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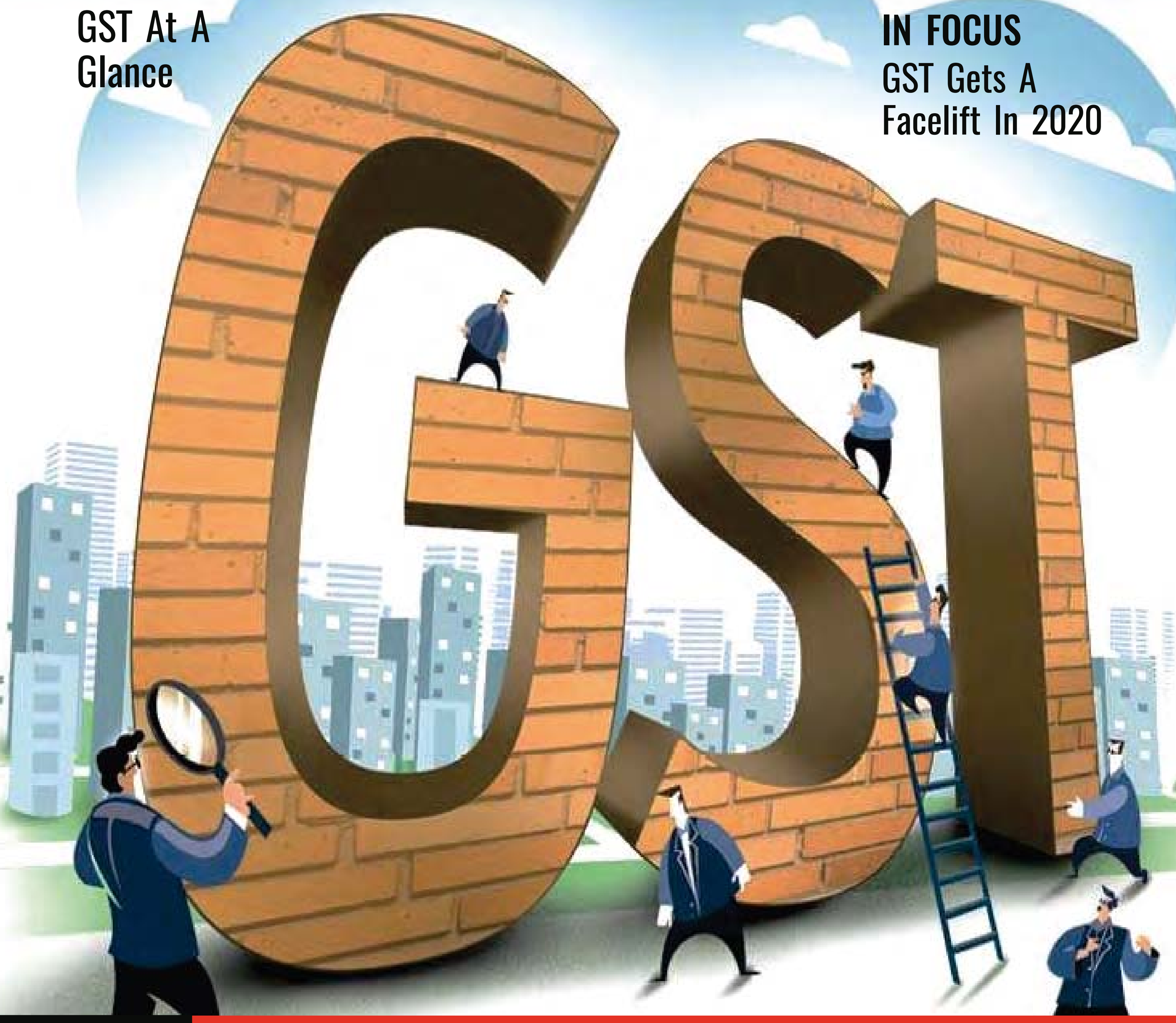
RESEARCH FEATURE
GST At A Glance

IN FOCUS
GST Gets A Facelift In 2020



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VIEW  POINT

BEJON KUMAR MISRA | bejonmisra@theawareconsumer.in

GST
Is A Work In Progress

INDIA HAS COMPLETED two and half years of Goods and Services Tax (GST) so far. Implemented on July 1, 2017, GST undeniably brought about stressful times for businesses and consumers alike.

GST is a mega taxation reform and its aim of One Nation One Tax, by any stretch of imagination, is not easy. Given the complexities of the federal structure, diversity of its industries and the vast population with different economic needs, it has not been easy for the government to arrive at a winning formula for GST.

The journey so far has been one of hits and misses and learning by trial. Though there are examples of GST implementation in other countries, for example, Canada, Vietnam, Australia, Singapore, United Kingdom, Monaco, Spain, Italy, Nigeria, Brazil and South Korea, each country's realities are different and the path singular. India too had to find its way to a process that suits it economic unique requirements.

Hiccups and teething problems were expected, and most businesses were prepared for it. In fact, there were reports that businesses had halted production in the initial phase of GST implementation, which picked up subsequently as companies settled down into the new taxation regime.

The government's endeavor throughout has been to be fair to the states, industry and the consumers. Hence, relaxations and handholding were provided to businesses, while for consumers, there were several rounds of rate cuts and adjustments to ensure the prices remained stable. The states on the other hand were promised a compensation for five years on the basis of an agreed formula.

GST undoubtedly has been a reform that favors the consumer. In the pre-GST era, the incidence of multiple taxes was invariably passed on to the end consumer. In the GST regime, the benefits have to be mandatorily passed on to the consumers. Not doing so, attracts penalties.

GST undoubtedly has been a reform that favors the consumer. In the pre-GST era, the incidence of multiple taxes was invariably passed on to the end consumer. In the GST regime, the benefits have to be mandatorily passed on to the consumers.

In 2020, many new initiatives are being taken to further refine and improve GST processes. There are also talks of increasing GST rates to boost revenue earnings. However, the government is mindful that any rate hike must not be a setback for consumers. For the core of GST remain the consumer.

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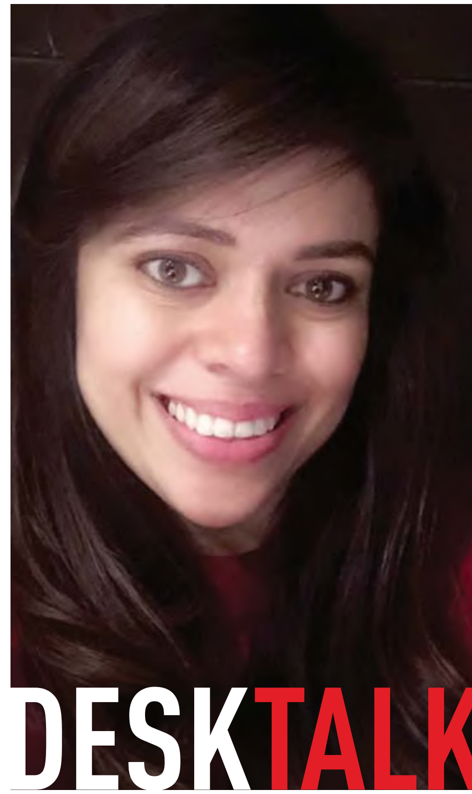
Message from the Editor-in-Chief

POOJA KHAITAN

pooja@theawareconsumer.in



GST Has Overcome Many Ills Of The System, But Much Needs To Be Done Yet

THE GOOD AND Services Tax (GST) was a much-needed reform in India. The indirect taxation system in the pre-GST era was complicated with clearly overlapping taxes, the burden of which had to be borne by the businesses and the end consumers. The lack of transparency and accountability made beating the system easy. Frauds and corruption flourished and there was little the government could do to plug the loopholes.

GST with its backbone of technology succeeded in removing many of the ills that plagued the earlier system. Being an online process, it made the interface between the authorities and the taxpayers transparent, reducing paperwork, bureaucratic red-tape, hurdles and delays, and corruption and harassment. GST returns filing process was also made smooth and paperless.

GST has led to the removal of many inefficiencies in the transportation and logistics system as checkpoints were dismantled and e-way bill made corruption and queues at the tolls and entry points of states a thing of the past. Businesses have begun saving on logistics with the need for multiple warehouses, circuitous transportation and long delays at checkpoints minimized.

Standardized tax slabs across the country have made goods and services cheaper. Moreover, the rates are being constantly appraised and refined to ensure that the consumer is not burdened by taxes. With fewer tax rate slabs, the consumers can track what they are being charged for goods and services and red flag any anomaly they encounter. The government too is monitoring the system that the benefits of lower GST are passed on the consumers and has imposed strict penalties for businesses found flouting the rules.

However, despite the advantages, GST is not as simple as was desired. It has increased the compliance burden for small taxpayers, and they are required to hire professional financial consultants to help them with the filing of returns.

A lot of work yet remains to be done to make GST a dream reform.

INSIDE

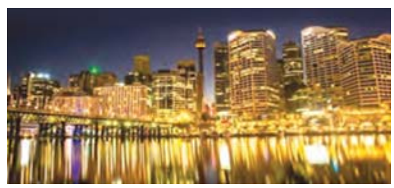
REGULARS

THE AWARE CONSUMER FEBRUARY 2020

GST has been a work in progress in India and it is time to develop a vision for the next 5 years at least with an aim to perfect the system

As India becomes one market under GST, businesses are restructuring their supply chain, warehousing and depots.
For the transportation industry, GST is hence an opportunity to consolidate their gains by ensuring supply chain efficiencies

Nirmala Sitharaman
Minister of Finance and Minister of Corporate Affairs to TimesNow



GST has changed many of the previous calculations in the housing sector but the overall implications for home buyers are positive

GST too has brought both advantages and disadvantages for the ordinary citizen. But in the long run, it is the advantages that will gain more prominence

GETS A FACELIFT IN 2020

New electronic invoicing system to be introduced which invoices are authenticated electronically by GST Network (GSTN) for further use on the common GST portal

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EDITOR-IN-CHIEF
Pooja Khaitan

EDITORIAL CONSULTANTS
Sangita Thakur Varma
Praful D. Sheth
Bina Jain
Suman Misra
Manisha Bhatla
Pyush Misra
Shashank D. Sudhi
Shashi Bhushan

MANAGER CIRCULATION
Nirmal Dayal

DESIGNER: Galaxy
DESIGN CONSULTANT: Maanav Khaitan

WEB DESIGNER:
Manish Mohan
Ebrahim Bhanpurawala

Owner, Printer, Publisher & Editor:
Bejon Kumar Misra

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C.R. Park, New Delhi-110019

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Okhla Phase II, New Delhi - 110020

For any queries, please contact us at
contact@theawareconsumer.in
Phone: 9885564767

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VIJAY KELKAR

FORMER FINANCE SECRETARY AND CHAIRMAN OF THE 13TH FINANCE COMMISSION

"As long as an ideal GST is rolled out, I am not too worried about the revenue shortfall in the initial years. One should treat it as an investment that is required for obtaining fundamental progress. The long-term benefit of GST is so large. The most important thing to focus on is a low, single-rate, and simplicity."

ROUNDUP

Centre Makes State-wise GST Collection Data Public

Move touted as the right step to improve transparency. The figures point to stability in tax mop-up and a likely improvement further

DATA BRIEFING

Rs. 1.23 trillion

The revenue gap states might face on account of withdrawal of compensation after the five-year GST transition period ends on June 30, 2022.

THE GOVERNMENT TOOK a major step towards improving transparency in GST structure in January this year. A new chapter was added in the history of India's Goods and Services Tax (GST) when the Centre made public for the first time since GST's launch in July 2017—the state-wise gross domestic GST collections.

The GST collections disclosed are for the month of December 2019 and its comparable in December 2018. Experts feel that even this small step taken by the government will go a long way in upping the "transparency" quotient of the GST system.

Some believe that the disclosure of December collection is the Centre's way of setting the record

IMAGE: PIXABAY

Tax mop-up by the states shows stability and indicates improvement in the future.

Move To Bring In Advanced Technology To Track GST Evaders, Boost Compliance

Deliberations at the highest levels are underway to enlist AI and data analytics for the purpose

IMAGE: PIXABAY

straight regarding states' actual collections. The states, as the figures show, are actually earning revenues and the anxiety expressed by some of them in recent days over their low GST collection show and delayed compensation cess payout is in fact somewhat exaggerated.

This could be a way for the Centre to counter the criticism by various State Finance Ministers over not receiving GST compensation in time and the complaints that they are being deprived of revenues.

While one-month data is not sufficient to arrive at any conclusion on revenue growth, however, this move is in the interest of transparency. The government must make this system of making public the state-wise domestic GST collections data a regular practice.

Experts hope that the Centre would make this state-wise Gross domestic GST collection disclosure a permanent feature in the monthly GST announcement calendar.

The data showed a 16 per cent year-on-year increase in state-wise gross domestic GST collections in December 2019 at Rs 80,849 crore. This indicates that the economy is not doing as badly as it has been thought to be.

It must be noted that this growth has happened after a few rounds of GST rate cuts in several items in 2019 and the overall revenue buoyancy may not have happened but for these reductions.

GST is a barometer of business performance in the country. The revenue buoyancy in December cannot be dismissed as the result of the festive season in November as comparably in 2018 too December data followed the festive season. As data shows the state-wise collections for December 2019 is higher by 10 per cent to 22 per cent for the major states compared to December 2018.

In fact, the GST collections in every month of 2019-20, except for the months of September and October 2019, has been higher than that in 2018-19. Going by the statistics, it is clear that the revenues of the Centre and the states from GST are stabilizing and showing an upward trend.

Experts suggest that frequent rate and procedural changes be avoided or kept minimal to ensure that businesses do not need to constantly change processes and re-evaluate their supply chain and pricing. This stability would further boost the revenues collection.

Beware! Artificial intelligence and data analytics may soon track GST evaders.

PLANS ARE AFOOT to increase the usage of advanced technology like artificial intelligence and data analytics to track down tax evaders in order to improve GST compliance and augment revenue.

Discussions are underway to streamline the GST system and plug leakages due to fraud. Top tax officials will be exploring ways to harness data analytics and AI in the process of enforcement and red-flagging tax evaders and fake refund claimants without causing harassment to genuine taxpayers.

Recently, the government notified changes to GST rules aimed at preventing frauds and fake invoicing and for setting up of grievance cells to ensure that genuine taxpayers are not harassed while the overall tax base increases. The government also reduced input tax credit to 10% from 20% of eligible credit if invoices or debit notes were not reflected in filings.

