskin, artificial fur and other articles such as saddlery and harness for any animal
- Articles of cutlery, stoves, cookers and similar non-electric domestic appliances
- Razor and razor blades
- Multi-functional printers, cartridges
- Doors, windows and frames of aluminium
- Articles of plaster such as board, sheet
- Articles of cement or concrete or stone and artificial stone
- Ceramic flooring blocks, pipes, conduits, pipe fittings
- Wallpapers and wall coverings
- Glass of all kinds and articles thereof such as mirror, safety glass, sheets, glassware
- Electrical apparatus for radio and television broadcasting
- Sound recording or reproducing apparatus
- All musical instruments and their parts
- Artificial flowers, foliage and artificial fruits
- Explosives, anti-knocking preparation, fireworks
- Cocoa butter, fat, oil powder
- Extract, essence and concentrates of coffee, miscellaneous food preparations
- Chocolates, Chewing gum / bubble gum
- Malt extract and food preparations of flour, groats, meal, starch or malt extract
- Waffles and wafers coated with chocolate or containing chocolate
- Wire, cables, electrical plugs, switches, sockets, fuses
- Particle/fibre boards and plywood; Article of wood, wooden frame, paving blocks
- Physical exercise equipment, festival and carnival equipment
- Goggles

18% to 5%

- Puffed rice chikki, peanut chikki, sesame chikki, revdi, tilrevdi, khaza, kazuali, groundnut sweets gatta, kuliya
- Flour of potatoes put up in unit container bearing a brand name
- Chutney powder

12% to 5%

- Desiccated coconut
- Narrow woven fabric including cotton newar (with no refund of unutilised input tax credit)
- Idli, dosa batter
- Finished leather, chamois and composition leather
- Coir cordage and ropes, jute twine, coir products
- Fishing net and fishing hooks
- Fly ash bricks

18% to 12%

- Condensed milk
- Refined sugar and sugar cubes
- Pasta
- Curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasoning
- Diabetic food
- Medicinal grade oxygen
- Printing ink
- Hand bags and shopping bags of jute and cotton
- Hats (knitted or crocheted)
- Spectacles frames
- Furniture wholly made of bamboo or cane

5% to nil

- Guar meal
- Hop cone (other than grounded, powdered or in pellet form)
- Certain dried vegetables such as sweet potatoes, manioc
- Unworked coconut shell
- Fish frozen or dried (not put up in unit container bearing a brand name)
- Khandsari sugar

GST slashed on your restaurant bill from 18% to 5%

Eating out & ordering food at home much more affordable.

Changes relating to GST rates on certain services

- All stand-alone restaurants irrespective of air conditioned or otherwise, will attract 5% without ITC. Food parcels (or takeaways) will also attract 5% GST without ITC.
- Restaurants in hotel premises having room tariff of less than Rs 7500 per unit per day will attract GST of 5% without ITC.
- Restaurants in hotel premises having room tariff of Rs 7500 and above per unit per day (even for a single room) will attract GST of 18% with full ITC.
- Outdoor catering will continue to be at 18% with full ITC.
- GST on services by way of admission to "protected monuments" to be exempted.

davp 15502/13/0027/1718

The complete list of goods on which GST have been reduced w.e.f. 15.11.2017, is available at URL goo.gl/9nSzq5. Accordingly, there would be a corresponding reduction in price/MRP of these goods. Consumers may take note of these reductions while making purchases. Consumers are advised to approach the State Screening Committees or the Central Standing Committee on Anti-profiteering in case of any grievance(s).

GST - A Good & Simple Tax

Central Board of Excise and Customs & Commercial Taxes Departments of States/Union Territories

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Not A Gabbar Singh Tax, But Not Simple Either'

India's first chief statistician, Economist Dr. Pronab Sen explains why glitches were inevitable and why a single tax slab isn't possible yet.

DR. PRONAB SEN

Ajaz Ashraf Excerpts:

Q A year after GST was implemented, do you think it is a good and simple tax, as Prime Minister Narendra Modi pitched it, or is it, as Congress President Rahul Gandhi said, a Gabbar Singh tax, symbolising oppression?

It is a good tax, but it is by no means a simple tax. It is vastly more complex than any of the taxes it has replaced. This complexity is because of multiple rates and multiple authorities. You have the SGST [State GST] and the IGST [Integrated GST], and you therefore have to deal with 29 State, seven Union Territory authorities, and the Centre. The simple part of GST is very questionable.

Q The GST demands some degree of technological felicity.

Yes and no. With a lot of our earlier taxes, we were anyway moving towards an electronic-based solution. It is impossible to maintain a hard copy-based tax system. Earlier, you had a whole bunch of semi-professional people filing returns. That will now be done by a new breed of people. But the GST system, because it is far more demanding, require people with higher skills. They are not just handling data operations. They need to understand the GST, which is not simple.

Q A World Bank report says that only five countries, including India, have four different GST rates. Why did we opt for multiple rates?

Think of these multiple rates as a transitional mechanism. [With one rate] a whole bunch of sectors would have seen a reduction in tax burden. But a much larger bunch would have seen an increase. So there would have been a far higher degree of resistance to GST than what has been witnessed.

Q Many thought it was callous of the political class to introduce a system that threw up several glitches. After all, glitches do impact livelihood, don't they?

Yes, they do and did. But some glitches are inevitable and no human being can plan for it. For instance, you can't always predict beforehand the capacity of your server. Without going into specifics, some glitches are designed deliberately to give the taxman some discretion, which is then leveraged. Remember, the system was driven by a bunch of insiders. There is therefore a question mark on how many glitches were inevitable and how many deliberate.

Q There were around 128 notifications and 161 circulars issued from July 1, 2017 till date. Isn't that huge?

No, it isn't. Even for the earlier excise tax, the number of notifications that used to come out was enormous. It was worse for customs. The figures you cite are normal. It is so because we have five tax rates. The confusion was about which rate applied to which product.

The book that earlier defined sales and excise tax was organised under different chapter heads. Each chapter had one rate. The problem with GST is that within a chapter heading, you have multiple rates. Take capital goods as a chapter head. Each of the five rates would apply to different capital goods. Clarifications were required so that a class of products would have one rate. Whether there is one rate for all products is not as important as it is to have one rate for a class of products.

Q GST was also sold as a mechanism to nab tax evaders and curb corruption. But many, especially those registered with the state GST, complain that to get refunds, they have to pay 3% of the amount due to them. Or else there are delays in refunds.

As I said, there are vested interests in the tax system. They were looking at a situation where the GST was affecting their livelihood.

Q But that livelihood was illegitimate?

They had been making illegitimate money for so long that for them, it had become legitimate. Legitimacy lies in the eyes of the beholder.

Q Do we have statistical tools to identify tax evaders? Has corruption increased, decreased or remained the same before and after GST?

We will get an idea once audits, searches and raids begin. Frankly, it is too early to start that process now. If you do that now, GST will be dead. It will hugely enhance the resistance to GST. This is because it will be hard to make out evasion from genuine confusion arising out of GST's complexities. I don't think the crackdown on evaders will happen before three or four years. By then, the excuse that they didn't know [which rate applied to them] can't be cited.

Q But will GST generate data to figure out tax evaders?

What GST will do is that it will generate patterns and when deviations start to show, it is then the taxman can step in to ask questions.

Q But the earlier system must have been generating patterns as well?

The big difference is that data then was not electronic. You could not do statistical data analysis until you had turned it into an electronic form. That is a lot of work. The good thing with GST is that since the system is electronic, the data is available to you from Time Zero.

We need to wait for three or four years for identifying evaders because there can't be a pattern without a past. Four or five years later, the system will be in much better position to identify evaders.

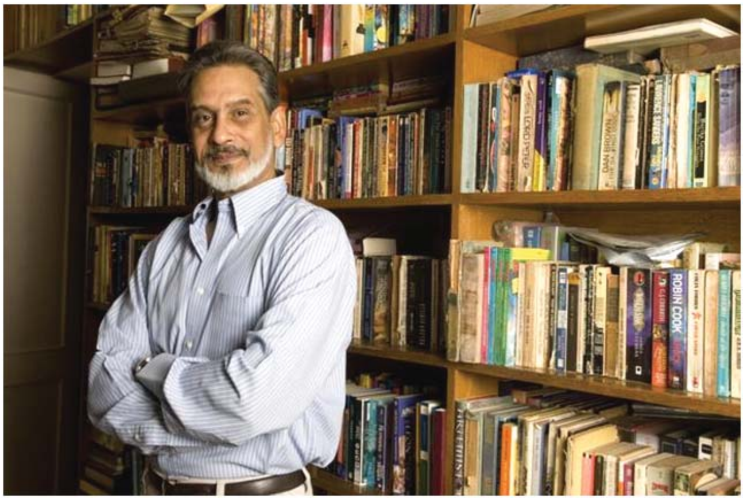
Q Is One Nation, One Tax, which the GST was supposed to be, happening?

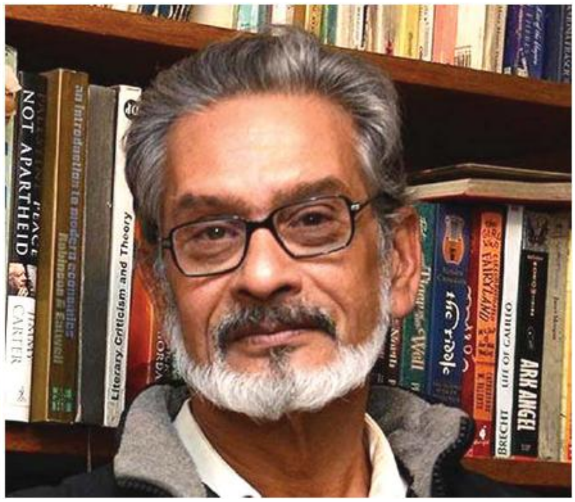
One nation we are, GST is one tax. In a purely semantic sense, One Nation, One Tax has happened. But the more important question is whether it feels one tax to those paying GST. They don't feel it is one tax. They feel that it is one Central tax and 36 state taxes. A person has to register with each separately and file returns separately. A system is needed in which one return should satisfy all the states and the Centre.

Q Has GST helped increase revenue?

It should not be increasing if they had done their work

If you look at the registration of companies under the Companies Act, it used to average 20,000-25,000 a year. It shot up to a lakh last year.





properly. This is because rates were supposed to have been calculated as being revenue neutral. [After all,] the system was bringing 17 taxes into GST and was to therefore get the same revenue.