The Central Board of Indirect Taxes and Customs has also instructed field officers to create GST grievance redressal committees at zonal and state levels without delay. Officials have been instructed to identify cases of suppression of personal income, willful tax evasion, fake invoicing or inflated or fake e-way bills and take stern action against culprits.

The goal of these deliberations is to evolve a targeted approach to stop tax and duty evasion without troubling genuine taxpayers.

The move comes as continued revenue shortfall and slowing consumption demand have impacting GST collections adversely. Corporate tax cut resulting in a loss of revenue of Rs 1.45 lakh crore, along with recent GST compensation of over Rs 35,000 crore to states have exacerbated the Centre's fiscal stress.

States Stare At Huge Revenue Gap Post Withdrawal Of GST Compensation

The consolidated gap could amount to Rs 1.23 trillion

States are apprehensive of a huge shortfall in revenues

IMAGE: PIXABAY

ACCORDING TO A report by economic think tank NIPFP, states may be staring at a consolidated revenue gap of up to ₹1.23 trillion once withdrawal of compensation after the five-year GST transition period ends on June 30, 2022.

The compensation had been promised by the Centre as per an agreed formula at the time of implementation of the Goods and Services Tax (GST) in 2017.

The report says, “If the GST compensation is withdrawn after 30 June 2022, consolidated revenue gap of states would vary between ₹1,00,700 crore to ₹1,23,646 crore depending on expected tax buoyancy and reliability of data sources.” It adds,"This implies that states will need to either generate an equivalent amount of revenue from exiting sources to continue with committed expenditures and/or cut down expenditures to cope up with revenue shock in 2022-23.”

Currently, the ongoing shortfall in overall GST collection and rising revenue gap between GST compensation requirement and GST compensation cess (GSTCC) mobilization has delayed the timely release of GST compensation and led to much contention between the Centre and the state governments.

According to the report, the withdrawal of GST compensation and decline in overall State Goods and Services Tax (SGST) collection will impact state finances of major states including Punjab, Odisha, Goa, Chhattisgarh and Karnataka, among others substantially.

Substantial revenue gap is also expected in revenues of minor states like Himachal Pradesh, Uttarakhand, Tripura and Meghalaya.

In the light of the ongoing shortfall in GST collection and uncertainty around revenue on account of SGST collection, several states have approached the 15th Finance Commission for extension of the GST compensation period by another three years, i.e. up to 2024-25.

The report notes, “Any shock to state finances due to withdrawal of GST compensation after the GST transition period may have profound impact on India's fiscal management and therefore macroeconomic stability.”

However, as the report notes even if the GST compensation period is extended, it may not be possible for the Centre to provide GST compensation to states at the ongoing annual growth rate of 14%, unless either tax buoyancy and/or nominal growth rate of GDP improves.

GST Compensation Cess (GSTCC) was introduced along with GST on some specific items to mobilize resources for the GST Compensation Fund and provide GST compensation to states.

The fund is managed by the Centre.

Era Of Departmental Audit Under GST Begins

IMAGE: PIXABAY

Keep your papers in order; the era of department audit has commenced

First set of notices sent to assessees; need to be prepared with required documents

GOODS & SERVICES TAX (GST) authorities have begun sending notices for audit of assessees in order to ensure correctness of tax paid and credit claimed.

This is the first time that such notices have been sent and it concerns the first year of GST — 2017-18. Three types of audit are to be done under the GST regime. First is turnover based audit which is to be done by taxpayers with annual turnover of Rs 2 crore or more. The taxpayer has to get his/her account audited by a Chartered Accountant or Cost Accountant and the report has to be submitted as part of GSTR 9C returns form.

Second, a special audit, is done when there is apprehension of wrong declarations at big level. A chartered accountant or cost accountant nominated by the Commissioner does this audit on the order of Deputy/Assistant Commissioner.

The third kind of audit is the general audit where authorities undertake audit of any taxpayer. Experts say that the era of departmental audits has begun. Under this, authorities would summon taxpayers to produce detailed documents justifying correctness of the output taxes and claim of the input tax credit.

Since this is the first time such audit is being done under the GST regime, it is expected that tax officers will require extra time to reconcile financial information from various sources. These sources include financial statements, directors' reports, GST filings, income tax filings, tax audit report, cost audit report, internal audit report, agreements, purchase orders, etc.

General audit of this nature is undertaken under Section 65 of the GST Act and is to be implemented by a group of GST officials either at the Tax Department office or at the place of businesses. A 15 days' notice will be sent to the assessees prior to the commencement of the audit. Though the audit period is three months from the date of commencement of the audit, it can be extended by a further period not exceeding six months.

The registered entity who is being audited has to provide the required facility to verify the books of account or other documents as the authorized auditor may require and must furnish all such information and assistance for timely completion of the audit.

Once the audit has been completed, the concerned officer is required to inform the registered taxpayer about the findings, rights and obligations and the reasons for such findings within 30 days. In case any tax evasion is detected or tax short paid or erroneously refunded or input tax credit wrongly availed or utilized is discovered, action will be initiated against the registered entity.

In case an assessee gets notice for department audit, he/should have all pertinent documents ready including self-attested documents and records for the concerned financial year — return forms (GSTR1, GSTR 2A, GSTR 3B, GSTR9 and GSTR 9C), GST registration certificates, copies of annual report along with directors/individual audit reports and trial balances for the audit period, Income Tax Returns, any returns submitted to banks/financial institutions, cost audit, tax audit & internal audit reports, electronic credit/cash ledger, abstract of output services invoices & input services, work order/purchase order/agreements, filed up forms as prescribed by GST audit manual and copy of last general audit report.

Source: Secondary research & media reports

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Consumers, Beware

Don't Take Your GST Return Filing Casually. The Taxman Cometh ...

New rules aimed at tightening the noose on defaulters can lead tax authorities to freeze your bank account

New rules authorize tax authorities to attach property and freeze bank accounts of defaulter

IMAGE: PIXABAY

IF YOU HAVE been lax about filing goods and services tax (GST) returns, you better beware. Tax authorities could come after your property and money. According to media reports, a new set of rules has come up that authorizes GST authorities to attach property of defaulters to promote better compliance.

The move comes as more than 1 crore GST-registered entities have failed to file return on time. If despite repeated reminders, a taxpayer fails to submit returns, the new rules will allow GST-authorities to attach property and bank accounts the defaulter.

According to media reports, top officials of the Central Board of Indirect Taxes and Customs have been asked to crack down hard on defaulters. The due date for filing GSTR-3A is by the 20th of every month and the process to nudge taxpayers will begin three days ahead of the deadline. Upon expiry of the due date, a system-generated message will be sent to all the defaulters. The message will be sent to all authorized signatories of the business entity, its proprietor, partners, directors or the kartas in case of HUFs.

Further, if despite the electronic message, even after five days of the due date an entity fails to comply, the rule says an electronic notice has to be served giving the concerned taxpayer 15 days to furnish the returns. However, if the electronic notice also fails to nudge the entity to comply, tax officials can undertake an assessment of the tax liability after factoring in the available data.

GST authorities will now seek bank account details of businesses to tally with their filings, and also initiate other measures in order to tighten the noose around evaders and those misusing and gaming the system.

The Central Board of Indirect Taxes and Customs (CBIC) recently issued a three-page standard operating procedure and indicated its decision to go strong against defaulters.

The SOP states, "For the purpose of assessment of tax liability...the proper officer may take into account the details of outward supplies available in the statement furnished under section 31 (Form GSTR-1), details of supplies auto-populated in FORM GSTR-2A, information available for e-way bills, or any other information available for any other source, including from inspection."

Further, according to the SOP, tax officials can initiate recovery action if the entity fails to respond to the assessment order for 30 days. Earlier, VAT and service tax carried such provisions but were invoked in rare cases of extreme nature only.

To ensure compliance, GST authorities will now seek bank account details of businesses to tally with their filings, and also initiate other measures in order to tighten the noose around evaders and those misusing and gaming the system.

In order to strengthen the entire process, revenue department will meet officials from central and state GST wings as well as the Financial Intelligence Unit (FIU) and the Central Board of Direct Taxes.

The purpose behind these recent actions is to improve upon the red flags, which have helped the government improve compliance, resulting in filing of the GSTR-3B forms rising over 12% to 81 lakh returns by the December 20 deadline. Media reports quoted a tax official as saying, "Through e-way bills and FASTag, we will be able to check if goods have actually moved. Data from banks will help us check if genuine transactions have taken place or bogus details have been filled up in the returns."

The government realized that weak compliance was responsible for the less than 70 lakh returns being filed by the deadline just over a year ago and was one of the major reasons for leakages in the system.

Learning from its mistakes the revenue department began detailed data analysis to nab the culprits like those under-reporting sales or claiming excess refund of input tax credit.

Notably, the CBIC along with GST Network, or the technology arm of the GST network, developed a method of red flags that typically add up to around 40,000 a month in a tax base of over one crore. The system works with four-five parameters based on which alerts are sent out, with key focus being on the two GST returns that are filed.

This leads to a "nudge" and a push in case the data in GSTR-1 does not tally with GSTR-3B. On the discovery that the gap is around Rs 1 lakh, text messages are automatically sent to the company's directors or the proprietor of a firm, asking them to look into the difference. In many cases, text messages suffice to nudge the entity to rectify the problem, which sometimes is a simple oversight.

Source: Secondary research & media reports

GST At A Glance

GST has been a work in progress in India and it is time to develop a vision for the next 5 years at least with an aim to perfect the system

IMAGE: PIXABAY

Teething troubles over, it is time to perfect GST system

GOODS AND SERVICES Tax (GST) came as a major a major structural reform with its implementation in 2017. While the purpose was to replace the multiple taxes and cessesof state and central governments by a single tax structure, it led to a lot of confusions and attracted criticism initially. In the long run, GST did bring major relief to trade and industry and at the same time the reduction in overall tax incidence also brought relief to the end-consumers.

It was a major move as the discussions on GST Bill had been in progress for more than two decades. GST, as a single tax, replaced several other taxes and levies including central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Today we are following a much simpler dual GST system, i.e. GST for State (SGST) and GST for Centre (CGST).

Taxes Before the Implementation of GST

Prior to the implementation of GST, we had a plethora of taxes including State Value Added Tax (VAT), Central Excise Tax, Services Tax, Central Sales Tax, etc. All these were replaced by the single GST. While earlier Value Added Tax was mainly for the taxes at state level across all states in India; under GST regime, VAT was replaced by State GST or SGST and the State VAT department was converted to SGST Department. Similarly, Central Excise Tax that is the central tax for goods and services was replaced with Central GST or CGST.

Initially, as compared to the earlier taxing system, GST rates were higher. It was first introduced with five tax slabs and the goods and services were spread across these tax slabs. These GST rates were in effect till an amendment to lower the GST rates on selected goods and services were made on 18 January 2018 at 25th GST Council Meet. After which amendments were made on 29 Goods and 53 Services which came to effect from 25 January 2018. GST rates have been revised a number of times since the inception and the latest rate revision was brought into effect in the 37th meet of GST Council held in Goa on 20 September 2019.

What is GSTN?

Goods and Services Tax Network or GSTN was introduced by the Government as a private company in 2013. GSTN was registered under the Companies Act 1956, under Section 25, with the primary purpose to provide front-end services of registration, returns to taxpayers and payment. It is also mandated to develop back-end technical modules to be used by the states that have opted for GST structure. Around 34 IT and financial technology companies named as GST Suvidha Providers are engaged in developing applications for taxpayers to interact with GSTN.

Features of GST

In brief, GST implementation has led to a major change in the economy of the country. It has widened the markets of the goods and services bringing in uniformity of taxation throughout the country. Some of the features of GST are:

- GST is applied on the supply of the goods unlike the earlier form of earlier taxation
- GST is destination-based structure of taxing
- It is charged as CGST, SGST and IGST

BOX I History of GST in India

- 2006 - First announcement of GST was made by the Union Minister during the 2006-2007 budget, that it would be introduced on April 1, 2010
- 2009 - Empowered Committee released the first Discussion Paper
- 2011 - 115th Amendment Bill was introduced and subsequently lapsed
- 2014 - 122nd Amendment Bill was introduced in Lok Sabha
- August 2016 - One Hundred and First Amendment Act was enacted
- September 2016 - The first GST Council Meeting was conducted
- March 2017 - CGST, SGST, IGST, UTGST and Compensation Cess Act was recommended by GST Council.
- April 2017 - CGST, SGST, IGST, UTGST and Compensation Cess Act were passed
- 1 July 2017 - GST laws, Goods and Services Tax was launched all over India.
- 7 July 2017 - Jammu and Kashmir state legislature passed its GST.

GST is consumer and assessee-friendly

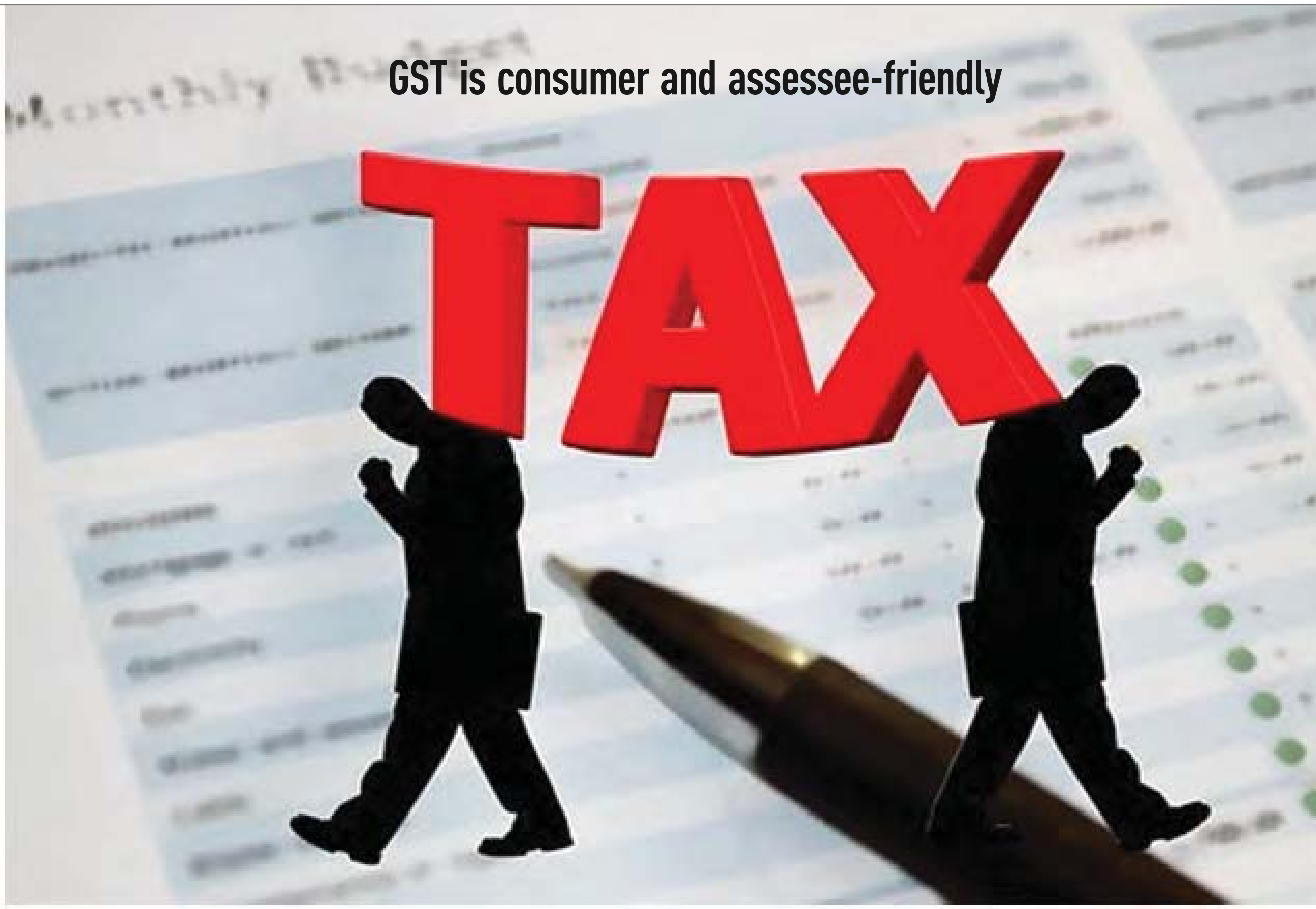


IMAGE: PIXABAY

Benefits of GST

GST has brought benefits for the country globally. The main motive of GST is to maintain a uniform tax regime and develop the country's products and introduce it globally. Some of the benefits of GST are:

- GST creates common market nationally
- Attracts foreign investment
- Helps to establish uniform taxation
- Helps improve production and encourage to enter international market
- Small retailers have nil tax or low tax
- Consumers are benefited by purchasing from the small retailers

Importantly, GST is an IT driven tax filing system, and this has made tax evasion by intermediaries down the chain difficult. The introduction of the e-way bill further eased the movement of goods pan India and the system became faster and less complicated and inefficient. The single e-way bill is carried by the transporter and as the state check posts stand abolished, the transit time has been cut short drastically.

For the manufacturing sector, GST provided the needed impetus, and it is expected that the growth of the economy will get a boost. What really boosted the prospects, was the wider acceptance of GST by the MSME sector.

Despite the Initial difficulties faced in GST implementation, GST has now gained wider acceptability in all quarters. The initial hiccups were to be expected given the gargantuan task but even these were resolved efficiently much due to the effective handling of the issues by the GST Council. In fact, all countries that implemented a similar exercise faced similar teething troubles but compared to them India has shown much wider and faster acceptance of the new taxation regime.

In the pre-GST regime, given the federal structure of our country, both Centre and states were imposing indirect taxes on goods. Through the multiple laws at state-level, taxation was imposed at different points. GST implementation faced major roadblocks as many states felt they would be losing their fiscal autonomy to tax. However, the promise of a 14 per cent annual increase from the tax base of 2015-16 for a period of five years, had the states agreeing to the mother of all tax reforms.

Notably, 17 different laws were merged under GST to create a single tax and its cascading effects are being felt by all.

Benefits of GST for Consumers, Suppliers and Service providers

Experts argue that GST has been both consumer and assessee-friendly. The multiple tax structure and high taxation of pre-GST era took a heavy toll of consumers' limited income. The feeling that they are already paying too many taxes made many consumers disinclined to pay

BOX II GST elsewhere

- **France** - The first country to implement GST in 1954 and many other European countries introduced GST in 1970-80s.
- **China** - Introduced VAT in 2016 to replace the Business Tax System that was already existing. GST is applied on selected goods.
- **Japan** - It introduced GST in the name of Consumption Tax in the year 1989.
- **Malaysia** - Introduced GST in 2015
- **Australia** - GST was introduced in 2000 with the rate of 10% and with the plans to increase it to 15%.
- **Singapore** - Introduced GST in the year 1994.
- **Canada** - GST was introduced in 1991 and has a dual model like India i.e. State GST and Central GST.

income tax honestly. As tax collection improved, GST Council went about systematically decreasing the burden of taxes on the end consumers. If the tax system is efficient, consumers would definitely move towards better tax compliance.

GST has ensured that most items of consumer use are in the lower tax slabs of 18 per cent, 12 per cent and 5 per cent. However, luxury and sin goods and some white goods remain in the higher tax slab.

The tax reduction was undertaken in an organized manner to ensure that any sudden reduction in all categories does not result in massive fiscal loss to the government rendering it incapable to spend on public goods. For example, the gradual reduction in GST on cinema tickets. It is not that the government did not incur any losses under GST. In fact, putting most essential items in the zero or 5 per cent slab resulted in a revenue loss of more than ₹90,000 crore annually.

In the pre–GST era as states had sovereignty in taxation, each levied multiple indirecttaxes such as VAT, Central Sales Tax, Service Tax, Excise, etc., in different forms. There was also different pricing of the same goods and services in different states. Though for states such an ambiguous tax structure was beneficial the economy as a whole incurred losses. GST ensured that a registered tax assessee pays a single, uniform tax on goods and services across the country. Thus, by creating a single common market, GST has helped consumers save on the price they pay for a product.

GST effectively removed the cascading tax effect, or what we know as tax on tax, which ensured that a good is taxed at every stage of its production till it is sold to the final consumer. Under this tax structure, the end consumer bore the burden of multiple taxes. Further, tax imposed at every stage of production led to inflationary prices.

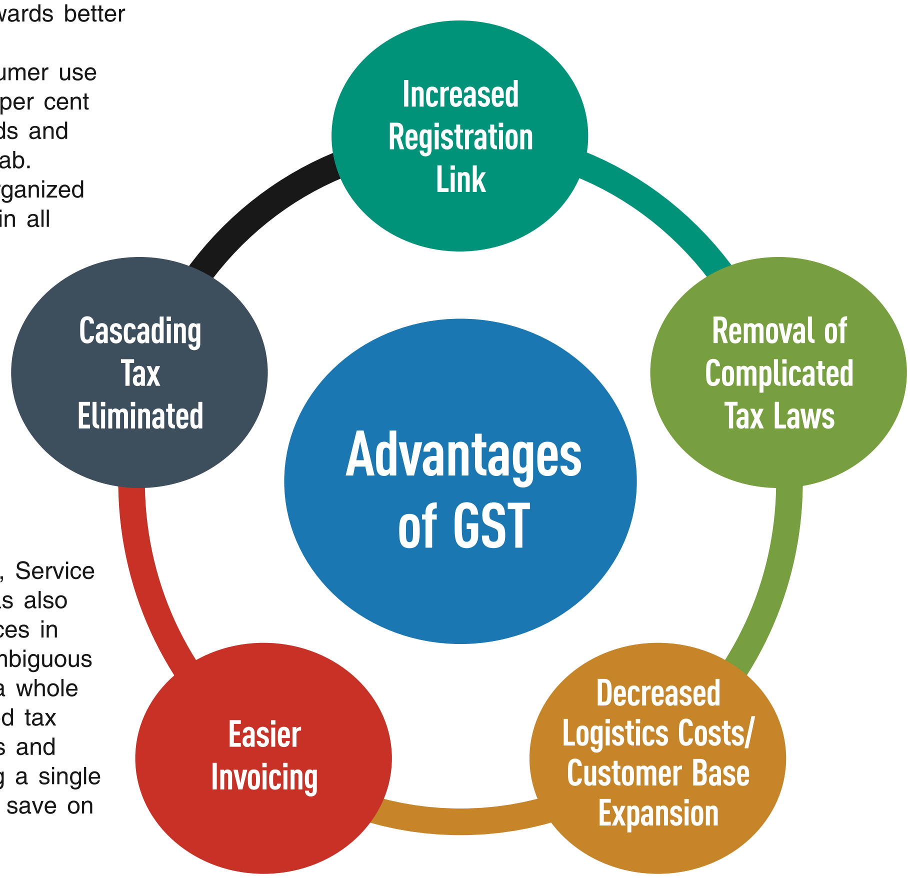
GST has also benefitted in other ways. As per the decision of the 32nd GST Council meeting:

- The GST exemption limit increased from Rs 20 lakh to Rs 40 lakh for suppliers of goods
- GST exemption limit for supplier of services was not changed and remained Rs 20 lakh
- For special category states, GST exemption limit was increased from Rs 10 lakh to Rs 20 lakh

For hilly and north eastern states, there was an option to choose either Rs 20 lakh or Rs 40 lakh as the turnover limit for GST exemption.

The Composition Scheme introduced under GST encourages reduced taxes and tax compliances by small business owners. Those registered under the scheme are required to pay a fixed percentage of tax on their turnover. Moreover, small businesses registered under Composition Scheme need to file one quarterly return. The tax rates under Composition Scheme are as follows:

- Small businesses with a turnover of Rs 1.50 crore pay a flat GST rate of 1% and file one tax return only



BOX III In Shorts

How is GST different from earlier indirect tax regime?

In GST, only two buckets are required to get input tax credit — one for State-GST and another for Central-GST. Earlier, a company selling in several states would have to make as many buckets for taking input tax credit in value added tax (VAT). For excise duty too, they have to make as many buckets as there are manufacturing units.

Which taxes are subsumed in GST?

Service tax, central excise duty, state level value added tax and local taxes such as octroi.

What is GST Council?

It is a body that is mandated to recommend any changes in GST, including rates. The Union finance minister is the chairperson and state finance ministers are its members. The Centre has one-third vote and all states combined have two-third, with each state having equal voting power. Every decision has to be passed with three-fourth voting.

Though the Centre does not have a veto, it alone can block a resolution.

- Small service providers with an annual turnover of Rs 50 lakh now pay a GST of 6% instead of 18%

GST has also reduced the burden of tax compliances as the number of tax returns to be filed have drastically reduced under GST. Earlier, businesses registered for various indirect taxes had to bear multiple compliances, as there were a host of taxes to be paid under the previous indirect tax structure.

To simplify the procedure for online compliance for GST Returns, the GST Council approved a new return design in its 27th meeting. Under the new system,

- The taxpayers are required to file only one monthly return. This return has two tables – one for reporting outward supplies and one for availing input tax credit based on invoices uploaded by the supplier
- The new structure allows suppliers to upload invoices in real time that can be viewed and locked by the buyer for availing input tax credit. Reconciliation of invoices with that of buyers takes place offline

Since registration and filing returns under GST is done online, it has simplified the entire process. From GST registration or return filing, for a registered business owner everything can be done online. Earlier, a business owner was required to register separately for various indirect taxes.

One of the biggest contributions of GST is regulating unorganized business. In fact, a primary reason for implementing GST was to increase the tax base by getting unorganized businesses on board. As per Economic Survey 2017–2018 data, implementation of GST led to a 50% increase in the number of indirect taxpayers. Voluntary registrations, especially of small enterprises that sell goods to large enterprises, also increased.

The Future

What should be GST's future course in India? GST regime so far has been a work in progress as the government cautiously embarked on it taking care to ensure that public good was best served. However, it may be time to adopt some stringent measures in the quest for the best. The GST system needs to be perfected removing all snags. As we start a new decade, the emphasis must be on a future plan with a vision for GST encompassing at least five years. Stabilizing revenue both for states and Centre is a top priority. The states though comfortable at the moment because of the compensation mechanism whereby 14% incremental growth rate of revenue is assured to them, need to develop a framework going forward to sustain revenue. The Centre needs to work on its revenue as it is worrisome.

According to experts, exclusion of certain items from GST has led to distortions in the tax structure such as cascading of tax and reversal of input tax credit. Some experts suggest bringing diesel, petrol and alcohol into the GST net with well-planned structuring as this will make the rate at which these items are sold to consumers uniform across states. Experts suggest rationalizing the rate structure under GST and that eventually we should move from a four slab structure to a three slab structure, and then to a two slab structure and finally to a single slap GST as multiplicity of slabs leads to disputes.

It is time to look back on GST and its progress and take informed measures to update the GST structure to make it an exemplar tax regime.

Source: Secondary research & media reports

IMAGE: PIXABAY

GST has been a boon for small businesses as it helps them streamline complicated taxation and compliance processes and brings in ease of doing business across the country

Simplicity, transparence and accountability, what GST gave small businesses.

GST

Boon For Small Businesses

THE GOOD AND Services Tax (GST), was launched by the Government of India in July 2017 after much hiccups and amid criticisms and uncertainty. However, the government adopted a flexible approach and along the way learning from the hits and trials, GST managed to revolutionize the way business is conducted in India and proved to be the mother of all taxation reforms.