Q But it was said that the revenue would increase because a lot of people who were evading taxes earlier would not under GST.

That is not obvious. GST's real benefit was supposed to be the widening of the tax base. The main widening has come from the services sector.

Q Why?

Earlier, the service tax was a Central tax. The Centre just does not have the bandwidth to tax all services. They were only able to tax those services which were in the formal sector, those that were large. All other services were simply under the tax radar. States, on the other hand, have the network of people to tap the entire service sector. The ambit of activities to be taxed has become much wider. That is where your revenue increase is coming from. To say that since the revenue has gone up, ergo, evasion has gone down is not a right statement either.

We have been growing and so tax collection would increase anyway. It happened in the older system as well, year on year. The question is: Has GST allowed you to collect more taxes than what was normally expected? I haven't seen any calculation on that.

Q But what is your sense of it?

Tax collection is not extraordinarily higher than what it would have been otherwise.

Q Many in the MSME [Micro, Small and Medium Enterprises] sector wonder what the GST's gains are, given that they still have to pay 3% on their refunds and also that new cash trails are being invented.

To say that is not correct. In the older system, a lot of taxes impeded trade, the rational development of the logistics system. Those issues the GST has tackled. Sure, there is corruption; the creation of alternative cash trail was predictable.

Based on the last estimate I saw, I think 6.6 million or 66 lakh units were registered with GST. In India, from the last economic census, we know that there are 60 million enterprises. You are basically covering just about 10% of all enterprises. So 90% of enterprises, which of course don't account for huge amount of money, are outside the tax structure. Why do you expect them to do anything different because of GST? They will continue with their old ways.

Q Maybe it is hard for them to continue with their old style of business?

No, it isn't. It is hard for those MSMEs which deal with both the formal and informal sectors. They straddle that space [that is partly formal, partly informal]. It is they who are complaining. The bigger guys don't care less – they don't deal with the informal sector anyway.

Q In an interview last year, you said that MSMEs contribute about 28% to India's GDP, and that 28% supports roughly 50% of the country's population.

Remember, that 28% excludes agriculture. Of the 28%, a very large chunk has not registered with the GST, as they are below the taxation threshold. This lot should be about 15%. GST doesn't concern them. So it is [those contributing] 12%-13% [to the GDP] who are straddling [the formal and informal sectors]. For the moment, it is very unsettling for them. We won't know the outcome until three, four years.

Q Overall then, what has been the GST's impact on the informal sector?

There are two kinds of transactions within the informal sector. The bulk of transactions are between two unregistered guys. This form of transaction does not get impacted at all.

The other form involves the informal sector transacting with the formal sector. That has been impacted. It is here the straddlers are playing the transitional role. Earlier, the informal sector could deal directly with the formal sector. But because of GST they will have to go through an intermediary, which will be an MSME. He will be registered with the GST, he will pay in cash to buy products from his supplier. But he will show he is manufacturing the products. He becomes the first point of taxation and generates GST certificate. Obviously, he foregoes input credit – that is the deal he makes.

Q But the loss of revenue to the state wouldn't be much, right?

It doesn't involve any real loss.

Q One chartered accountant from Kashmiri Gate told me it is hell for small traders. He likened their situation to that of marginal farmers and believes a lot of them will be simply edged out.

Not necessarily. The majority of straddlers comprise traders. After agriculture, construction and industry, the fourth largest sector is trading. They have to invent new channels of doing things, of accounting. At the moment, they are in a tough spot.

Q It is so tough that they can't even pay the chartered accountant's fees…

The real reason behind their woes isn't GST, but demonetisation, which eroded their capital base. Give them time.

Q Do you think GST's other goal, of formalisation of the economy, is being met?

It depends on how you define it. At one level, yes, it has happened. The number of units pre-GST was about 34 lakh units. In just a year, the number of units that registered with the GST doubled to 66 lakh units.

The other indicator is very interesting, though we can't tell whether it is because of GST. If you look at the registration of companies under the Companies Act, it used to average 20,000-25,000 a year. It shot up to a lakh last year. I don't know why companies are registering under the Companies Act. But the fact is that this trend has coincided with the rollout of GST, so GST could be a reason.

What GST has done is to tilt the balance in favour of the formal sector. That is because the formal sector has the efficiencies which the informal sector does not have. But depending on the strategies they adopt, the informal sector can claw its way back. That is the challenge facing your trader friends.

Q Has the GST facilitated employment generation, as is claimed by some?

I don't understand how GST itself would help generate employment. Formalisation does not mean new jobs. When 34 lakh units, registered with tax authorities, goes up to 66 lakh units after the GST rollout, it does not mean that there are 32 lakh new units. These are 32 lakh old units which chose to register.

Q Which means they have to adhere to the Employees' Provident Fund laws as those 34 lakh units did; their emergence in the EPF data was interpreted as hiring of new employees.

Yes, they have to adhere to new laws, but it does not means the jobs in these 32 lakh units are new. This confusion needs to be cleared. But to claim that there are 32 lakh news units and so many new jobs have been created since GST was rolled out is, well, plain absurd.

You see, the EPF data was simply not available until this year, when Ghosh and Ghosh got it. [Proffesor Pulak Ghosh and Dr Soumya Kanti Ghosh. On the basis of EPF data, they claimed that an astonishing quantum of jobs was added within a year of GST.] Till then, the EPF data was a complete black-box.

Q The BJP has always believed in One Nation, One Culture. To it, the party has added One Nation, One Tax and then, One Nation, One Election. Is economic behaviour amenable to greater uniformity than social behaviour?

The two can't be kept apart. In fact, economic behaviour is conditioned by social behaviour and social relations. So to say that everyone in India will behave like an archetypical economic Indian, that is not happening, will not happen and should not happen.

Q Is there an attempt to make it happen?

It all depends on what will happen to the social side – it is that which will drive the economic side. Things are still in a state of flux. The plan to homogenise culture has just begun.

Q But does GST represent a step towards homogenising economic activities?

No, within the GST framework, different models will appear depending on cultural relations. A lot of the [process of] interface between the formal and the informal economy will be based on trust and social relations. That will vary from area to area.

Q The government has to be sensitive about that, right?

They don't have much of a choice.

Q Do you see the government milking GST for political gains?

I don't think anyone can monopolise the credit. If the Central government says it has brought in One Nation, One Tax, well, it has not done anything of that kind. It is the GST Council, consisting of finance ministers of all states, which has done it.

One thing that has not been adequately emphasised is that the GST has set a template for Centre-state cooperation. Although it is a Central initiative, the entire design and operations were led by the states.

Q Getting back to the first question: Can GST be called a Gabbar Singh tax?

GST is not a Gabbar Singh Tax. It is a good tax, but complex. What GST has done is that it has equalised the complexity for everyone. Earlier, under the plethora of taxes, people had to pay only a subset of them. The degree of complexity differed from entity to entity – for some it was very complex, for some far less. GST has equalised the complexity.

Q But the skills and wherewithal of everyone is not the same.

Only for some, and that is assuming they were not facing complexity earlier. But GST is certainly not a Gabbar Singh Tax.

"GST is bringing about a massive change, and when a reform of this magnitude is carried out, we often see teething troubles, but these issues are addressed in real time", Prime Minister Narendra Modi.

Q A year ago, you launched the GST claiming it as a good and simple tax. We believe it is certainly a good tax, but critics say it is too complex. They say that the tax should ideally have had one single rate. Your comments.

It would have been very simple to have just one slab but it would have meant we could not have food items at zero per cent tax rate. Can we have milk and Mercedes at the same rate? So, when our friends in Congress say that they will have just one GST rate, they are effectively saying they will tax food items and commodities, which are currently at zero or 5 per cent, at 18 per cent.

Q What are the benefits so far, according to you?

Let me start with some numbers.

The number of enterprises registered from Independence until now was 66 lakh. In just one year after the introduction of GST, the number of new enterprises registered is 48 lakh. Around 350 crore invoices were processed and 11 crore returns were filed. Would we be looking at such numbers, if GST were indeed very complex?

Check-posts across the country have been abolished and there are no more queues at state borders. Not only are truck drivers saving precious time but also the logistics sector is getting a boost and thereby increasing the productivity of our country. Would this be happening if GST was complex?

Q Why do we still hear so much criticism from business and economists?

GST was a massive change, requiring a complete reset of one of the world's largest economic systems. The reform merged 17 taxes, 23 cesses into one single

tax. When it was finally introduced, it was our endeavour to make it simple and ensure sensitivity of the system. There are often teething troubles seen when a reform of this magnitude is carried out, but these issues were not only identified but also addressed in real time.

Q GST is still a work in progress even after one year.

GST is an evolving system and we calibrate based on feedback from state governments, people, media, etc. A lot of feedback from the people, traders, etc, has been incorporated.

The GST has seen Indian cooperative federalism at its best. We consolidated the states and developed proactively a consensus, where earlier governments had failed.

Q Will we see rates coming down further?

Talking about rates, earlier many taxes were hidden. Now, what you see is what you pay. Government has reduced taxes on nearly 400 groups of items. Around 150 groups of items have zero per cent tax rate. If you look at the rates, for most of the day-to-day commodities, the rate has actually come down. Be it rice, wheat, sugar, spices, etc, total tax levied has been reduced in most cases. Large number of items of daily usage are either exempted or in 5 per cent slab. Some 95 per cent items fall in/below the 18 per cent slab.

Q Is GST in any way linked to your economic philosophy of minimum government?

GST has been designed to eliminate Inspector Raj with the help of information technology. From returns to refund everything happens online.

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Pyush Misra
Director,
Consumer Online Foundation

GST Impact On Common Man

HERE IN INDIA, the maximum population is of the middle class and lower middle class where people either belong to service class or they depend on agriculture for their living. In this scenario, the most important question is what is the impact of GST on a common man or a middle-class family. There are lots of question in the mind of a common man in these days such as: Is there anything new for him or it's like an old material in a new package? Is there any tax relaxation for him in new tax provisions or it will increase the prices of goods and services for him?

After GST, there is a single tax provision in the supply chain where each person is able to take tax benefit of all the taxes which he already paid and eventually the prices become low. As well as he came to know that how much tax he has paid on goods and what is the actual value of his goods. Again there is better tax administration facility in GST so manipulation in taxes is not possible. GST has a wider scope so it will cover a maximum number of the assessee at each stage tax benefit will generate and at the end consumer get benefit for this.