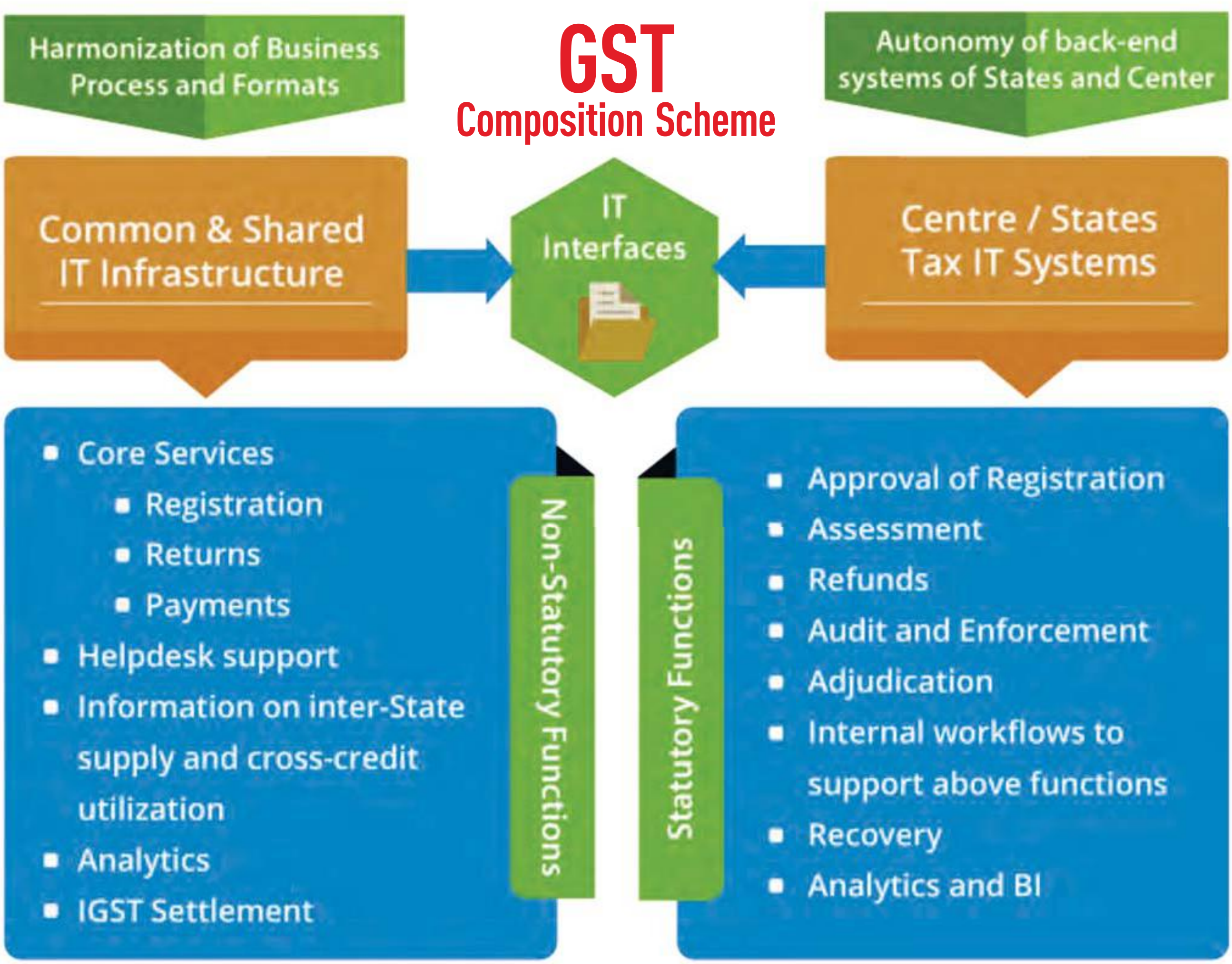
GST not just simplified the return filing process for businesses but also ushered an era of accountability and transparency in the country. Being technology driven it eliminated human intervention to a large extent, minimizing errors, and paving the way for eliminating tax-related corruption majorly.

GST helped businesses streamline accounting and finance processes and ensure they get maximum tax benefits. However, for this to happen businesses are required to be diligent in adopting the procedures laid down by the GST Council and being punctual in filing the requisite returns.

Here is how GST is helping small businesses in India.

Benefits of an online tax culture: GST brought in a robust online portal for registration, payment, and filing of returns. This eliminated the complicated paper culture and cut red tape facilitating smooth compliance by businesses. The online culture also facilitates rectification of errors and refiling of returns. This has provided the much-needed flexibility and freedom to taxpayers. Since compliance requirements have been drastically reduced, GST has promoted ease of tax payment by making critical tax payments online and decreasing compliance requirements for direct tax payments.

Compliance becomes simpler and cheaper: As a one stop portal for tax compliance, GST brought in simplicity and thereby decreased the cost of compliance for small businesses. The micro, small and medium-sized enterprises (MSMEs) were provided further concessions like the GST exemption limit was raised to an annual turnover of ₹40 lakh from the erstwhile ₹20 lakh. Further, for businesses with a turnover of up to ₹1.5 crore, the government introduced a composition scheme which allows them to pay only one percent flat rate and file only one annual return. For small service providers with a turnover of up to ₹50 lakh, GST at a rate of six percent instead of 18 percent is applicable. These business-



friendly initiatives under GST are aimed at the over 35 lakh MSME enterprises. Another initiative that could bring major relief to small businesses is that the government may allow more than 90 percent of GST payers to file quarterly returns.

GST also holds a big promise for taxpayers to streamline their business and accounting processes, and get the maximum tax benefits. The only caveat being businesses must be punctual and precise in following the procedures laid down by the GST Council.

Strong audit system: GST policy aimed at building a robust audit system which provides taxpayers ownership of compliance by allowing them to evaluate and ensure compliance. Taxpayers have been empowered to undertake self-assessment of their tax liability and can pay tax without the intervention of the Income tax department. However, all GST registered taxable entities with a turnover during a financial year more than Rs 2 crore are required to get their accounts audited by a CA or cost accountant. The audit is to check that all the information provided, taxes settled, refund claimed and input tax credit (ITC) availed by the taxpayer are correct.

GST effectively simplified the indirect tax system in India subsuming a multiplicity of taxes at both the central and state levels and thus eliminating the cascading effect of tax. Pre-existing taxes like Central Excise Duty, Service Tax, Countervailing Duty, Value Added Tax or Sales Tax, Central Sales Tax, Octroi and Entry tax, etc. were all done away with. By removing the complicated tax structure and compliance burden, GST has promoted ease of doing business in India.

Under GST, taxpayers have to file returns online and with the introduction of the e-way bill ensured that inter-state movement of goods and services became hassle-free, quicker, streamlined. Transporters no longer need to pay tax at entry into every state, check posts have been removed and there are no longer nightmarish vehicular queues.

Tax structures have been standardized across the country and this has decreased the burden and expense of compliance. There are just 5 clear-cut slabs of GST rates for goods and services – nil, 5 percent, 12 percent, 18 percent, and 28 percent. The slabs have been fixed taking into account the pre-GST aggregate indirect tax incidence both of central and state taxes, including embedded taxes. All these have been incorporated in GST for revenue neutrality. As there are no longer multiple taxes imposed by various agencies, some even at the city level, data filed for returns has become transparent and accurate.

Enhanced transparency: Since GST brought tax culture online it ensured transparency minimizing the loopholes that could be exploited for frauds, tax

Online tax structure has made compliance easier and reduced the burden on MSMEs.

IMAGE: PIXABAY

avoidance, harassment of taxpayers by unscrupulous authorities and corruption. GST replaced the earlier complex indirect tax system with a simplified, transparent and technology-driven tax structure doing away with ambiguities. GST has eased the taxation system for taxpayers and simultaneously led to better tax revenues for the government

Undoubtedly, GST led to disruptions. But it was expected that such a huge reform would have teething trouble. However, the long-term benefits for businesses are huge as GST processes provide simpler route to tax compliance, which is devoid of the multiplicity of taxes, complexities and corruption.

Scope to grow: GST expedited the process of digitalization in India as it brought small businesses into the ambit of Digital India. The government of India has been pushing for a digital economy as to improve transparency, reduce frauds and minimize errors. Digitalization has led to the development of an ecosystem that promotes to business growth.

Markets access: By standardizing taxes across the country, removing checkpoints and e-way bill and now with the implementation of e-invoicing, attendant complexities, frauds and corruption, the GST regime has facilitated businesses with a pan India presence and also those who want to do business across the country. Businesses can now access any part of the country easily and can conduct business at any location across India without the burden of multiple taxes and cumbersome transaction processes.

Seamless ITC: The GST rules have brought in a systematic mechanism to provide ITC between excise duty and service taxes, with a stronger mechanism for crediting input taxes applicable on the outputs in place. In the pre-GST era, taxation at multiple stages beginning with central excise duty levied at the manufacturing stage led to pricing pressures at the retail stage.

While GST has kickstarted the digitalization process in the country, businesses need to invest in software solutions for complete business process automation to be able to accrue true value from GST. GST-compliant software products that automate accounting to billing to GSTR filing processes in the shortest possible time must be implemented in companies. Streamlining accounting processes, billing, bill-wise/ledger-wise data, generating balance sheets and generating GST compliant invoices, will ensure maximum benefit to businesses. Since the taxpayer is responsible for reconciliation and must follow up with the vendor and maintain records accurately, a digitalized process is a must for businesses. With good system in place, small businesses can truly enjoy the ease of doing business that GST brings.

Source: Secondary research & media reports

Building a seamless supply chain

IMAGE: PIXABAY

GST Brings Positive Gains For Transportation & Freight Sector

As India becomes one market under GST, businesses are restructuring their supply chain, warehousing and depots. For the transportation industry, GST is hence an opportunity to consolidate their gains by ensuring supply chain efficiencies

THE IMPLEMENTATION OF Goods and Service Tax (GST) brought about a positive effect in the transport sector. Primarily by helping speed up the movement of consignments via road, rail, air and sea, GST has brought about a 20% increase in efficiency in the sector. As the multiple checkpoints were dismantled and the e-way bill removed the necessity of multiple checks, the burden on transportation drivers has been reduced to a great extent.

In the pre-GST era, each state had the freedom to levy different tax rates on goods passing through. Post-GST, the rates applicable are unilateral throughout the country. The indirect tax regime which was complex with multiple taxes applicable on a business, was also largely unwieldy, inefficient and opaque. The multiple applicable levies required compliance with payment, reporting and audit requirements under different tax authorities.

The GST input tax credit available across the value chain has not only prevented tax cascading but also brought much relief to the transporters. The logistic services providers offset their GST liability not only against the credit received on any services consumed, but also on purchase of goods and capital assets. This has favorably impacted the cost structure and the profitability of the industry to some extent.

Earlier due to the complicated structure, trucks would lie idle for 30 per cent to 40 per cent of the time during their delivery schedule due to trade barriers such as entry taxes, local body taxes, octroi, etc. A World

IMAGE: PIXABAY

Bank estimate said that GST could lead to 30-40 per cent of savings on logistic costs incurred due to stoppages at various tolls and checkposts for filing of entry permits, compliances under Entry Tax laws and local levies. The logistic time has been substantially reduced due to phasing out of the border check posts. All these have led to improved efficiencies due to reduction of trade barriers. Some of the benefits of GST on transport services are as follows:

- **Simplified tax –** GST implementation put an end to 15 different state and federal taxes and tariffs. The removal of different rates of taxes simplified the transportation of goods and eliminated the cascading effect of indirect taxes on the sector.
- Reduced costs of **warehouse/ logistics –** The multiple taxes and different rates resulted in higher logistics costs. This has been reduced by over 20% since GST was implemented. Due to each state having a different tax slab rate, companies preferred warehouses in various states instead of at strategic points. This was an inefficient process and led to increased warehouse costs. GST allowed companies to remove multiple warehouses and thereby improve logistics through optimization in the supply chain.
- **Increased efficiency –** GST with its single central tax rate has made transportation across the country through all the states seamless as the multiple checkpoints, entry permits, complicated paperwork, etc., have become redundant. GST removed the complexities in transportation system thereby reducing the transit time and leading to lower operational costs and efficient logistics.
- **Technology driven –** Being technology-driven, GST combined with the e-way bill, has helped create uniformity in the industry and remove confusion. GST has certainly improved things for the transportation industry.

Impact of GST on multimodal transport

Multimodal transport is an important logistics process that involves transfer of goods between locations using more than one method of transportation – road, rail, waterways or air. IN other words, multimodal transportation means carriage of goods, by at least two different modes of transport from the place of acceptance of goods to the place of

Vanishing checkposts, diminishing queues

IMAGE: PIXABAY

Centralized warehousing reduces cost

delivery of goods by a multimodal transporter.

Suppliers generally do not have all the transportation under their organization and take the help of intermediary known as a multimodal transporter. A multimodal transporter is someone who enters into a contract to perform multimodal transportation against freight by road, air, rail, inland waterways or sea, and acts as a principal and not an agent either of the consignor, or consignee. To fall under the definition of multimodal transporter, the said person is required to assume responsibility for the performance of the said contract.

The government is committed to building multi-modal logistics parks. One such terminal has been built in Varanasi aimed to serve as a gateway connecting north to east with terminals for waterway, rail and road, with storage and warehouse facilities as well. Though a beginning has been made in multimodal transport nation development, a lot more needs to be done.

Given the complex nature of multimodal transportation, a single rate of GST was much needed. Till July 2018 however multiple modes of transportation services attracted multiple rates of GST, i.e., different rates of GST were applicable for transport by rail, road, water and air, that also varied depending on the claim of input tax credit.

It was on the petitioning of the Society of Indian Automobile Manufacturers (SIAM) that approached the logistics division of the Commerce Ministry to raise the issues being faced by the industry because of non-availability of a separate category of service and rate of GST for multi modal transport; that the Commerce Ministry pitched for a single GST rate for multimodal transportation of vehicles. In response to this and taking it a notch further the CBIC issued notification No. 13/2018- Central Tax Rate on 26th July, 2018, prescribing a single rate of 6% (CGST) for multimodal transportation of all goods and not just vehicles.

A World Bank estimate said that GST could lead to 30-40 per cent of savings on logistic costs incurred due to stoppages at various tolls and checkposts for filing of entry permits, compliances under Entry Tax laws and local levies. The logistic time has been substantially reduced due to phasing out of the border check posts.

The implementation of GST in the transport sector has had positive results and is expected to improve over time. With increasing compliance and optimization of efficiency, India is on the path to become globally competent with decreasing logistics costs.

GST is expected to play a transformative role in the economy by adding a buoyancy to it primarily through the creation of a common market and by reducing the cascading effect on the cost of goods and services. The transportation industry must take proactive steps to capitalize on opportunities that the GST regime offers.

Source: Secondary research & media reports

Understanding The Purpose And Role Of GST Council

Goods & Services Tax has become an essential part of the tax structure. Yet, still for the common people it is a complicated process. Here's a look at what the GST Council does

The Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman chairing the 38th GST Council meeting, in New Delhi on December 18, 2019. The Minister of State for Finance and Corporate Affairs, Shri Anurag Singh Thakur is also seen.

GOODS & SERVICES Tax Council is a constitutional body mandated to make recommendations to the Union and State Government on issues related to Goods and Service Tax (GST). Chaired by the Union Finance Minister, the GST Council has members who are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

GST Council is hence the governing body of GST. It has 33 members, out of which 2 members are of the Centre and 31 members are from 28 state and 3 Union Territories with legislation.

The council has the following members: (a) Union Finance Minister (as chairperson) (b) Union Minister of States in charge of revenue or finance (as member) (c) the ministers of states in charge of finance or taxation or other ministers as nominated by each states' government (as member).

As an apex member committee, it can modify, reconcile or procure any law or regulation based on the context of goods and services tax in the country.

Currently, the Council is headed by the Union Finance Minister Nirmala Sitharaman assisted with the finance minister of all the states of India. It is the responsibility of GST council to undertake any revision or enactment of rule or any rate changes of the goods and services in India.

The vision of the GST Council is to establish highest standards of cooperative federalism in the functioning of GST Council, which is the first constitutional federal body vested with powers to take all major decision relating to GST. Its mission is evolving by a process of wider consultation, a Goods and Services Tax structure, which is information technology driven and user friendly.

The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2016, for introduction of Goods and Services tax in the country was introduced in the Parliament and passed by Rajya Sabha on 3 August 2016 and by Lok Sabha on 8 August 2016 and received the assent of the President on 8 September 2016. Consequently, it was notified as the Constitution (One Hundred and First Amendment) Act, 2016.

As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12 September 2016 was issued on 10 September 2016.

As per Article 279A of the amended Constitution, the GST Council is to have a joint forum of the Centre and the States, consisting of the following members:

- the Union Finance Minister as the Chairperson
- the Union Minister of State in charge of Revenue or Finance as Member
- the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government as Members

As per Article 279A (4), the Council has to make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

In its meeting held on 12 September 2016, the Union Cabinet had approved setting-up of GST Council and setting up its Secretariat. The Cabinet inter alia took decisions for the following:

- Creation of the GST Council as per Article 279A of the amended Constitution;
- Creation of the GST Council Secretariat, with its office at New Delhi;
- Appointment of the Secretary (Revenue) as the Ex-Officio Secretary to the GST Council;
- Inclusion of the Chairperson, Central Board of Excise and Customs (CBEC), as a permanent invitee (non-voting) to all proceedings of the GST Council;
- Creation of one post of Additional Secretary to the GST Council in the GST Council Secretariat (at the level of Additional Secretary to the Government of India), and four posts of Commissioner in the GST Council Secretariat (at the level of Joint Secretary to the Government of India).

The Cabinet also decided to provide for adequate funds for meeting the recurring and non-recurring expenses of the GST Council Secretariat, the entire cost for which shall be borne by the Central Government. The GST Council Secretariat shall be manned by officers taken on deputation from both the Central and State Governments.

The provisions of Article 279A of the Constitution of India with respect to constitution of GST Council and its mandate are as below:

Mandate of GST Council

- (279A.) The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and First Amendment) Act, 2016, by order, constitute a Council to be called the Goods and Services Tax Council.
- The Goods and Services Tax Council shall consist of the following members, namely:
  - the Union Finance Minister as Chairperson;
  - the Union Minister of State in charge of Revenue or Finance as Member;
  - the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government as Members.

- The Members of the Goods and Services Tax Council referred to in sub-clause (c) of clause (2) shall, as soon as may be, choose one amongst themselves to be the Vice-Chairperson of the Council for such period as they may decide.
- The Goods and Services Tax Council shall make recommendations to the Union and the States on:
  - the taxes, cess' and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;
  - the goods and services that may be subjected to, or exempted from the goods and services tax;
  - model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;
  - the threshold limit of turnover below which goods and services may be exempted from goods and services tax;
  - the rates including floor rates with bands of goods and services tax;
  - any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
  - special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
  - any other matter relating to the goods and services tax, as the Council may decide.
- The Goods and Services Tax Council shall recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.
- While discharging the functions conferred by this article, the Goods and Services Tax Council shall be guided by the need for a harmonized structure of goods and services tax and for the development of a harmonized national market for goods and services.

- One-half of the total number of Members of the Goods and Services Tax Council shall constitute the quorum at its meetings.
- The Goods and Services Tax Council shall determine the procedure in the performance of its functions.

Every decision of the Goods and Services Tax Council shall be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting, in accordance with the following principles, namely:

- the vote of the Central Government shall have a weightage of one third of the total votes cast, and
- the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.

- No act or proceedings of the Goods and Services Tax Council shall be invalid merely by reason of:
  a. any vacancy in, or any defect in, the constitution of the Council; or
  b. any defect in the appointment of a person as a Member of the Council; or
  c. any procedural irregularity of the Council not affecting the merits of the case.
- The Goods and Services Tax Council shall establish a mechanism to adjudicate any dispute:
  a. between the Government of India and one or more States; or
  b. between the Government of India and any State or States on one side and one or more other States on the other side; or
  c. between two or more States, arising out of the recommendations of the Council or implementation thereof.

Source: Secondary research & media reports

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"Voices On GST From Around The Internet"

Nirmala Sitharaman

Minister of Finance and Minister of Corporate Affairs to TimesNow at the Times Network'a India Economic Conclave, December 17, 2019

We present here excerpts from interviews on GST by various authorities and experts.

Q Your target for GST collections was Rs 6,63,000 crore and in the current financial year, in the first eight months we have clocked only 50% of those collections. As far as the compensation cess is concerned, Rs 1,10,000 crore was the target and we are sitting at about Rs 64,500 crore. The GST council meet is just two days from now. Would you be looking at some radical steps? Market is anticipating that the 5% and 12% slabs may go up to 8% and 18%. Would you like to say something on which direction the GST council meeting is going to take?

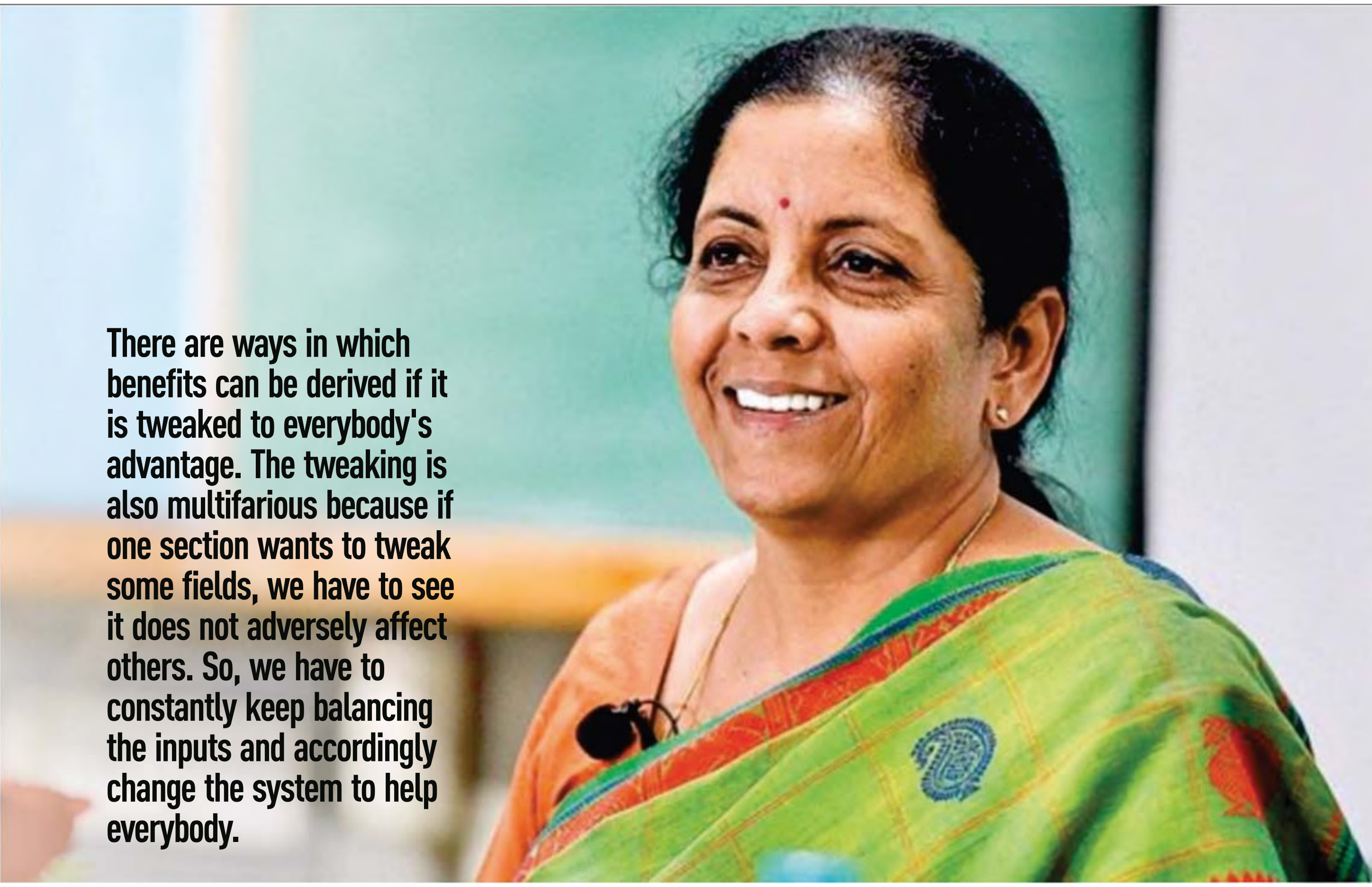
As regards the GST slabs and rates, I do not think we have had enough discussion even within the ministry yet on the slabs and the rates. This discussion is everywhere else, rather than in my office. I do not think I am even talking about raising or rationalizing the slabs at all at this stage. But eventually, sometime, the GST Council would want to talk about it. But I have not readied myself for this particular meeting on this particular issue.

Secondly, the thing about the compensation cess is that the number that you gave is factually right. I also admit that the payments which had to go on the compensation head has not been given for the two-month slot. Before I go into that, the connection and the fall in the number of connections or not really growing, should have several reasons to it.

We have given extension for filing of returns in some districts, which were flood affected and when I say some districts, you might say in a large country like this, do some districts matter? No. Some districts which have a huge potential have been affected because of the floods and we had to extend the dates that is one reason.

Second, in certain sectors, there have been challenges and as a result of which, consumption would have come down and this is a consumption-based tax. Naturally, the collection would be affected because of that. There are several reasons, all of which have brought in one consequence that the growth in collection is not as much as we wanted it to be.

Q What would you say to states especially those ruled by Opposition parties which have said that it is embarrassing for states to continue to ask the Center to pay up the dues for the states and this is a matter of their right It was promised when GST was first rolled in by your government in the last tenure. They



There are ways in which benefits can be derived if it is tweaked to everybody's advantage. The tweaking is also multifarious because if one section wants to tweak some fields, we have to see it does not adversely affect others. So, we have to constantly keep balancing the inputs and accordingly change the system to help everybody.

are seeing this as reneging of the Center's promise to the states?

I fully appreciate that point and I do not disagree with them if they say that it is embarrassing. Yes, it will be embarrassing, and I do not want them to feel embarrassed because it is not their fault, but nor is it personally my fault. I would rather give them yesterday than today and there are obviously reasons and I have elaborated on all this earlier. I am not denying it is their tight but I am also making clear I am not reneging on that, stats will be given.

Q There are three big reforms that your government undertook over the last five and a half years – DeMonetisation, GST and merger of banks. Several public sector banks are being merged under one head. But not any of these reforms are giving the dividends in terms of growth expansion of the Indian economy. Would you say that these reforms have gone wrong?

I do not agree at all on the conclusion that you have made that these reforms have not worked. These are major reforms because they have an impact on several layers within the economy. If demonetization had to suck out certain amount of money, which were not tax paid, it did achieve that. It also made sure that the economy gets far more formalized.

These do have an impact when industries small, big and medium will have to adjust to the restructured work ethic, work culture and the work business model, in which they have to start functioning in a formalized set up. Many of them were informal and that was fine earlier but now there are a lot more reasons to be formal. By becoming formal, they have a lot more benefits to derive like the way they get input credits in GST, if they are on the scheme. If they are not, even then, they can pay rather far lesser tax than otherwise. So, the benefits of getting formal are there for everybody to see. It is not right to conclude that these have not worked at all but of course yes there are teething problems.

There are ways in which benefits can be derived if it is tweaked to everybody's advantage. The tweaking is also multifarious because if one section wants to tweak some fields, we have to see it does not adversely affect others. So, we have to constantly keep balancing the inputs and accordingly change the system to help everybody.

The teething troubles cannot be taken as a conclusion for saying it is not working. Problems do come up as all of us are getting into a formal system, into a technology driven system. I can understand the difficulties, but I would not reject moving forward with the system which is in place and which benefits all of us.

"Christiaan van der Valk, Vice-Chair, Commission on the digital economy at the International Chambers of Commerce, to Financial Express Online, Jan. 3, 2020"

Q How has the implementation of GST in India gone so far?

While the road to GST was bumpy, it was by international comparison very quick. The challenge was, of course, monumental, considering country size, economic and societal stakes. Rolling out a program of this magnitude in such a short time was never going to be easy but it is widely considered to have been successful.

Q With increasing cases of fraud related to input tax credit, how can e-invoicing help to curb it?

Fraud often causes governments to collect significantly less VAT. To reduce this gap, countries across the globe are adopting continuous transaction controls (CTCs). E-invoicing with real-time tax approvals is a form of CTC that successfully reduced fraud in Mexico, Brazil, and Turkey. The proposal that India has outlined has the same core concepts and can be expected to show similar results.

Q Can e-invoicing reduce compliance pressures felt by companies?

Uncertainty of interpretation – simply knowing what tax rules mean – has historically been problematic for bona fide companies trying to avoid fines, protracted audits and other consequences of non-compliance. By contrast, CTCs are based on comprehensive technology specifications, which make compliance a more binary proposition. However, complying with the continuous change of specifications and considerable variation among countries can be challenging – that's where always-on e-invoicing compliance software comes in.

Q How easy or difficult is implementing e-invoicing?

The new legislation requires businesses to use software that automatically obtains a unique identifier from a registration body. Adopting software that has been upgraded for this purpose won't be painless, but it isn't transformational. This identifier must then be incorporated in every invoice a supplier sends, whether electronic or on paper. In that sense, the new rules aren't really about e-invoicing – which has been an option in India for years – but rather about real-time online reporting of invoice data.

Q GST was brought-in to reduce complexity in the tax structure, but it further increased the confusion in the market. Do you have any recommendations on improving GST in India?

Most experts consider the remaining challenges with GST in India to revolve around complex filing and timely tax refunds. One stated objective of the new e-invoicing rules is to replace reporting processes by an automated procedure that has the potential of considerably alleviating the burden of filing. It is important that the tax administration continues to modernize and automate its back office for processing and refunds. Outside of tax, India could generate vast economic gains by using the new e-invoicing rules to eliminate paper bills and foster automation of business transactions.