For the general public, the actual impact of any economy is when the prices of their necessity become affected. For public in large when prices become low for the day to day goods and services which are consumed, the economy is good otherwise if the inflation rate is higher, then the public gets unsatisfied with the changes done by the government.

For any government policy, it is important that the satisfaction in public should be there as without satisfaction the policy will not succeed in the same way in which government planned.

Here we are trying to understand the new GST from current taxation system of India. In the previous tax regime, we pay indirect tax on each and every service which we consume which is already taxed at the different point of time.

Sometimes we pay the taxes on tax amount too which is called cascading effect. The result is that the burden of the increased price is afforded by the end consumer only and he doesnt know that how much tax he paid and what is the actual cost of the material. According to the news sources, there is a slight impact on the consumers after the GST got implemented. Let's see common areas where general public deals every day:

Let's Take Some Everyday Examples to Consider the Impact of GST:

Household Expense

- In GST, the food items are under zero to 5 percent tax rate which will not directly impact on the food prices.
- All the packaged FMCG products like Pharma items, toothpaste, soap, packaged junk food, shampoo etc along with electronic products like cooler and TV are supposed to become cheaper.
- Cosmetic services like salon and beauty services are known to become expensive with an increased 3% GST rate upon them along with no benefit on input tax credit on such services.
- Daily household items cost have enhanced due to the implementation of Goods and Services Tax (GST)

regime. Nearly 54 percent people of the country are complaining that the new indirect tax regime implementation has enhanced the daily household expenses, as this influencing the common people in the country. The figures came out after a survey has organized by the Citizen Portal is connected to the Central Government Consumer Affairs Department. Almost more than 40,000 applicants had participated in the survey and answered the different questions relating to the new tax regime. It has been several months since GST was implemented across the country, one in every two people considers that the new tax regime has enhanced the cost of the house

- Several questions and complaints relating to the new tax regime had been asked by the State Finance Ministers in 21st GST Council Meeting held in Hyderabad. A survey organised by the Local Circle of Consumer Affairs, the Local Circle nearly 54 per cent of the people believed that the GST implementation has enhanced the expenses of the household of the month nearly by 30 per cent
- About half of the people participated in the survey considered that post GST implementation has also increased the medical expenses of the month. Besides, consumers are complaining that the business entities are charging GST above MRP, as well as forcing to pay the bill in cash and denying to mention the GST in the bill
- Considering the issues faced by the State Governments under GST, the GST Council has extended the deadlines for filing Sales Returns or GSTR- 1. In 21st GST Council Meeting, the government has reduced the tax rates on 30 items. Again in 22nd and 25th council meeting Government has reduced GST rates of various items including household items thereby benefitting the common man to some extent.
- Refund claim under GST is worrisome for the GST Council and it was pending since July. The new indirect tax regime came into existence from 1st July 2017 and the Government described its greatest success

Real Estate

- If a customer buys under-construction property for INR 1 crore, there will be different cases.
- Previously, it was around 5.5 percent VAT and service tax applicable, But under the GST, 12% tax rate applicable to the real estate makes it slightly expensive.
- Well, there will be no changes in the ready to move Apartments with a completion certificate, As they have been kept out of the GST structure.

Taxi Services

- If a customer takes a taxi service in which the ride costs 100 rupees, then there will be a substantial change in the tax as previously there was around 6% of service tax while in the GST it is now levied at 5% which will be a marginal saving for the customer.

Banking and Insurance services

- These financial Services are now expensive as there has been 3% extra GST tax rate applicable to them.

Hotels

- If in case, a customer books a hotel with a tariff of INR 8000, then the gross and indirect tax rate i.e. service tax, the luxury tax is around 19 to 25% according to the luxury tax rate of the state. Thus, the tax will be calculated around INR 1520 to INR 2000.
- While in the case of GST, there is 28% GST applicable on all the accommodations with tariff about INR 7500, which will take the tax calculation at INR 2100. Overall the tax ratio is slightly expensive for the expensive hotels.

Air Travels

- In case, a customer books flight tickets Indian in a domestic economy class of INR 1000, then the tax rate is varied in both the cases.
- Previously there was around 6% of service tax applicable in domestic economy class, while in the GST, the economic class is taxable at 5%, which will result in slight savings.
- While talking about the business class, the tax rate in GST has been increased from 9% to 12%, resulting in an expensive business class tax case.

Restaurant

- If in case, a customer orders a meal for INR 1000, then there will be substantial savings on the restaurant bill.
- In the earlier tax scheme, there was VAT at the rate of 12.5% and service tax @ 6% totalling at around 18.5%.
- While under the GST, an air conditioned restaurant will be charged at 18% GST, making it up to minimal cost reduction in the restaurant Bill.

Prices of Petrol Increasing

- Prices of Petrol are significantly increasing in the country even after the steady decline in crude oil prices. The prices of petrol have reached to Rs 80 in Mumbai city. The central government is worrisome about these prices. The Petroleum Minister Dharmendra Pradhan has shown concerned on the prices of petroleum and diesel. He said that the GST is the effective way to control the prices of petrol as well as diesel. The GST Council must include petroleum to the new tax regime
- Dharmendra Pradhan said, “We want that petroleum should be brought under GST. Of the State Governments, the Finance Minister has said this, if prices are brought under GST, then prices can be predicted. Due to the huge difference between petrol prices in Mumbai and Delhi, we have demanded that GST should be brought under GST as well. The public will be comfortable.”

For a middle-class family, the main issues are “Roti, Kapda, and Makaan“. Initially, the country is troubling with the new tax regime due to the four slab rate structure under GST. For the long term, the country will be benefited with the new Goods and Service Tax (GST) Regime. The implementation of GST on 1st July shattered the issues related to the cascading effects of tax and has made a clear and partial way of understanding the personal finances.

GST Council Meet To Benefit Consumers

Union Finance and Corporate Affairs Minister Piyush Goyal chairs the 28th GST Council meeting along with Union MoS Finance Shiv Pratap Shukla and Finance Secretary Hasmukh Adhia, in New Delhi

TV, fridge, washing machines to get cheaper;

Sanitary napkins to get cheaper as it has been put under exempted category. Napkins were taxed at 12 per cent earlier. Here are the details.

In a monsoon bonanza for consumers, the GST Council cut tax rates on several general-use items such as TV, washing machine and refrigerators. Not just that, conceding to a year-long demand, the Council has now put sanitary napkins under the exempted category.The rate reductions is estimated to cost the government exchequer nearly Rs 7,000 crore.

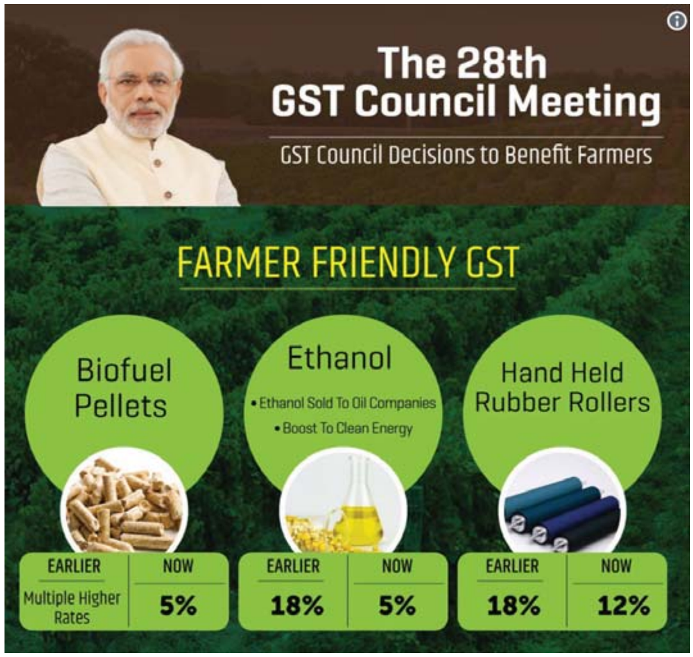
Earlier, the council had revised tax rates on 29 items in January. The biggest rate rationalisation decision was taken by the council in November 2017 when over 200 items were brought in to lower tax brackets from 28%, 18%, and 12%. The biggest rate cuts, however, came in white goods. The sectors that saw tax rate cut have a big share of unorganised players, while the move should help them come under tax net.

Here are all the key decisions taken on 23rd July in the 28th GST Council meeting:

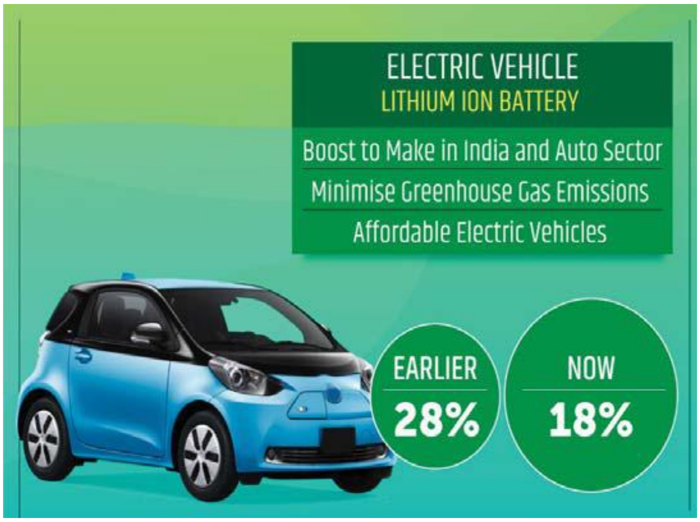
- **Rates for 17 white goods including -- Washing machine, Refrigerators, TV, Video games, Vacuum cleaners, Trailers, Juicer mixer, Grinders, Shavers & Hair driers, water cooler, water heaters, Lithium iron batteries, electric iron -- cut by 10 per cent from 28 per cent to 18 per cent. GST rate of 18% will be applicable to TVs up to 68 cm (27 inch) in size**
- **Sanitary napkins to get cheaper as it has been put under exempted category. Napkins were taxed at 12 per cent earlier.**
- **Simpler return filing process approved. Quarterly returns for business turnover up to Rs 5 crore instead of monthly filings. However, tax payment would be monthly. Nearly 93 per cent traders and small business will get benefited from this. Exemption limit for traders in Assam, Arunachal**