"Bibek Debroy, Chairman of the Economic Advisory Council to Prime Minister Narendra Modi to the The Hindu Online, Dec. 16, 2019"

Q Isn't it a contradiction to give a boost to consumption by reducing direct tax rates and at the same time raise rates of GST, which, being an indirect tax, is non-progressive?

The trouble is, we want GST to be simplified. [To] how many rates the GST Council will decide. Let's say three rates. Let's say [those will be] 6%, 8% and 12%. When Arvind Subramanian was the CEA [Chief Economic Adviser] he did some exercise that showed the average GST rate ought to be 16% to make it revenue neutral. Today, the average GST rate is 11.6% because a large number of items are at 0%.

To make the GST a simpler tax, the 28% [highest bracket GST rate] has to come to 18%, which everyone wants. But the 0% must also go up, which no one wants. I don't think the GST Council has yet arrived at a decision. Newspaper reports suggest some items from the 12% GST rate bracket may move to the 18% bracket. And some items that are in the 5% GST rate bracket may move to the 12% bracket. In the midst of a growth slowdown, that's a bad idea.

Q What do you recommend?

It's the prerogative of the GST Council. A perverse incentive has been created by the compensation guarantee. We are stuck with it. If I were to recommend, I would say as an economist: to avoid complications, I recommend one single rate. If you want to address items for the poor, it is best not to do it through indirect tax policy but other means. But let us recognise that no country in the world has a single indirect tax rate. So, the best you can probably get is three rates — a standard rate, a higher rate for 'luxury items' and a lower one for merit goods.

Q You just spoke of Arvind Subramanian's GST recommendations being the right approach and yet they failed to guide decisions. The Finance Ministry could have persuaded the GST Council to see merit in his report.

The GST Council is a phenomenal success as a decision-making body. We are one of two and half other countries that have implemented GST of this nature. Others are all unitary GST. There are a whole lot of people out there in the world who think the Union government should behave like a dictator and ram it down throats.

Source: Secondary research & media reports

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CONSUMER

is a Protected Consumer

Pyush Misra
Director,
Consumer Online Foundation

DECODING GST FORMS

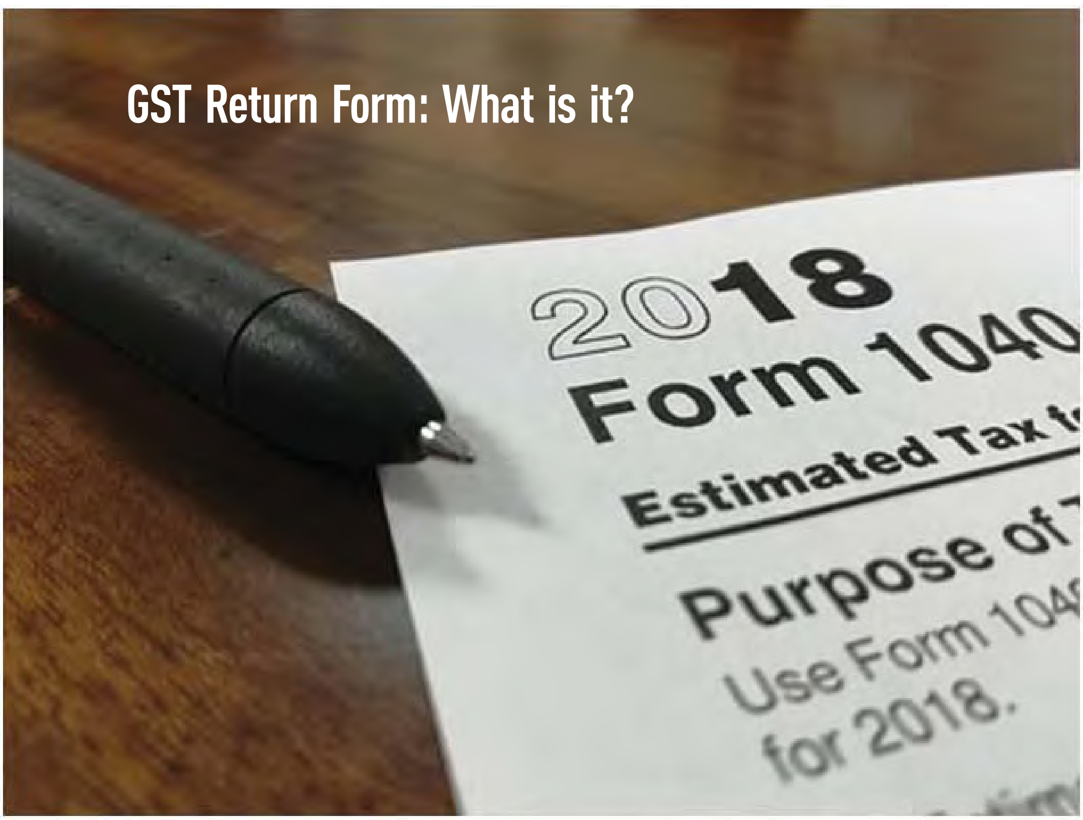


IMAGE: PIXABAY

The Goods and Services Tax (GST) which aimed at simplifying the indirect taxation structure has left most confused with the plethora of new terms and conditions and compliance forms. All taxpayers are required to complete GST Registration and all the registered entities under the GST system are required to file their GST returns using applicable forms either online or offline. Let's take a look at these forms and try to understand what is expected of the taxpayer

IN SIMPLE TERMS, GST Return Form is a document that contains details of all purchases, sales, output GST (on sales) and input tax credit (GST paid on purchases) to calculate an assessee's GST liability for a given tax period. Taxpayers can file GST returns monthly, quarterly or annually depending on the factors applicable to its particular case.

Who is required to file GST Return?

All those businesses that have registered under the GST system have to mandatorily file their GST returns using applicable forms either online or offline. Generally, a business entity is required to file 2 monthly returns (GSTR-1 & GSTR-3B) and 1 annual return (GSTR-9), that is to say, any business registered under GST has to file a total of 25 GST returns in a year.

What is a GSTR-1 form?

GSTR-1 is the master form for all subsequent forms for the return period. GSTR-1 works with the assumption that a business transaction that needs to be recorded on the form involves a supplier and a recipient. Th form concerns outward supplies and a supplier needs to be fill it out in details and furnish invoice details of every transaction for the return period. The GSTR-1 form for any month must be filled by the 10th of the next month. The details provided by the supplier in his GSTR-1 then must auto populate the recipient's form, detailing the inward supply.

In summary, GSTR-1 is the return that has to be furnished for reporting details of all outward supplies of goods and services made, i.e. sales transactions made during a tax period, and also for reporting debit and credit notes issued. The taxpayer must report any amendments to sales invoices made even those pertaining to previous tax periods in the GSTR-1 return.

This form has to be filed by all normal taxpayers registered under GST monthly, except for those small taxpayers whose turnover was up to Rs.1.5 crore in the previous financial year, who can file GSTR-1 on a quarterly basis.

What is the GSTR-2 form?

The GSTR-2 is to be filled by the recipient with details of all inward supplies. A subset of this, the GSTR-2A, is auto-populated by the supplier's GSTR-1. To understand this further let us look at the case of 2 companies – A and B. A is the supplier of goods to B. Under the GST system, A will have to log the details of the transaction in its GSTR-1 and at B's end these details will be auto-populated in its GSTR-2A.

However, B has to provide other details including inward supplies from unregistered companies and the like to be able to complete its GSTR-2. Company B will have to complete this process by the 15th of the subsequent month. In case of a disagreement on part of the recipient regarding the details in the GSTR-2A form, these concerns can be communicated to the supplier who can then modify the GSTR-1 or not.

Thus GSTR-2 form is the return in which businesses report the inward supplies of goods and services, i.e. they report the purchases made during a given tax period. While the details in the GSTR-2 return are auto-populated from the GSTR-2A, unlike GSTR-2A, GSTR-2 return can be edited.

Notably, all normal taxpayers registered under GST have to file GSTR-2 return. However, the filing of this has been suspended ever since the inception of GST.

What other forms are there under GST?

GSTR-3 is an auto-populated form based on the details of the GSTR-1 and GSTR-2. This form shows the consolidated monthly return and contains the tax liability as well as the tax collected on outward supplies and tax paid on inward supplies by the registered entity. GSTR-3 requires minimal manual entry and must be filled by the 20th of the next month. Companies can file a summary GSTR-3B form every month up to December. The GST Council has allowed this relaxation to ease the burden of compliance on taxpayers.

Thus, GSTR-3 is an auto-generated return on the basis of the GSTR-1 and GSTR-2 returns filed monthly. It is a summary return for furnishing summarized details of all outward supplies made, inward supplies received and input tax credit claimed, along with details of the tax liability and taxes paid. It has to be filed by all normal taxpayers registered under GST. However, the filing of the same has been suspended ever since the inception of GST.

On the other hand, GSTR-3B is a monthly self-declaration to be filed furnishing summarized details of all outward supplies made, input tax credit claimed, tax liability ascertained, and taxes paid and is to be filed by all normal taxpayers registered under GST.

GSTR-4 is another return that has to be filed by taxpayers who have opted for the Composition Scheme under GST. However, CMP-08 has replaced the now erstwhile GSTR-4 and has to be filed on a quarterly basis. Under the Composition Scheme taxpayers with turnover up to Rs.1.5 crore can opt for and pay taxes at a fixed rate on the turnover declared.

The return to be filed by non-resident foreign taxpayers registered under GST and carrying out business transactions in India is GSTR-5. The form contains details of all outward supplies made, inward supplies received, credit/debit notes, tax liability and taxes paid. Taxpayers are required to file GSTR-5 return monthly for each month that the taxpayer is registered under GST in India.

A monthly return is to be filed by an Input Service Distributor (ISD). This is GSTR-6 and contains details of input tax credit received and distributed by the ISD. Details of all documents issued for the distribution of input credit and the manner of distribution are also to be filled in the form.

Persons who are required to deduct TDS (Tax deducted at source)

Make sure you file your GST Return on time

IMAGE: PIXABAY

under GST have to file a monthly return called GSTR-7. GSTR 7 contains details of TDS deducted, the TDS liability payable and paid and TDS refund claimed, if any.

E-commerce operators registered under the GST who are required to collect tax at source (TCS) are required to file a monthly return – GSTR-8, which shows details of all supplies made through the e-commerce platform and the TCS collected on the same.

GSTR-9 is the annual return to be filed by taxpayers registered under GST. This form contains details of all outward supplies made, inward supplies received during the relevant previous year under different tax heads, i.e. CGST, SGST & IGST and HSN codes, along with details of taxes payable and paid. GSTR-9 is a consolidation of all the monthly or quarterly returns (GSTR-1, GSTR-2A, GSTR-3B) filed during that year.

All taxpayers registered under GST, except those who have opted for the Composition Scheme, Casual Taxable Persons, Input Service Distributors, Non-resident Taxable Persons and persons paying TDS under section 51 of CGST Act, have to file GSTR-9.

However, the 37th GST Council meeting has made filing of GSTR-9 optional for businesses with turnover up to Rs 2 crore in FY 17-18 and FY 18-19.

Taxpayers registered under the Composition Scheme are required to file GSTR-9A, which is the annual return for a financial year. It is a consolidation of all the quarterly returns filed during that financial year. Notably, GSTR-9A filing for Composition taxpayers has been waived off for FY 2017-18 and FY 2018-19 by the 27th GST Council meeting.

Taxpayers registered under GST whose turnover exceeds Rs 2 crore in a financial year have to file GSTR-9C which is the reconciliation statement. Such registered entities must get their books of accounts audited by a Chartered/Cost Accountant. The statement of reconciliation is between these audited financial statements of the taxpayer and the annual return GSTR-9 that has been filed. GSTR-9C is to be filed for every GSTIN, hence, one PAN can have multiple GSTR-9C forms being filed.

A taxable person whose registration has been cancelled or surrendered has to file GSTR-10. This is also called a final return and has to be filed within 3 months from the date of cancellation or cancellation order, whichever is earlier.

GSTR-11 is the return to be filed by persons who have been issued a Unique Identity Number (UIN) in order to get a refund under GST for the goods and services purchased by them in India. UIN is a classification made for foreign diplomatic missions and embassies not liable to tax in India, for the purpose of getting a refund of taxes. GSTR-11 contains details of inward supplies received and refund claimed.

GST Returns Must be Filed on Time

GST return has to be mandatorily filed by all registered dealers and business, including those with nil returns. Any delay in filing of GST return is liable to attract implementation of both late filing fees and penal interest.

However, according to the GST Act, the maximum late filing fees for each monthly/quarterly filing cannot be more than Rs 5000. Further, the maximum amount chargeable as late filing fee for each annual GST return (GSTR 9) cannot exceed 0.25% of the turnover.

As per the Integrated Goods and Services (IGST) Act, the penalty for late filing of IGST returns is equal to the sum of the penalties as per CGST Act and SGST/UTGST Act. The late filing of IGST leads to a fine of Rs. 200/day. However, the maximum late filing fee for monthly/quarterly IGST return cannot be more than Rs 10,000 for each filing; while the maximum amount of late filing fee for each annual GST return (GSTR 9) cannot be more than 0.25% of the turnover. The late filing fees are subject to change as per CBIC notifications.

Taxpayers who fail to file GSTR on time will be liable to pay an interest at the rate of 18% per annum on the outstanding tax, to be calculated from the next day of the due date.

Claiming excess Input Tax Credit (ITC) or reducing output tax liability in excess will make the taxpayer liable to pay at the rate of 24% per annum.

Given the stringent rules and penalties, taxpayers must ensure that the GST returns are filed well within the due dates.

Source: Secondary research & media reports

Understanding GST's Impact On Housing Sector

GST has changed many of the previous calculations in the housing sector but the overall implications for home buyers are positive

Make sure you file your GST Return on time

IMAGE: PIXABAY

THE GOVERNMENT HAS been mindful that GST does not add to the burden of homebuyers. In December 2018, the finance ministry issued a statement to clarify that GST will not be levied on buyers of real estate properties for which completion certificate is issued at the time of sale. However, Goods and Services Tax (GST) is applicable on sale of under-construction property or ready to move in flats where completion certificate is not issued at the time of sale, it said. Most importantly, the ministry directed the builders to pass on the benefits of lower GST to buyers by reducing the prices of properties. "It is brought to the notice of buyers of constructed property that there is no GST on sale of complex/ building and ready to move in flats where sale takes place after issue of completion certificate by the competent authority," the ministry had said in a statement.