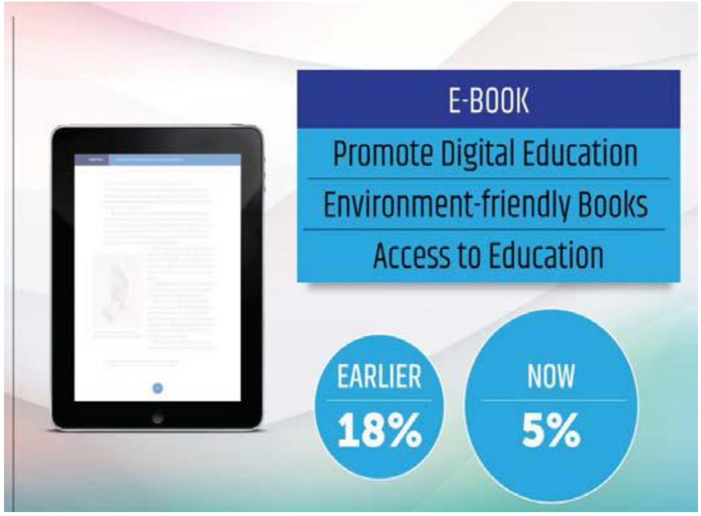
Pradesh, Himachal Pradesh, Himalaya, Sikkim, increased from Rs 10 lakh to 20 lakh

- Council has also approved simpler returns filing process.
- Hotels to be taxed on actual tariff basis not on declared tariff
- Rates on paints, wall putty and Varnish down to 18 per cent from 28 per cent
- Common-use foot wares Rs 1,000 to be taxed at 5 per cent
- Ethanol oil for oil companies to be taxed at 5 per cent in place of 18 per cent earlier
- GST rates for all leather items reduced to 18 per cent from 28 per cent
- GST rates cut to 18% for special purpose vehicles, work truck, trailers
- Rates on scents, toilet spray now under 18 per cent slab
- Marbles, stone and wood deities get exemption. Rakhis, fortified milk also exempted.
- No decision on sugar cess, to be decided in next meeting
- GST on bamboo flooring put under 12 per cent category
- Handicraft items to now be taxed at 12 per cent
- GST on handbags, jewellery box, wooden box for paintings, artware of glass, stone endeavour, ornamental framed mirrors, handmade lamps etc reduced to 12%
- Goods and Services Tax on imported urea reduced to 5%.
- GST council has cleared 46 amendments which will be passed in Parliament
- Soon RFID tags will be introduced with Goods and Services Tax Network (GSTN) for transporters to reduce harassment of transporters.



New GST rates	Items
0%	Sanitary napkins; rakhis; marbles, stone and wood deities; fortified milk; Raw material used in brooms; Saal leaves; Coir pith compost
5%	Ethanol oil for oil companies, common-use foot wares up to Rs 1,000 value; Solid bio fuel pellets; Handloom dari; Phosphoric acid; Knitted cap/topi;
12%	Handicraft items, Handbags, bamboo flooring, jewellery box, wooden box for paintings, artware of glass, stone endeavour, ornamental framed mirrors, handmade lamps
18%	Washing machine, Refrigerators, TV (up to 68 cm or 27 inch), Video games, Vacuum cleaners, Trailers, Juicer mixer, Grinders, Shavers & Hair driers, water cooler, water heaters, Lithium iron batteries, electric iron, scents, toilet spray, paints, wall putty and Varnish, special purpose vehicles, work truck, trailer, Wooden frames for painting, photographs, mirrors
28%	—





Reduction in GST Rate From 28% to 18%

Items	Present Applicable GST Rate	Proposed GST Rate
Refrigerators	28%	18%
Water Heaters	28%	18%
Washing Machines	28%	18%
Televisions (upto 68 cm)	28%	18%
Vacuum Cleaners	28%	18%
Paints	28%	18%

Reduction in GST Rate From 28% to 18%

Items	Present Applicable GST Rate	Proposed GST Rate
Hair Shavers	28%	18%
Hair Curlers	28%	18%
Hair Dryers	28%	18%
Scent Sprays	28%	18%

Impact On Top 4 Sectors of Economy

As on April 2018, the GST collection crossed 1 trillion. Total assesses stood at 8.71 million and total returns filed were around 6.04 million.

ON JULY 1, 2018, it will be a year since the introduction of the Goods and Services Tax (GST). Heralded as India's greatest tax reform, GST aims to free Indians from multiple taxes, setting the base for a unified common market — One Nation, One Tax, One Market.

Under GST, every minute detail of every item sold is being digitally uploaded in a central tax database for over eight million Indian businesses.

If we average minimum 120 invoices per business, it still means a billion records every month. This is a mammoth task which has proved both challenging as well as rewarding.

The challenges have ranged from infrastructure (complicated compliance, tax slab revisions or last-minute timeline alterations) to psychological. India is not a DIY (do-it-yourself) economy. Especially, when it comes to taxation.

Evasion is easier than compliance.

As on April 2018, the GST collection crossed 1 trillion. Total assesses stood at 8.71 million and the total returns filed were around 6.04 million. Total GST compensation to the states for FY18 has been 478440 million.

That is a healthy benchmark to start the next year in. This is a win for India and now that the tax regime has stabilized, it's time to look ahead and continue the technology innovation and behavioral changes that further help in realizing the One Nation, One Tax dream.

Sectoral impact of GST

IT

Earlier, the IT industry was paying 15 percent service tax as opposed to 18 percent after the imposition of GST, leading to an immediate increase in the cost of implementation. But, it will definitely have a positive impact in the long-term.

Factors like no GST on exports, and removal of tax cascading will bring the cost down and an increase in the overall benefits of the IT sector.

Automobile

The GST has subsumed almost all the taxes — excise, VAT, sales tax, road tax, motor vehicle tax, registration duty. Overall, the GST impact on the automobile industry is less than the previous tax scheme due to the lowered tax scenario.

Logistics

After the GST rollout, India successfully jumped 19 positions (35th from 54th) in the Logistics Performance Index (LPI). The implementation of e-way bills was also a bold move.

After a wobbly start, the second innings of e-way bill system implementation has been successful. Physical check posts have been removed from the states, thereby reducing the transit time and increasing the revenue per vehicle.

BFSI

Though the tax increased from 15 percent to 18 percent, a major advantage of GST on financial services has a reduction in the number of indirect taxes.

It integrates different taxes and ensures that the tax burden is fairly divided between different entities involved in the system.

Impact on Real Estate

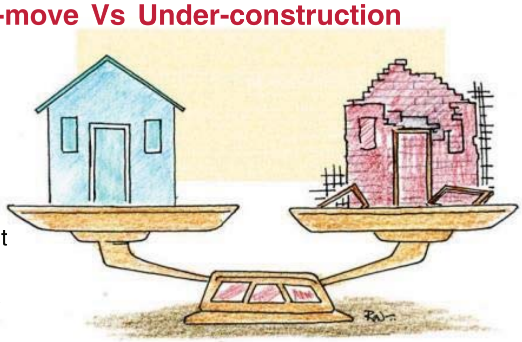
The Goods and Services Tax (GST), a revolutionary tax reform rolled out on the 1st of July 2017, has effectively replaced the previous Gordian Knot of multiple taxes like VAT, central excise duty, commercial tax, service tax, octroi, etc. It has made India a 'tax-neutral' nation - and while it evoked a response best described as 'mixed' from real estate buyers, most of them are in favour of it.

This is natural, as the unitary tax compliance system has simplified the home buying process - and with the passage of Input Tax Credit (ITC), there may not be a significant additional burden to buying a home. Homebuyers in the affordable housing segment - specifically homes of up to 60 sq.m carpet area in size - have benefited significantly from the reduction of GST by 4% (from 12% to 8%).

However, even almost a year after GST implementation, the only real clarity that exists for property buyers is on the prevailing GST rate of 12% on under-construction projects. There is still confusion about the amount of rebate that a prospective homebuyer is entitled to on the back of the pass-over of ITC. The confusion is not only about the percentage of ITC but also on the mode and tranche of the rebate.

On their part, developers are stating that they have to do multiple calculations to arrive at ITC and will pass it on only during the final tranches only. With this lack of transparency on ITC, homebuyers are understandably upset because as of now, their overall payment has increased.

The Ready-to-move Vs Under-construction Debacle



On the one hand, ready-to-move (RTM) properties which have been issued completion certificates are out of the GST ambit and attract no tax from homebuyers. On the other hand, under-construction (UC) properties attract 12% GST with full input tax credit (ITC). This is causing homebuyers to abstain from the UC option, which was earlier the more attractive one due to the cost arbitrage developers offered on them.

The added benefits to ready-to-move-in property buyers are immediate possession - read instant gratification - and freedom from stress with regards to completion risk and the uncertainty of construction-linked home loan EMIs.

Ongoing Challenges

Real estate stakeholders still face considerable challenges in the metamorphosis period from the pre-GST regime to the post-GST era. These include:

Complex tax slabs

Hiccups in the deployment of supporting IT infrastructure.

Confusion about the integration of Input Tax Credit (ITC), and various blurred components of GST such as abatement for land values and anti-profiteering provisions.

The lack of clarity on the rules and regulations under the anti-profiteering clause which was incorporated to pass on the benefits of ITC to end-users is a particularly prominent pain-point with GST as of now.

GST's Impact on Pricing & Transparency

Although it was anticipated that GST will reduce property prices pan-India, we have in fact not seen such a significant impact on the ground. If the stamp duty and registration fees would be subsumed under the GST regime, we would definitely see the overall cost of property purchase come down.

GST definitely is reducing developers' construction costs by negating the morass of double or triple taxation to a more moderate level through input tax credit. While there are no significant variations in the overall taxes, GST has certainly eliminated the tax-on-tax system. Also, shady transactions are being minimised considerably, bringing in transparency and accountability into the sector.

However, end-users have not received a consummate benefit because of the inherent ineffectiveness of the anti-profiteering provisions. They will only benefit if the base property prices are reduced and the developers pass on the tax credits to their customers.

While the tax-on-tax has been eliminated with the advent of GST, the overall outgo from homebuyers' pockets seems to have increased, considering that even after passing on of ITC, they may have to pay 3-4% more than in the earlier service tax + VAT regime. However, shady transactions are definitely reducing to a considerable extent and the cause of bringing more transparency and accountability into the sector is served. Additionally, the input tax credit is a boon to developers as it aids in bringing down the construction cost.

The Road Ahead

In line with its 'One Nation, One Market, One Tax' philosophy, the GST reform will in all probability benefit the Indian economy in the long run. As the realty sector becomes more streamlined on the back of GST and other landmark reforms such as RERA, investor and consumer sentiments will become more positive and further strengthen the entire system in the future.

(The author of this article is Anuj Puri, Chairman, ANAROCK Property Consultants)

IMPACT ON THE GOLD MARKET

Gold exports down 13% post-GST

Exports of gold from India fell 13 per cent in the first 11 months of the roll-out of the goods and services tax (GST) regime, according to the Gem & Jewellery Export Promotion Council (GJEPC), which attributed the decline to the new levy.

“The government has given relief to nominated agencies for not paying IGST (integrated GST) upfront on gold import on submission of bond,” said GJEPC chairman Pramod Agrawal.

“But 3 per cent GST still applies to exporters for procuring gold from nominated agencies. This is hampering gold jewellery exports from India.”

Apart from 3 per cent GST, levied from July 1, 2017, gold attracts 10 per cent import duty too, said Agrawal.

The 3 per cent GST has also led to a reduction in purchases by non-resident Indians (NRIs), according to jewellers.

“The NRI business is down more than 60 per cent since GST was rolled out. They are looking at other countries for purchasing gold as they are getting the yellow metal at a cheaper rate there than in India,” said Nitin Khandelwal, chairman, All India Gem and Jewellery Domestic Council.

Khandelwal also said the domestic consumption in the first quarter of the current financial year halved from a year ago.

“High value gold and diamond jewellery are witnessing a slow movement as there is liquidity crisis in the market. Moreover, since the sowing season is underway, demand from rural India is not very strong,” he said.

However, a reduction of GST on diamonds from 3 per cent to 0.25 per cent resulted in exports growth of cut and polished diamonds from India, said Agrawal.

India exports around $41 billion of gem and jewellery annually, which contributes 7 per cent to the country's GDP and 15 per cent to its merchandise exports.

“GST will definitely have a positive impact in the long run and we hope that the government will expedite the refund processes as the industry is facing the issue of non-realisation of GST paid, which, in turn, is locking up working capital,” said Agrawal.

Meanwhile, the gold prices rose to a one-week high on Wednesday, rebounding from a seven-month low touched in the previous session, as a softer American dollar stoked demand for the yellow metal.

Spot gold was up 0.6 per cent to $1,260.06 an ounce after touching $1,261.10, a one-week high.

The yellow metal gained over $20 from Tuesday's low of $1,237.32 an ounce, its weakest since December 12 last year.

US gold futures for August delivery were trading 0.6 per cent higher at $1,261.30 an ounce.

IMPACT ON THE AUTOMOBILE MARKET

With the Goods and Services Tax ('GST') regime in India nearing completion of its first 12 months, it is probably an apt time to take a look back at the various ups and downs of the regime and their impact on one of the key sectors of the Indian economy - the automotive industry.

The Indian automobile industry has historically been one of the highest taxed sectors from an indirect tax perspective. With the increasing pressure on domestic demand, the auto OEMs were hopeful that the introduction of GST would reduce the overall tax burden on vehicles, which in turn will boost demand. However, the last minute introduction of an additional levy in the form of Compensation cess ensured that the effective tax rate on vehicles did not change significantly versus the previous regime.

One thing that definitely did not go down well with the industry was the frequent changes in rates of Compensation cess during the past 10 months. The same led to business disruption as well as confusion for the end consumer as OEMs had to revise prices often on account of tax rate changes.

At the time of introduction of GST, there was a uniform rate of GST prescribed at 43% (28 % GST +15 % cess) for specified sedans and SUVs, which was comparatively lower than the effective rate range from 46.6% to 55.3% during the erstwhile regime. The rates currently range between 43% (28 % GST +15 % cess) to 50% (28 % GST +22 % cess) depending on type of motor vehicles, instead of a uniform rate as notified earlier.

The consumer's dilemma can also be seen from the complaints filed in some instances to the anti-profiteering authority, alleging that vehicle prices were not reduced by dealers to the extent of tax cost reduction. Though, in the report recently released on one such complaint, the investigating authority found that the passenger vehicle dealer got a limited benefit of 2 to 3 percent due to introduction of GST, which he had already passed on to the consumer.

Given that the Government has kept with itself, the power to further increase the compensation cess to a maximum of 25 percent, in addition to the 28 percent GST, means that automotive prices could see an increase in the coming future.

Also, no incentives in form of GST concessions/ exemptions have been given for hybrid and electric vehicles, unlike the erstwhile regime, which appears to be in stark contrast to the Government's recent focus on fast adoption of electric vehicle technology by OEMs.

Further, the increase in GST rates for services to 18% and spare parts to 28% has made after sales repairs and maintenance costlier for the consumer.

Despite the various tax rate related issues, one cannot deny that the simplification of the tax regime by unifying roughly 17 different central and state levies into a single type of tax, ie GST, has been beneficial to the industry by reducing the compliance burden, and leading to better transparency for the end user.

With the removal of state border VAT check posts, the time incurred on logistics has also been cut down. However, the industry is apprehensive that introduction of e-waybills for both inter-state and intra-state movement of goods could again lead to creation of check points and thus, delay supplies. Further, the newly introduced E-waybills provisions have added significantly to the compliance burden of businesses. Even large established auto industry players are finding it difficult to cope up with such additional burden especially on account of lack of clarity in law on treatment of various business transactions, IT system issues, reliance on logistic service providers for completion of details and the nascent concept of limited validity, depending on distance to be travelled.

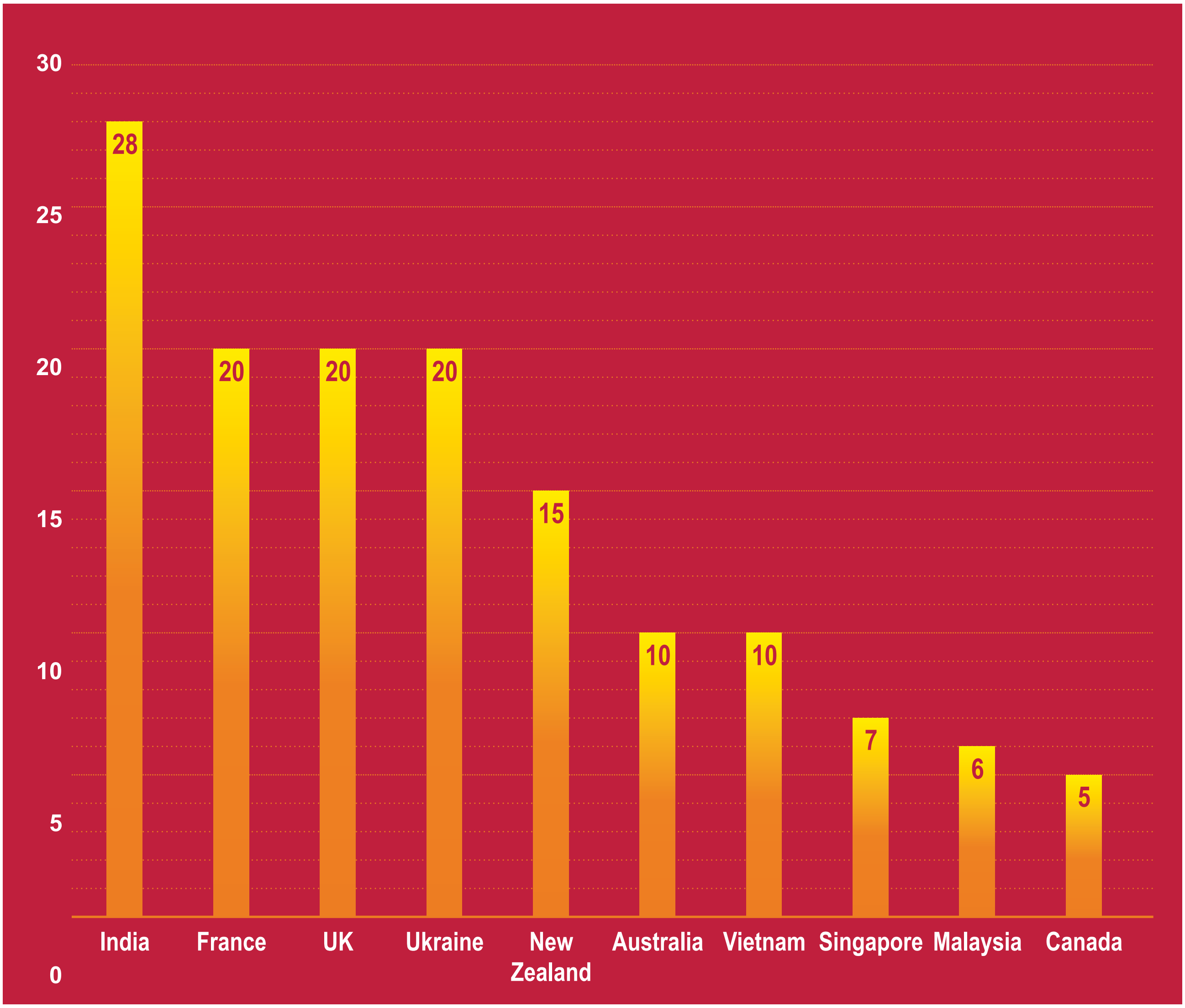
Other key challenges that the industry has faced in the last 10 months are delays in export related input GST refunds as well as the lack of clarity on the fate of VAT/ CST linked state level incentives that various State Government had promised to the OEMs setting up plants in their States; the quantum of such incentives has got significantly impacted due to subsumption of CST into GST as well as the SGST rate being much lower than the VAT rate under the earlier regime.

Along with the challenges, of course, opportunities have also arisen for the auto industry to streamline supply chains and optimize on warehousing and logistics costs. This could help reduce operational costs and realizing India's vision of one National Market.

In a nut shell, the first year of GST has been a mixed bag for the auto industry. One hopes that in the near future, the Government would be able to iron out the issues and help the industry in truly capitalizing on the opportunities that the GST regime presents for India.

(The author of this article is Sarika Goel, Tax Partner, EY India)

GST Around The World



The goods and services tax (GST) implemented by the Narendra Modi government from 1 July last year is one of the most complex with the second highest tax rate in the world among a sample of 115 countries which have a similar indirect tax system, the World Bank said in a report.

ANY DISRUPTION IS never easy. Implementation of the Goods and Services Tax (GST) in other countries has been accompanied by protests, inflation spikes, compliance burdens on small businesses and more, at least in the short term.

Let's take a look at the GST structures around the world:

The US: The only major economy that does not have GST. States enjoy high autonomy in taxation.

1. France

The first country to implement GST in 1954. Today 160 countries have GST/VAT. Most European countries introduced GST back in the 1970s-80s.