Further, affordable housing projects like Jawaharlal Nehru National Urban Renewal Mission, Rajiv Awas Yojana, Pradhan Mantri Awas Yojana or any other housing scheme of state governments attracts 8 per cent GST, which can be adjusted by the builders against its accumulated input tax credit (ITC NSE -0.56 %). "For such (affordable housing) projects, after offsetting ITC, the builder or developer in most cases will not be required to pay GST in cash as the builder would have enough ITC in his books of account to pay the output GST," the ministry statement said. The ministry clarified that the cost of housing projects or complexes or flats, other than those in affordable segment, would not have gone up due to implementation of GST.

"Builders are also required to pass on the benefits of lower tax burden to the buyers of property by way of reduced prices/ installments, where effective tax rate has been down," it said.

Though the Interim Budget 2019 did not reduce GST rates on homes, on February 24, 2019, the GST Council cut tax on under construction residential houses to 5 per cent, from 12 per cent. GST rate on affordable housing was also slashed to 1 per cent from 8 per cent, with effect from April 1, 2019. The Council also decided to increase the sizes of affordable homes from 30 sqmt to 60 sqmt for metros and from 60 sqmt to 90 sqmt for non-metros, to be considered as affordable housing.

However, even as the perception grew in the housing market in India that the GST is only applicable to under-construction projects and that ready-to-move-in apartments, are exempt from the GST; tax calculations for the real estate market are not so simple. JavaScript if it is disabled in your browser.

Experts decoding the GST applicable in housing sector say that GST on under-construction projects will be charged to home buyers on the sale price but the credit can be availed by the developers, only on the cost of construction. As a result, as the builder is required to pay the GST on the full project and the input availed is only on the construction cost, there may be a gap that is no less than 30 per cent. The builder will hence hike the price proportionately to make up for the gap and the burden, whether a buyer opts for an under-construction property or ready-to-move-in unit, will have to be borne by the homebuyers.

In summary, this is how GST impacts apartments sold by developers:

- No GST is charged on ready-to-move apartments, but the developer can get input credits on construction costs only
- It is the responsibility of the developers to collect and pay GST on the cost of the project.
- GST compliance can make housing costlier
- Since a premium is charged for ready apartments, it will nullify any benefits from the GST

On March 19, 2019, the GST Council approved a transition plan for the implementation of the new tax structure for housing units which allowed builders to choose between the old tax rates and the new ones for under-construction residential projects. This was done to help resolve input tax credit (ITC) issues.

As per the decision, developers of residential projects which are incomplete as on March 31, 2019, were offered the option of either choosing the old structure with ITC or to shift to the new 5% and 1% rates, without ITC. A one-time option was offered under the decision to builders to continue paying tax at the old rates (effective rate of 8% or 12% with ITC) on ongoing projects (buildings where construction and actual booking have both started before April 1, 2019, but which will not be completed by March 31, 2019). However, the new tax rate of 1% for affordable houses and 5% for others, without ITC, would only apply on new projects.

The builders were to be provided a reasonable time framer the shift. Further, the Council had clarified that projects with up to 15% commercial space were to be treated as residential property. Many developers provide commercial amenities, such as clubs and restaurants, as well build residential-cum-commercial projects which were leading to some issues regarding GST. The GST Council's decision is aimed at resolving such issues.

Further, a condition has also been imposed on developers that 80% procurement should be from registered dealers in order to be eligible to avail the composition scheme. Hence, the new tax rates of 1% and 5% are available to developers under the condition that ITC shall not be available and that 80 per cent of inputs and input services shall be purchased from registered persons. If there is any shortfall in purchases according to these norms, a tax of 18 per cent would be levied. Further, if cement is purchased from unregistered persons, it shall attract a 28% duty.

For home buyers, a house worth Rs 50 lakh would be higher by Rs 1 lakh according to some experts, as they are expected to pay stamp duty over and above the GST paid during the construction stage.

Builders must pass on the GST benefits to buyers

Developers have been found to escalate prices during possession. Fears have nbeen expressed as to how in the the GST regime it is not the buyers but the developers who benefit.

Nevertheless, experts say GST has brought many advantages for home buyers. GST by removing multiple taxes that led the burden to end on the end consumers has reduced the cost of construction. Moreover, with input credit being available to developers, buyers who purchase after the Occupancy Certificate (OC) has been granted, do not have to bear the additional taxes that are part of the deal in the present market.

According to a CRISIL report, in the pre-GST regime, a developer had to pay excise tax and VAT, on inputs like cement and steel, at 27.7 per cent and 18.1 per cent, respectively, which varied from state to state. GST changed all that bringing in a uniform tax structure.

Sectoral experts believe that with GST developers' costs will come down with the input credit.

However, the condition that 80% of procurement be done from registered vendors will hit small suppliers as they are not required to register for GST, if their turnover is under Rs 75,000. The builder too will not get any advantage in such cases and would have to be careful in accounting. Hence to avoid issues, the builder may prefer to buy from registered dealers.

On July 22, 2019, the Finance Ministry announced that flat owners will be required to pay GST at 18%, if their monthly contribution to the residents' welfare association (RWA) exceeds Rs 7,500, said. In accordance with the rules, RWAs collect GST on monthly subscription/contribution charged from its members, if such payment is more than Rs 7,500 per flat per month and the annual turnover of RWA by way of supply of services and goods exceeds Rs 20 lakh.

In a circular issued to field offices on how the RWA should calculate GST payable, the Finance Ministry said, "In case the charges exceed Rs 7,500 per month per member, the entire amount is taxable. For example, if the maintenance charges are Rs 9,000 per month per member, GST @18% shall be payable on the entire amount of Rs 9,000 and not on (Rs 9,000-Rs 7,500) = Rs 1,500."

According to the ministry's circular, to calculate the tax liability for a person who owns two or more flats in the housing society or residential complex, the ceiling of Rs 7,500 per month per member shall be applied separately, for each residential apartment owned by the said person. Further, RWAs are entitled to take input tax credit (ITC) of Goods and Services Tax (GST) paid by them on capital goods (generators, water pumps, lawn furniture, etc.), goods (taps, pipes, other sanitary/hardware fillings, etc.) and input services such as repair and maintenance services.

Source: Secondary research and media reports

GST & THE COMMON CITIZEN

A tax reform as mammoth as GST, was sure to impact the common man the most. GST too has brought both advantages and disadvantages for the ordinary citizen. But in the long run, it is the advantages that will gain more prominence

GST has the interests of the common people at its core

AFTER THE INITIAL hiccups, GST has become a smooth taxation structure with many advantages for the consumers. GST is still being refined and given the level changes it has undergone, it is still far from perfect, but the changes are promising.

Consumers are a vital section in any economy and lay an important role in it. Any policy that directly affects the interests of the consumer must be viewed from a common person's standpoint. As regards GST, for the common people the concern is primarily on how it affects the pricing of various consumer products. The GST rates were fixed based on the principle of 'equivalence' and the prices of many products have either gone down or have been stable like LPG for domestic use.

What is the impact of GST on Indian consumers? What are the advantages and disadvantages that GST brought in India?

Since its introduction in July 2017 in the country, GST has been a hot topic of discussion. However, India is not alone in introducing GST. Currently, **around 160 countries** have implemented **GST/VAT in some form or another.** While In some countries VAT is the substitute for GST, **conceptually it is a destination based tax** levied on consumption of goods and services. Among these countries, France was the first to introduce GST and Canada is the only country that has a dual GST model, which is similar to the what India has implement. Further, the rate of GST normally ranges in between 15–20% though it may differ to a higher/lower side in some of the countries.

For GST to be successful, the rates play a crucial role. Not surprisingly them, many countries are struggling to rationalize the rate structure and arrive at an optimal regime.

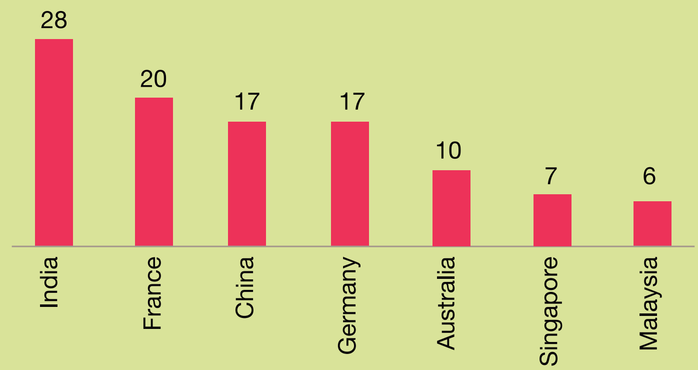
GST is an indirect tax applied both on goods and services at a uniform rate. What this means is that goods and services will be subject to a uniform tax rate and both will be treated at par. It is a single form of tax applied across the country and has replaced various other indirect taxes like VAT, Service tax, CST, CAD, etc.

As GST replaced a bundle of indirect taxes it led to a much simplified tax regime when compared to the previous multiple and multipoint and complicated tax structure.

However, a new law or a new tax always brings in new challenges that need to be tackled carefully. The impact of a tax reform or new tax law is also felt acutely by the common people who are directly or indirectly affected by the implementation of any new tax.

GST was no exception. In fact, there was much apprehension and confusion prevailed in the country with demands for its roll back. GST not just impacts the final consumer of goods but also all the small traders and service providers and hence it is imperative that the taxation reform take into accounts the interests of all these segments.

Peak rate of GST/VAT across select Nations



[Source: secondary research]

Here, is how GST impacts the common man or the final consumer; it's main advantages and disadvantages. The first step that skewed GST in favor of the consumers was the well thought out GST Slab Rates.

GST SLAB RATES

- **Zero rated items:** Foodgrains used by common people are under this slab to ensure that the incidence of tax is not borne by the poor.
- **5% Rate:** Items of mass consumption including essential commodities have been put under low tax incidence.
- **12% and 18 % Rate:** These are the two standard rates applicable on most goods and services.
- **28% Rate:** White goods like air conditioners, washing machines, refrigerators, soaps, shampoos, etc., were brought under this lower tax regime from the earlier 30-31% to make them more affordable.

Tobacco, tobacco products, pan masala, aerated drinks and luxury cars that fall under demerit goods category are taxed at the highest rate of 28% to discourage consumption. An additional cess on some luxury goods has also been imposed.

It is to be noted here that these GST rates are a general overview of the tax system under GST in its initial days. Since the implementation of GST, the rates have undergone various revisions.

GST was aimed at reducing the incidence of arbitrary and high taxes on the common citizens. Launched as a unified tax system it removed a bundle of indirect taxes like VAT, CST, Service tax, CAD, SAD, Excise, etc. Aimed at simplifying the complicated tax structure, however, GST is not as simple as it seems. Despite this, GST effectively removes the cascading effect of taxes i.e. tax on tax. GST also imposes lower burden of taxes on the manufacturing sector with the goal to lower manufacturing costs. This could eventually lower the cost of consumer goods. It was expected that the reduced costs would make goods like cars, FMCG, etc., cheaper. The lowering of prices would eventually lower the burden on the common man as they would be required to shell out less money to buy the same products. Lower prices would boost demand/consumption of goods and increased demand would lead to increase production of goods and consequent supply. As production increases, more jobs would be created in the long run.

GST is also expected to curb circulation of black money by doing away with the system of "kacha bill" followed by traders and shopkeepers. Further, a unified tax regime will lead to less corruption in society and would indirectly impact the common man positively. Most importantly, GST was expected have a positive on the economy.

The positive impact of GST would only trickle down to the common citizens if the actual benefit of GST is passed on to the final consumers. There are various other factors like the sellers' profit margin that determine the final price of goods. Since GST alone does not determine the final price of goods, a lot depends on supporting factors. Taking into account these factors, the the anti-profiteering clause was inserted in the GST Act to protect the interest of the consumers.

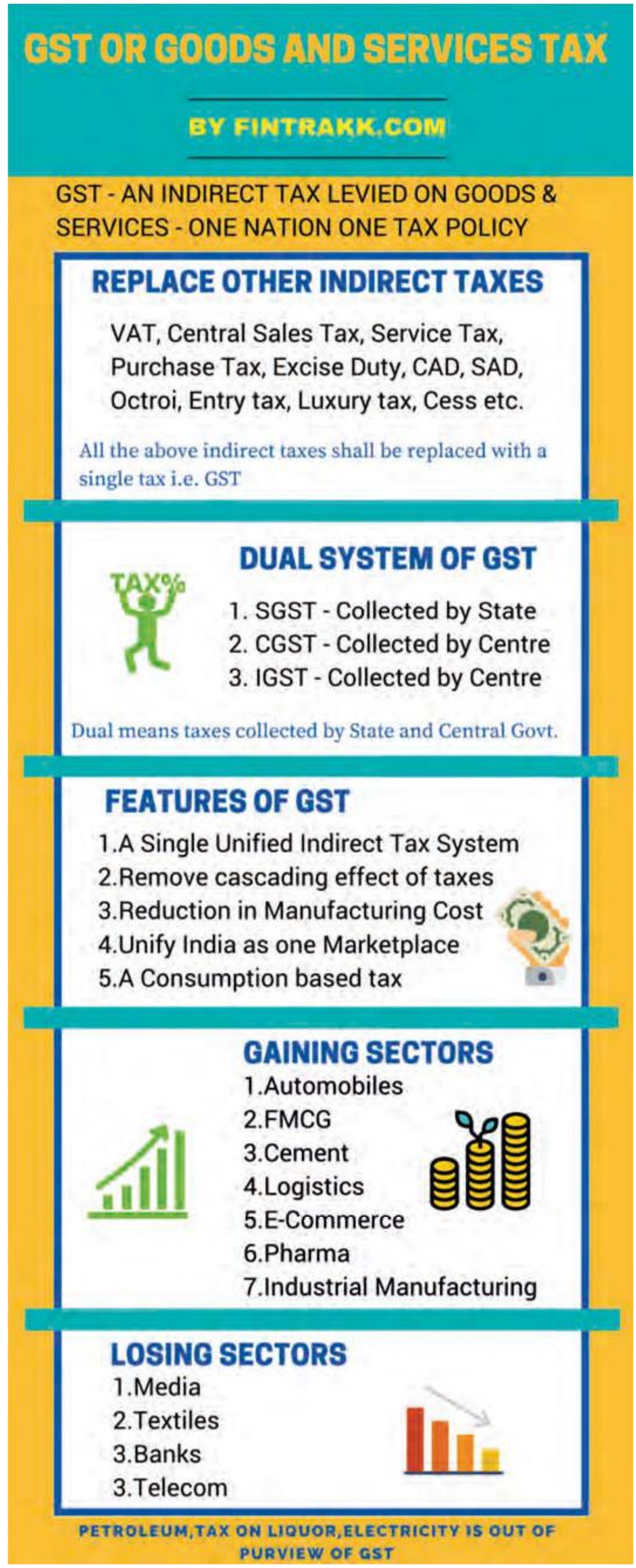
No policy reform can be without some disadvantages. GST too brought a few in its wake. For the common taxpayer, there was an increased compliance burden. Taxpayers have to be extra vigilant to deposit GST and file returns on time. Since GST returns filing is not easy, it raised the need to hire a tax professional to manage it and this resulted in additional costs the taxpayer. Despite the steps taken to simplify the returns filing, for most commoners, it remains a daunting task.