There are 4 rates of VAT in France: 2.1 per cent, 5.5 per cent, 10 per cent and 20 per cent since its implementation.

2. United Kingdom

Since 2011, UK's VAT is set at 20 per cent

3. Ukraine

There are two VAT slabs in Ukraine, which are 20 per cent for most goods and services and 7 per cent mostly for medicines

4. New Zealand

GST was introduced in New Zealand in 1986 at a rate of 10 per cent. The rates were changed twice – 12.5% in 1989 and 15% in 2010 in a move to mobilize higher revenue while removing distortions in the tax structure.

5. Australia

Introduced in 2000, implementation smooth; the rate has been set at 10 per cent. It now plans to increase GST rate to 15%.

6. Vietnam

Three VAT rates of 0 per cent, 5 per cent and 10 per cent are applied to most goods and services in Vietnam unless stated otherwise

7. Singapore

Implemented at 3 per cent in 1994, GST was increased to 7 per cent in 2007

8. Malaysia

implemented GST in 2015, after debating for 26 years! Consumer confidence nosedived; inflation went up; anti-GST protests in capital Kuala Lumpur After initial hiccups things have settled down with 70% respondents reporting business grew in last 12 months. Malaysia's GST is set at 6 per cent.

9. Canada

introduced GST in 1991. Has dual model like India (state and central GST). But Canada gives options to provinces to go for state or central GST. Three provinces sued the government over GST. GST created price distortions. GST is set at 5 per cent on supplies of goods or services and includes most products. In some provinces of Canada, a Harmonised Sales Tax of 15 per cent is also charged.

10. China

Completed Value Added Tax* (VAT) reforms in 2016 to replace its conflicting Business Tax system. Doing away with business tax and other taxes and switching to VAT has contributed to bursting of the Chinese real estate bubble. China also has partial GST, on some goods.

11. Japan

Introduced consumption tax in 1989 at a rate of 3%. In 1997 this increased to 5% and Japan went into recession. In 2012, Diet doubled the tax to 10%. Later the Shinzo Abe government delayed tax increase until April 2017. In 2016, a second postponement was announced which pushes the increase to October 2019!

12. Singapore

Introduced GST in 1994. Inflation spiked and NGOs, social activist groups opposed GST. Today inflation has eased and GST is the second largest source of government revenue after corporate I-T.

13. Brazil

VAT is the substitute for GST, though levies vary from 17% in Sao Paulo to 18% in Rio de Janerio and rate of inter-state supplies within Brazil vary between 4% and 25%.

Among the most recent are Seychelles, Congo, Gambia and Malaysia, all of which have implemented GST in the last 5 years.

On the Mat with VAT

Implementing tax reform is not without hiccups. Puerto Rico government's goal was to aid economic recovery of the island territory with introduction of VAT in April 2016; but its businesses shut down shutters and turned to social media to protest; encouraging consumers to abstain from shopping!

Thanks, but no Thanks

Canadian province British Columbia implemented GST and two years later reverted to the older system — Provincial Sales Tax, or PST — due to implementation challenges.

*(*Few countries have VAT instead of GST; the former is for tangible goods and the latter includes services)*

'ONE NATION, ONE TAX'

ANALYSIS AND OPINIONS

GST HAS BROUGHT in 'one nation one tax' system, but its effect on various industries is slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.

Impact of GST on Manufacturers, Distributor, and Retailers

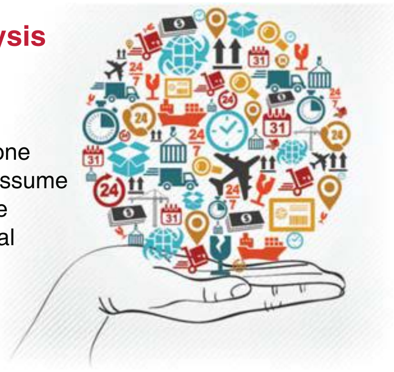
GST is a boost competitiveness and performance in India's manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes had also increased the administrative costs for manufacturers and distributors and with GST in place, the compliance burden has eased and this sector will grow more strongly.

But due to GST business which was not under the tax bracket previously will now have to register. This will lead to lesser tax evasion.

Impact of GST on Service Providers

As of March 2014, there were 12, 76,861 service tax assessees in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, the Insurance industry, business support services, Banking and Financial services, etc. These pan-India businesses already work in a unified market and will see compliance burden becoming lesser. But they will have to separately register every place of business in each state.

Sector-wise Impact Analysis



Logistics

In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position.

E-commerce

The e-commerce sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the GST law specifically proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%.

Pharma

On the whole, GST is benefiting the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications

In the telecom sector, prices will come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST has negated the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

Textile

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it previously attracted zero central excise duty (under optional route).

Real Estate

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, the sector will see substantial benefits from GST implementation, as it has brought to the industry much-required transparency and accountability.

Agriculture

The agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is the transportation of agri-products across state lines all over India. GST will resolve the issue of transportation.

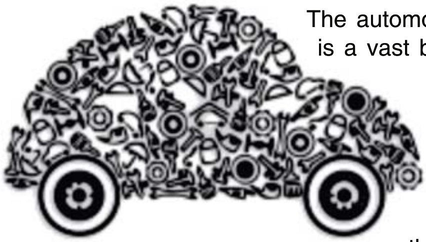
FMCG

The FMCG sector is experiencing significant savings in logistics and distribution costs as the GST has eliminated the need for multiple sales depots.

Freelancers

Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They are taxed as service providers, and the new tax structure has brought about coherence and accountability in this sector.

Automobiles



The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the previous tax system, there were several taxes applicable to this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST.

Startups

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST.

NEED FOR REFORMS

TAXES ARE ESSENTIAL to govern the country but their collection should be conducted without causing disruption to the business which drives tax. A good indirect tax fiscal system should be clear and comprehensive in scope of levy, should allow a seamless flow of input tax credit and have minimal tax tiers. Further, it should be supported by simple compliance system and efficient validation infrastructure.

With an intention to offer a good and simple indirect tax system, GST was introduced in India. The strenuous efforts of the government in removing roadblocks for introducing GST are laudable. However, this was not accomplished without compromise. The government had agreed for some trade-offs for getting all states on board which have prevented GST legislation from being perfect. The present GST framework requires following structural reforms which will help bridge the gap between a good fiscal system and the present GST system.

Scope of levy

Products such as petrol, diesel and electricity continue to be taxed as per old laws. Same is the case with land and buildings. This causes two-fold problems: a) credit of GST charged on goods and services used in the supply of these products is not available for set-off against outward tax liability, b) credit of tax charged on these products under old laws is not available for set-off against GST. Some of these products constitute a significant portion of inputs for the industry. It is important to bring these products under the GST net to enable a seamless flow of credit.

Credit base

Credit base should be as wide as the scope of levy, but for minimal exclusions, such as credit on goods and services used for personal consumption. As compared to the previous regime, the scope of credit has been widened in GST. However, credit of works-contract services when used for the construction of building and civil structures, telecommunication towers and pipelines laid outside factory premises, continues to remain blocked. This is an impediment to the Make in India initiative of the government under which organisations will need to establish factories and offices in India for business. Therefore, credit base needs to be widened. If the credit pertains to a business expenditure, it should be allowed.

Tax rate rationalisation

One of the cornerstones of GST was minimal tier tax rate structure. Conversely, there are 5 regular tax slabs (0 percent, 5 percent, 12 percent, 18 percent & 28 percent) and a few special tax rates (e.g.3 percent on gold, 0.25 percent on precious stones). This is in addition to exempted and zero-rated supplies. These multiple tax slabs have resulted in a complex rate structure which is being perceived negatively in the domestic and international market. There is an urgent need to simplify the tax rate structure.

Compliance burden

A good tax compliance system enables a smooth exchange of information between taxpayer and regulator without causing hardship on the business. However, the Indian GST compliance framework is designed to act more as a watchdog than as a facilitator of information. Firstly, there is an invoice level, system-driven, validation of information filed by supplier and receiver enabled through multiple monthly returns. Secondly, a registered person is also required to get his accounts audited. This stringent compliance system negates the government's own initiative of ease of doing business. India needs a simple and robust compliance infrastructure to allow businesses to focus on growth.

Effective administration

For administration, taxpayers are divided between Centre and states based on stratified random sampling carried out through the IT system. There is a possibility that revenue officers who have handled only taxation of goods throughout their tenure, will be tasked with the taxation of services and vice versa. This is a potential concern as there is a significant conceptual difference in taxation of goods and that of services. In order to manage taxpayers in an effective manner, all assessing / auditing groups should comprise of at least one officer who is well versed with the taxation of services and another who is adept with the taxation of goods.

Independent India has witnessed two major economic reforms; first, the economic liberalisation in the year 1991, and then the introduction of GST in 2017. Economic liberalisation has been credited in propelling India towards unprecedented growth rates. It is touted as the most successful economic reform in the history of the country.

The above recipe is relevant even today. The present GST framework is too control-oriented, which has also resulted in a complex compliance system. The need of the hour is to introduce reforms which will provide autonomy to taxpayers and present them with a good and simple tax system, in the true sense. This will help them reap the intended benefits of GST. A faulty execution will eclipse the good intention and commendable efforts of the government in bringing GST. The last thing the present government would want before the 2019 general elections is a negative sentiment out of its prime endeavour. GST is already the biggest economic reform; however, its success rests upon apposite execution.

(The authors of this articleare Prashant Deshpande, Partner, Deloitte India and Nithyananda Shetty is Director, Deloitte Haskins and Sells LLP)

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Journey of GST in India

THE GST JOURNEY began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.

What are the components of GST?

There are 3 taxes applicable under this system: CGST, SGST & IGST.

- CGST: Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra)
- SGST: Collected by the State Government on an intra-state sale (Eg: Within Maharashtra)
- IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

Illustration:

- Let us assume that a dealer in Gujarat had sold the goods to a dealer in Punjab worth Rs. 50,000. The tax rate is 18% comprising of only IGST.

In such case, the dealer has to charge Rs. 9,000 as IGST. This revenue will go to the Central Government.

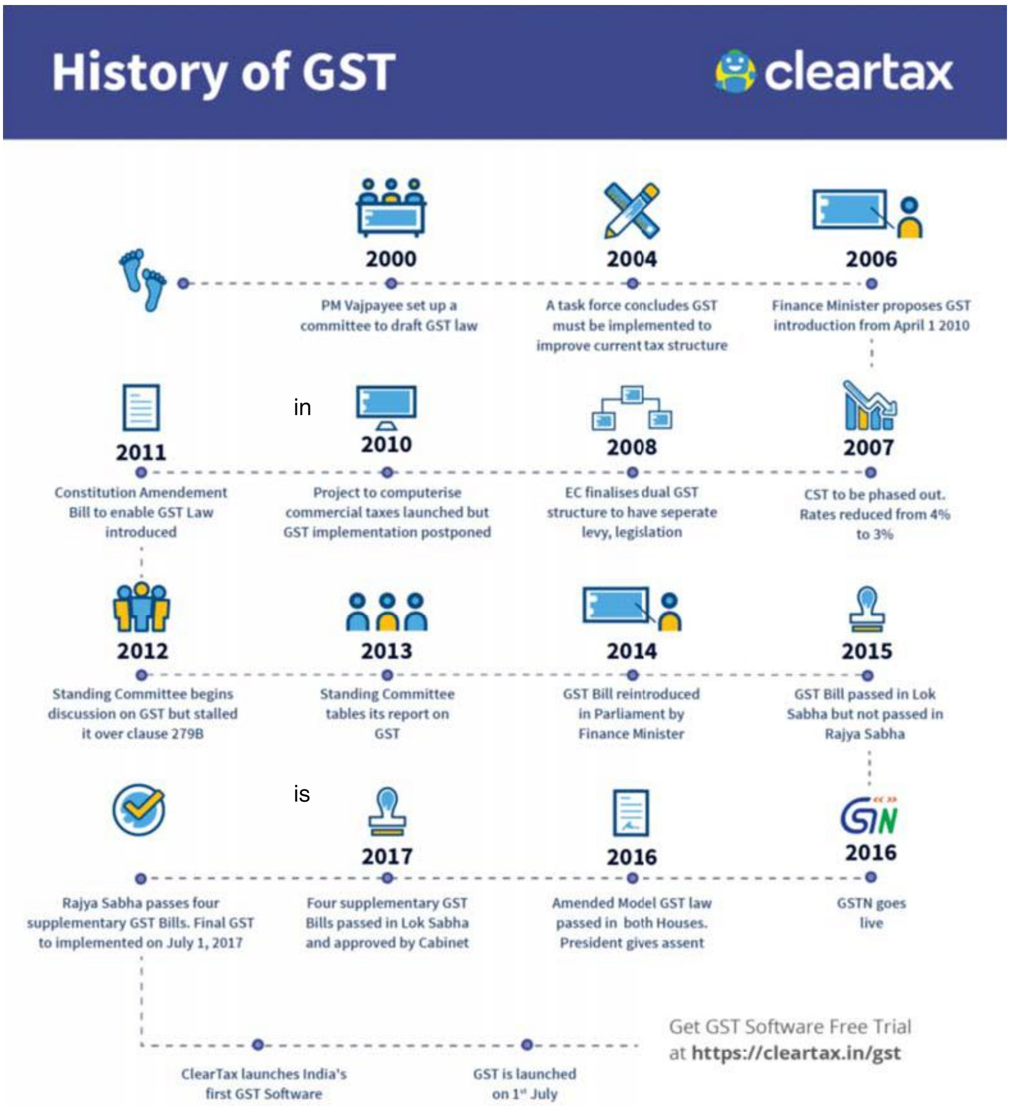
- The same dealer sells goods to a consumer in Gujarat worth Rs. 50,000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%.

The dealer has to collect Rs. 6,000 as Goods and Service Tax. Rs. 3,000 will go to the Central Government and Rs. 3,000 will go to the Gujarat government as the sale is within the state.

Tax Laws before GST

In the earlier indirect tax regime, there were many indirect taxes levied by both state and center. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations.

Interstate sale of goods was taxed by the Center. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many



indirect taxes like entertainment tax, octroi and local tax that was levied by state and center.

This lead to a lot of overlapping of taxes levied by both state and center.

For example, when goods were manufactured and sold Excise Duty charged by the center was charged by the center. Over and above Excise Duty, VAT was also charged by the State. This lead to a tax on tax also known as cascading effect of taxes.

The following is the list of indirect taxes in the pre-GST regime:

- Central Excise Duty
- Duties of Excise
- Additional Duties of Excise
- Additional Duties of Customs
- Special Additional Duty of Customs
- Cess
- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entertainment Tax
- Entry Tax
- Taxes on advertisements
- Taxes on lotteries, betting, and gambling

CGST, SGST, and IGST has replaced all the above taxes.

However, the chargeability of CST for Inter-state purchase at a concessional rate of 2%, by issue and utilisation of c-Form is still prevalent for certain Non-GST goods such as:

(i) Petroleum crude;
(ii) High-speed diesel;
(iii) Motor spirit (commonly known as petrol);
(iv) Natural gas;
(v) Aviation turbine fuel; and
(vi) Alcoholic liquor for human consumption.

in respect of following transactions only:

- Resale
- Use in manufacturing or processing
- Use in the telecommunication network or in mining or in the generation or distribution of electricity or any other power

What changes has GST brought in?

In the pre-GST regime, every purchaser including the final consumer paid tax on tax. This tax on tax is called Cascading Effect of Taxes.

GST avoids this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership.

This indirect tax system under GST improves the collection of taxes as well as boosts the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

Illustration:

Based on the above example of biscuit manufacturer along with some numbers, let's see what happens to the cost of goods and the taxes in the earlier and GST regimes.

Tax calculations in earlier regime:

Action	Cost	10% Tax	Total
Manufacturer1,0001001,100			
Warehouse adds label and repacks @ 300	1,400	140	1,540
Retailer advertises @ 500	2,040	204	2,244
Total	**1,800**	**444**	**2,244**

Along the way, the tax liability was passed on at every stage of the transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Tax calculations in current regime:

Action	Cost	10% Tax	Actual Liability	Total
Manufacturer	1,000	100	100	1,100
Warehouse adds label and repacks @ 300	1,300	130	30	1,430
Retailer advertises @ 500	1,800	180	50	1,980
Total	**1,800**		**180**	**1,980**

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

In the end, every time an individual is able to claim input tax credit, the sale price is reduced and the cost price for the buyer is reduced because of a lower tax liability. The final value of the biscuits is therefore reduced from Rs. 2,244 to Rs. 1,980, thus reducing the tax burden on the final customer.

GST also brought with it a single nation-wide system of waybills by the introduction of "E-way bills". This system started on 1st April 2018 for Inter-state movement of goods and 15th April 2018 for intra-state movement of goods in a staggered manner. By this system, manufacturers, traders & transporters are benefitted by a common portal where e-way bills can be generated and presence of its visibility to all stakeholders in the process of moving goods from the place of its origin to its destination. Tax authorities are also in vantage as this reduces the time at check -posts and help reduce tax evasion.

Effect on India's Healthcare Industry

In India, 5% of the GDP is spent on Healthcare – 4% by the private sector. The Indian Healthcare Industry has been exponentially growing in the recent years, and the Ministry of Health targets the development of 50 new technologies by the end of this year to treat diseases, such as cancer and tuberculosis.

INDIA IS NOT only one of the largest producing countries for generics, but further experiencing a boom in medical tourism which generates additional returns for the Healthcare Industry. India's Pharmaceutical Industry currently is 3rd largest in terms of volume and 14th largest in terms of value globally. As population is continuously growing, so is the need for good Healthcare Services, which brings the need of developing more qualified personnel to fill the current gap in the sector and providing state-of-the-art facilities and technologies to patients. In India, 5% of the GDP is spent on Healthcare – 4% by the private sector. The Indian Healthcare Industry has been exponentially growing in the recent years, and the Ministry of Health targets the development of 50 new technologies by the end of this year to treat diseases, such as cancer and tuberculosis. To attract more foreign direct investment (FDI), the Government raised the FDI cap for brownfield Pharmaceutical investments to 74% in June. Eventually, 100% FDI is allowed in greenfield Pharmaceutical investments and beyond 74% under government approval in brownfield Pharmaceutical investments.

A year ago, the passing of the most awaited Goods and Services Tax (GST) Bill caught the attention throughout all industries in India. It benefited most sectors and made taxation easier as it replaced several different duties and taxes.

What was it's effects on India's Healthcare Industry?

The Healthcare Industry in India has become one of the largest sectors in the country in regards to employment and revenue. As Healthcare expenditure increases, so do the tax revenues for India. Recently, India's Government decided to implement GST, which will subsume a number of taxes of the complex State and Central Tax system in India into one uniformed tax system. Until now, two out of the required minimum 16 State assemblies, namely Assam and Bihar, have ratified the GST Bill.

GST is expected to have a positive effect on the Pharmaceutical sector. It will help the industry by simplifying the tax structure, since eight different taxes are levied in the Pharmaceutical Industry at the moment. A consolidation of all these into one tax would ease doing business, as well as mitigate the cascading effects of multiple taxes applied on one product. Apart from this, GST will also result in operational efficiency by streamlining the supply chain which can alone add 2% to India's Pharmaceutical market size. Because GST will help Pharmaceutical companies rationalize their supply chain, they will have to review their distribution networks and strategy.

Additionally, GST implementation will also envisage a seamless flow of tax credit, account for improvement in overall compliance and is also expected to create a level-playing field for Pharmaceutical companies in India. A big advantage for companies will be the reduction in transaction costs with the discontinuance of Central Sales Tax (CST). GST is expected to bring down the manufacturing cost and even a 2% reduction in production or distribution cost is believed to add over 20% to profits. GST, if its rate is below the current total tax rate, will eventually help consumers by making Healthcare and drugs more affordable which already is a big goal for the Indian Government.

The Industry's present concern is that the rate of GST should be kept at a competitive level in the lowest slab for Pharmaceuticals. Industry analysts speculate a GST rate of up to 12% will have a neutral effect whereas anything above will have an inflationary effect on pricing in the Pharmaceutical sector in the short term. Additionally, it is uncertain if the Healthcare sector as well as life-saving drugs and medical devices and Healthcare services will continue to be exempted from taxation once GST is implemented. Until now, life-saving drugs were exempted from Excise and Customs Duties. Some States currently charge 5% taxes on medicines, this may change overall with GST. The Government should continue the tax and duty incentives which have been already provided, such as the exemption of excise duties in North-East States and Jammu & Kashmir, etc. for manufacturing units, as huge investments have been made and the loss of incentives will negatively impact local economies. As GST is applicable on all phases of the supply chain, it is not clear how this will influence free-drug samples, bonus schemes, inter-state movement of expired products or stock transfers.

On the other hand, Pharmaceutical companies will experience improved operational efficiency, reduced manufacturing & transaction costs as well as improved compliance. In addition, it will benefit Pharmaceutical companies' warehousing strategy. As of now, companies kept warehouses in different States to avoid CST of different States. Now, with CST subsumed under GST, they can consolidate warehouses at strategic locations as they will only have to pay Integrated GST (IGST) on inter-state supplies of Goods and Services.

Overall, the effects of GST implementation on the Healthcare and Pharmaceutical sector are still uncertain. However, Industry experts believe that GST will set industry players and consumers in a win-win situation. The Healthcare Industry, in case the tax rate is set at an efficient level, will benefit as GST certainly reduces complexities and removes many hurdles to the industry's growth. The industry is on a path of promising growth and increased productivity.

1 NATION TAX MARKET

GOODS AND SERVICES TAX

ATTENTION TAXPAYERS!

It is important to issue the tax invoice correctly.

The following items, among others, must be clearly mentioned on a tax invoice:

- **Your GSTIN (GST Identification Number) and GSTIN of the recipient, if he/she is registered.**
- **Taxable value, tax rate and tax amount payable.**
- **Place of supply along with the name of the State, in case of inter-State supply.**
- **Signature or digital signature of the supplier or his authorized representative.**

For the full list of items that must be included in a tax invoice, please refer Rule 46 of the CGST/SGST Rules, 2017.

All taxpayers may please note:

- It is mandatory to display the certificate of registration (FORM GST REG-06) in a prominent location at the principal place of business and at every additional place(s) of business.
- It is mandatory to display the GSTIN on the name board exhibited at the entry of the principal place of business and at every additional place(s) of business.

Persons registered under the Composition Scheme may please note:

The words **"GST Composition Taxable Person"** must be mentioned on every notice or signboard displayed at a prominent place at both the principal and the additional place(s) of business.

GST- A Good & Simple Tax

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EXPERT TAKE

SOMESH KUMAR, Principal Secretary, Commercial Taxes, Telangana

While GST would get 10 out of 10 for implementation, there is one problem of glitches in the network which could be a cause for concern for filers.Even though there were apprehensions among other states in the country when the Centre introduced the Goods and Services Tax (GST), Telangana was the only state which welcomed it. True to its expectations, the performance of the state is good and the state's tax revenue is growing.We are proud to say that our tax revenue is growing.

GOWRA SRINIVAS, President of Ftapcci

Glitch in the network is a matter of concern as even for those who have filed returns, it is not reconciled and then the authorities seek late fee to reload along with penal interest. This could be addressed by creation of a wallet.

We continue to articulate our case to look at the problems of small and medium enterprises, who do not have the advantage of falling back to huge resources.

Goal Scored in Time: MS MANI, Partner, Deloitte India

The goods and services tax has been one of the key enablers to improve the ease of doing business in India and has consolidated a plethora of taxes levied by the Centre and states into a common, fungible tax. Despite some initial hiccups caused by post-implementation changes in rates and compliance requirements accompanied by an inadequately prepared portal, the tax is entering the growth phase as is evidenced by the stabilisation of GST collections over the past two months.

The expansion of the tax base being a necessary concomitant for the success of GST, it is expected that, in addition to the e-way bill, a few more anti-evasion measures will gradually be put in place. It is also necessary that it becomes the only indirect

tax over a period of time by including products outside its purview such as petroleum products and levies outside its ambit such as stamp duty.

It is essential that all future changes are introduced keeping in mind their impact on all businesses, especially small and medium enterprises (SMEs) to enable them to be prepared as the success of a nationwide consumption tax depends on its acceptability across all sections of business. While the goal has been scored, it essential to carry the entire team along in all the forthcoming matches.

GST 2.0 Needed: PRATIK JAIN, Indirect taxes leader, PWC

If you examine the impact of GST from the standpoint of various stakeholders — government, industry and consumers — it is certainly directionally positive. For consumers, prices of commodities have either gone down or been stable and accessibility has improved, given supply chain efficiencies. A common rate structure across states means decision making for consumers becomes easier.

From the industry standpoint, except the initial technological challenges in filings and blockage of funds for exporters, GST has not caused any disruption. In many cases, there has been a saving of 3-5% due to incremental credits and vendor price renegotiation.

From the government's standpoint, there is definite expansion in the tax base with some revenue buoyancy over last few months as well. With the wealth of data available with the government and measures such as e-way bills, tax leakage is likely to be further plugged in the next year or so. Does it mean everything is perfect?

Certainly not! Tax rates need to be further rationalised, compliance is to be simplified, dispute resolution and administrative aspects have to be looked into and GST system aligned with global best practices. That said, it's a moment to feel proud of the country's achievement, with a hope that GST 2.0, which is now in the works, will be a much better version than what we have now.

Toddling Through: SURESH NANDLAL ROHIRA, Partner, leader, GST and customs, Grant Thornton India LLP

The first year's journey was one of ups and downs--registrations and revenues went up and multiple compliances for taxpayers went down, with ease in movement of goods eliminating naka barriers. However, in spite of significant success in its first year of implementation, there still seems to be a long way to go for both the government as well as taxpayers in attaining a simplified GST regime.

Simplification and standardisation of compliance—a single return instead of two or three--to ease taxpayers' burden should continue to be of prime importance for the government, especially with repeated deferment of compliance dates due to systems challenges and also the formats, which are too complicated for many micro, small and medium enterprises (MSMEs) considering small, medium businesses have a large share of registrations.

The government should bring down the slabs from four to three as collections have been above the mark and accordingly rate moderation should be warranted, encouraging certain sectors boosting the economy.

Undoubtedly, GST has received positive as well as negative responses as befits its characterisation as a toddler. However, further steps will bring out the true sense of One Nation One Tax.

IMPACT: PERCEPTION OF THE CONSUMER

Consumers Yet To See Full Gains: Survey

Has the consumer benefitted from the introduction of the goods and services tax, which subsumes most Union and State taxes in the country's biggest indirect tax reform? Going by a survey conducted by **LocalCircles** almost a year after the rollout of the new unified tax regime, only a fifth of the consumers say their monthly grocery bills have come down while more than half say cost of services have gone up. And only three in 10 people surveyed say eating out is less expensive than before, suggesting that full gains may not have been passed on. Here's more...

Two-thirds say monthly grocery bills haven't come down

Has your monthly household grocery bill reduced due to GST?

Yes	No	Can't say
21%	63%	16%

28% say eating out is cheaper, 57% say 'no'

Have costs of eating out at a restaurant reduced for you post-GST?

Yes	No	Can't say
28%	57%	15%

Cost of services is up for 54%

How have cost of services (mobile services, movie tickets) changed?

Increased	Decreased	No change	Can't say
54%	14%	19%	13%

Sellers still charge GST on MRP/ discounted MRP...

Have you experienced one or more instance where a merchant levied* GST on ...

... Discounted price/MRP?

Yes	No	Can't say
39%	29%	32%

... Full MRP?

Yes	No	Can't say
28%	46%	26%

* In the last three months
Note: Discounted MRP/MRP is inclusive of GST

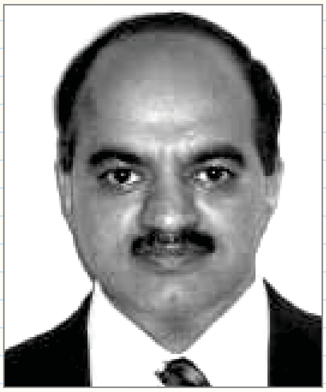
Sellers not passing on full benefit

Are businesses passing on the benefit of input tax credit to you via lower prices?

Yes	No	Can't say
15%	61%	24%

Mode of poll: Online; Coverage: 20 districts

Much Achieved, More Needed: BIPIN SAPRA, Partner, indirect tax, EY



The triumph of GST lies in the fact that while it has successfully subsumed several state and central indirect taxes, reduced cascading and credit blockages, created a common market and brought uniformity of indirect tax law and rates across the country, its biggest achievement has been obtaining a broad consensus among all the states and the Centre, which has strengthened the federal character of the Indian fiscal system.

During the year, multiple rates on goods and services have been evaluated and rationalised, given the possible leakage of revenue. The e-way bill system has been successfully implemented, difficult procedures of TCS and TDS (tax collected/deducted at source) have been kept in abeyance, and the anti-profiteering law has acted as a deterrent for most companies increasing their prices on account of GST.

While the government has worked to solve many issues, considerable intervention is still required to bring GST to its full efficiency. The proposal to have a single return will simplify compliance and do away with matching requirements.

Registrations need to be centralised for big service providers and, if that is not possible, assessments/ audits need to be centralised to avoid multiple interpretations of issues for the same entity. A lot has been achieved in this year of GST implementation and yet GST will continue to evolve as the law, procedures and rates are modified to suit the complex Indian market.

NIHAL KOTHARI, National Council on Indirect Taxes, Assocham

While it is heartening to note that Central and State Governments as well as the GST Council have demonstrated a pragmatic approach in resolving the operational issues, the expectations of trade and industry from GST are yet to be fully met.

Technical difficulties faced by tax payers at times of filing of returns, export related issues including tax refund of tax paid, lack of guidelines for anti-profiteering provision, which as been invoked in several cases, have all caused problems.

There are several interpretive issues referred to advanced ruling authorities where contradictory rulings have been issued and there are no appellate authorities in several States.Therefore, GST is still work in progress.

Over the past one year, the Government aided by the GST Council has rationalised taxes and this has to a large extent been positive to the industry as also the consumers. However, we need to further rationalise and bring down the number of tax slabs. To start with there is immediate need to bring cement and paints in the 18 per cent slab from 28 as these are consumed by both rich and the poor.

At the macro level, we believe that the revenue will get boosted up further and allow the Government to be more flexible and rationalise the number of slabs.

The monthly revenue collection from GST has reached more than Rs 95000 crore, close to the targeted figure of Rs 1 lakh crore per month and this would offer flexibility for the Government to further rationalise slabs.

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Posted at Lodi Road HPO, New Delhi on 9-10th of every month
Published on 6th of every month

RNI No. DELENG/2015/67140
REG. NO. DL (S)–17/3523/2017-19

Printed, published & owned by Bejon Kumar Misra, Printed at M/s. Spectrum Printing Press (P) Ltd., Shed No. 23, Computer Complex, DSIDC Scheme I, Okhla Phase II, New Delhi - 110020 and Published at E - 45, Ground Floor, Greater Kailash Enclave - I, New Delhi-110048, Editor: Bejon Kumar Misra