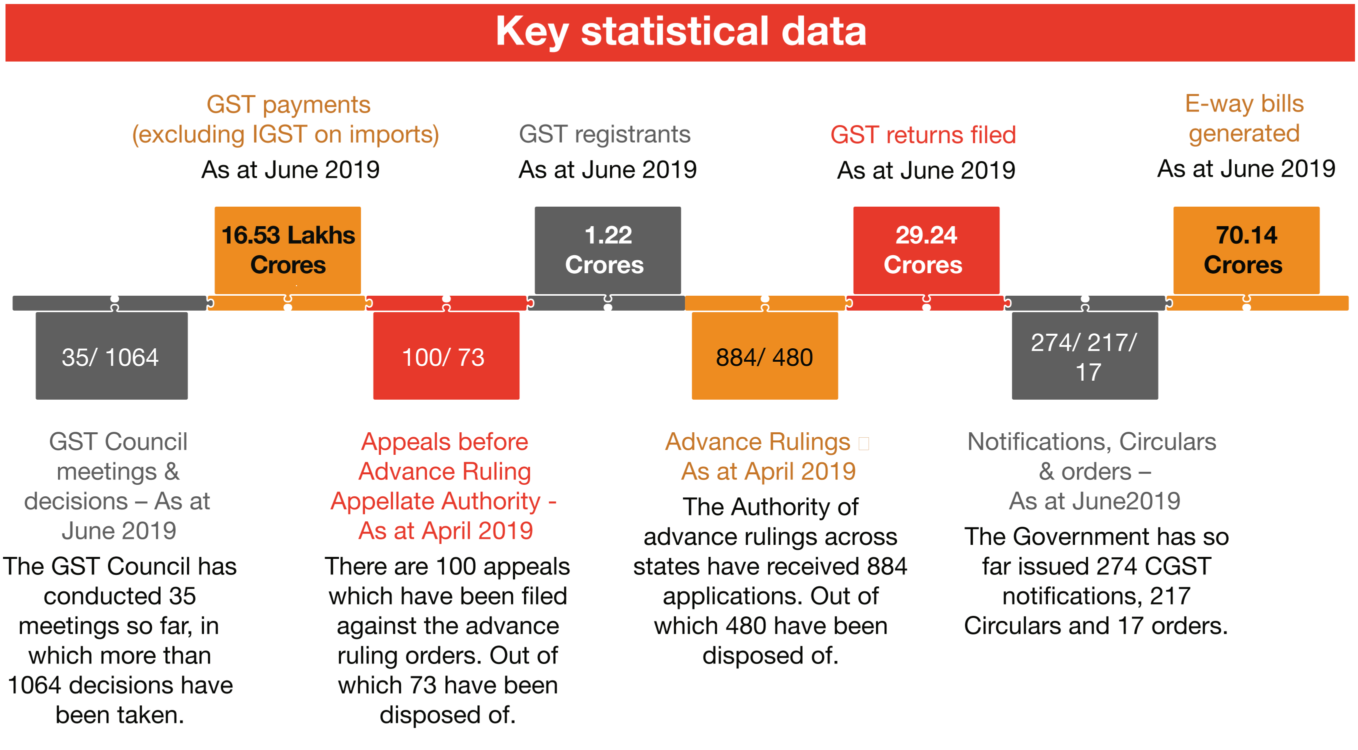
While for big businesses that have dedicated staff to handle taxation GST was not such a burden, for small traders/service providers or individuals who have just started their business or service, things became complicated post GST implementation,

The government has applied the same 4-tier tax structure of goods for services. The rate slabs passed by the GST Council for services are NIL, 5%, 12%, 18%, 28%. However, healthcare and educational services have been educated from the purview of GST.

Nil GST is applied to chargeable services offered on Basic Savings Bank Deposit (BSBD) account opened under the PMJDY (Pradhan Mantri Jan Dhan Yojana). Hotel accommodation for transaction value per unit per day being Rs 1000 or less is also under this category.

Goods transported in a vessel from outside India, print media ad space, transport by air (scheduled)/air travel for purpose of pilgrimage via chartered/non-scheduled flights, are some of the services categorized under 5% tax slab. Air travel excluding economy,





Source: GST Council newsletter & publications

food/drinks at restaurants without AC/heating or liquor license, movie tickets less than or equal to Rs 100 are among the services that come under 12% tax slab rate. Food/drinks at restaurants with liquor license, food/drinks at restaurants with AC/heating, circus, Indian classical, folk, theatre, drama, movie tickets over Rs 100 are among the services that are charged GST @18%. The 28% GST slab includes entertainment events-amusement facility, water parks, theme parks, joy rides, merry-go-round, racecourse, go-carting, casinos, ballet, sporting events like IPL, etc.

As is apparent, GST has increased the spending on some items and services that ordinary middle classes use. Increased cost of services has meant higher monthly expenses. Middle class household especially have to reschedule budgets to bear the additional services cost.

For businessmen and service providers too, GST has brought additional compliance burden and costs. They are still learning with the new laws. GST has increased their reliance on tax experts and professionals and further added to their business expenses.

The implications of GST are still being deciphered. There are always some complications attached. It is a consumption-based tax, so in case of services the place where service is provided needs to be determined. From consultants, small businesses to big corporates, all have to ensure proper invoicing and accounting for better compliance. Further, if actual benefit is not passed to the consumer and the seller increases his profit margin, it affects the prices of goods. The government also needs to keep a strict curb on profiteering activities, so that the final consumer get to enjoy the real benefits of GST.

Despite software for easier GST implementation and training of officers and staff, a complete understanding of GST still eludes many. However, the understanding is increasing especially among manufacturers, wholesalers, retailers and even the final consumers who understand the need to pay GST.

GST is still evolving and is a long-term strategy planned by the Government. The positive impact of GST in the long run will be apparent. GST, as a well-designed policy has not only brought a qualitative change in the tax system of India, but also changed the way business is being done.

As a totally IT backed system, GST has changed the way Indian economy worked. True that some sector might have gained, and others lost under GST, but there is no escaping the new system which has become a way of life.

All in all, GST is a landmark reform having a great impact on India and its taxation system. Let us hope GST allows India to achieve its dream of a unified national market with simplified tax regime. Undeniably, a rising Indian economy will help in the financial growth of the common man.

Source: Secondary research & media reports

INFOCUS

Gets A Facelift In 2020

New electronic invoicing system to be introduced which invoices are authenticated electronically by GST Network (GSTN) for further use on the common GST portal

WHAT'S CHANGING

- E-invoicing to come into effect on voluntary basis for those having annual turnover of over Rs. 500 crore, from Jan. 1.
- To expand to those having annual turnover of over Rs. 100 crore, from Feb. 1.
- Will be introduced from April 1 for those having a turnover of over Rs. 100 crore.
- New returns to be introduced from April 1.

TWO THINGS ARE set to change the way transactions are reported under the GST system in 2020 – electronic invoicing and new returns.

Both these changes will be mandatory from April 1, however, e-invoicing is to be implemented on a voluntary basis by those with an annual turnover of above Rs 500 crore from January 1. For those with annual turnover of over Rs 100 crore, they can use e-invoicing from February 1; while those with annual turnover of over Rs 100 crore will have to use e-invoicing system from the beginning of the next financial year.

So, what is e-invoicing?

Simply put, e-invoicing or electronic invoicing is a system that GSTN will use to authenticate B2B invoices electronically for further use on the common GST portal.

Under this electronic invoicing system, each invoice will be issued an identification number by the Invoice Registration Portal (IRP) that will be managed by the GST Network (GSTN).

Further, all information about the invoice will be transferred in real-time from this portal to both the GST portal and e-way bill portals.

This will eliminate the need for manual data entry while filing ANX-1/GST returns as well as generation of part-A of the e-way bills, as the information is passed directly by the IRP to GST portal.


IMAGE: PIXABAY

No need for tons of paperwork, welcome transparency

What this means is that in the e-invoicing system, the invoices will be authenticated electronically by GST Network (GSTN) for further use on the common GST portal. For this to happen two procedures will take place in e-invoicing system — first, the generation of invoices in standard format and second, reporting it on to a central portal system.

In the new e-invoicing system, invoice details need to be uploaded on the government site — Invoice Registration Portal or IRP — in real-time. A unique invoice reference number (IRN) will then be allocated against each invoice, based on the uploaded details. This unique reference number would then be validated through IRN portal and GSTN.

Most large organizations are already generating e-invoices. However, each organization's format varies depending on the ERP or billing software being used.

As there is no single standard, it is difficult to read an e-invoice generated on one billing software on another. This necessitates manual data entry as the details of the invoices are manually uploaded in the GSTR-1 return. The invoice information which is then reflected in GSTR-2A can be viewed by the recipients. The consignor or transporters are also required to generate e-way bill by importing the invoices in excel or JSON manually.

Manual mode leads to the necessity of maintaining invoice, a load of paperwork, and errors generated due to manual feeding. The new system is aimed at minimizing human error, reducing paperwork and transcription error and saving time by providing a format compatible to all.

According to reports, under the new return system, an annexure in form GST ANX-1 will mostly take the place of the GSTR-1 return. There will be no difference in the process of generating and uploading invoice details, which will be done by importing using the excel tool/JSON or by the online entry of data. E-invoicing all enable a seamless flow of data for e-way bill generation.

Organizations would not be required to make any changes and can continue using their existing software with same user interface to generate the e-invoices such as ERP, accounting and billing software, excel based billing system etc. However, those companies that have developed the ERP or billing software in-house, will need to make changes in their software codes to be able to conform to the approved standards.

The draft version of e-invoice format in an excel template was released by GSTN for public feedback in August 2019. At the 37th GST Council meeting held on 20 September 2019 the format received the approval of the GST Council with some modifications. In association with ICAI, GSTN had drafted the format compliant with the GST and other Indian tax laws. The format also adheres to international and various industry standards. The e-invoice format is exhaustive and caters to different industries and businesses singly.

It is required that any existing accounting or invoicing software/ application provider (SAP/Tally/Busy) must follow the PEPPOL standard for invoice generation. It will enable taxpayers to generate a compliant invoice at the source. GSTN referred the PEPPOL (Pan European Public Procurement Online) standard, which works on Universal Business Language (UBL) version of electronic XML. PEPPOL is the most used standard across the globe.

With this system, diversified business applications and trading communities can exchange information along their supply chains using a common or a standard format.

RATIONALE FOR ELECTRONIC INVOICING

Curb tax evasion through check on fraudulent ITC and Elimination of fake invoices

Introduction of e-invoicing shall enhance efficiency of the tax administration process

Ease of compliance and recon for user as separate entry for GST and EWB may not be needed

One-time reporting on B2B invoice data to reduce reporting in multiple formats (one for GSTR-1 and the other for e-way bill) and to generate Sales & Purchase Registers (ANX-1 and ANX-2) from this data to keep the Return (RET-1 etc.) ready for filing. E-way bill Part-A would also be generated using e-invoice data

Reporting of invoices as an integral part of the business process to eliminate the process of compilation of invoices at the end of the month

Substantial reduction in ITC verification issues as same data will get reported to tax department and to the buyer in his inward supply (purchase) register. On receipt of info through the GST System – buyer can reconcile with his Purchase Order and accept/reject in time.

PEPPOL also enables a single point of data entry into electronic commerce for businesses. Thereafter, the data flows across different portals with the help of an IRP.

Following are the parts of the GSTN e-invoice:

(1) E-invoice schema: It consists of the technical field name, description of each field, whether it is mandatory or not, and has a few sample values along with explanatory notes.

(2) Masters: Masters will specify the set of inputs for certain fields, that are pre-defined by GSTN itself. It includes fields like UQC, State Code, invoice type, supply type, etc.(

(3) E-invoice template: The template is as per the GST rules and enables the reader to correlate the terms used in other sheets. The mandatory fields are marked in green and optional fields are marked in yellow.

How can one get an e-invoice?The following stages will be involved in generating or raising an e-invoice.

Firstly, the taxpayer will have to ensure the ERP system is reconfigured as per PEPPOL standard. For this, the organization will have to coordinate with the software service provider to incorporate the standard set for e-invoicing, i.e. e-invoice schema (standards) with the mandatory parameters, at least. The system must be capable of generating the JSON file for multiple invoices together. For taxpayers who do not have any software, offline utility would be available. Small taxpayers with annual turnover below Rs 1.5 crore have been given the option to choose from 8 different accounting and billing software all tied up with the GSTN, free of cost. The software is available both as online (cloud-based) as well as offline (installed on the computer system of the user).

The tax paying entity is then required to raise a normal invoice on the software providing all necessary details like, billing name and address, GSTN of the supplier, transaction value, Item rate, GST rate applicable, tax amount, etc.

The of invoice especially mandatory fields are to be uploaded onto the IRP using the JSON file only. It can be done directly or GSPs or through APIs(apps or software providers). The IRP is to function as the central registrar for e-invoicing and its authentication. There are several modes of interacting with IRP such as web-based, API-based, SMS based, mobile app-based, an offline tool-based, and GSP based.

In this stage, IRP will validate the key details of the B2B invoice, check for any duplications and generates an invoice reference number (hash) for reference. The hash could have been generated by the taxpayer beforehand itself (Format of IRN or hash: Seller GSTIN, Invoice number, and FY in YYYY-YY). However, it becomes valid and effective only once registered on IRP.

IRP generates the invoice reference number (IRN), digitally signs the invoice and creates a QR code in Output JSON for the supplier. On the other hand, the recipient of the supply will also get intimated of the e-invoice generation through email (if provided in the invoice).

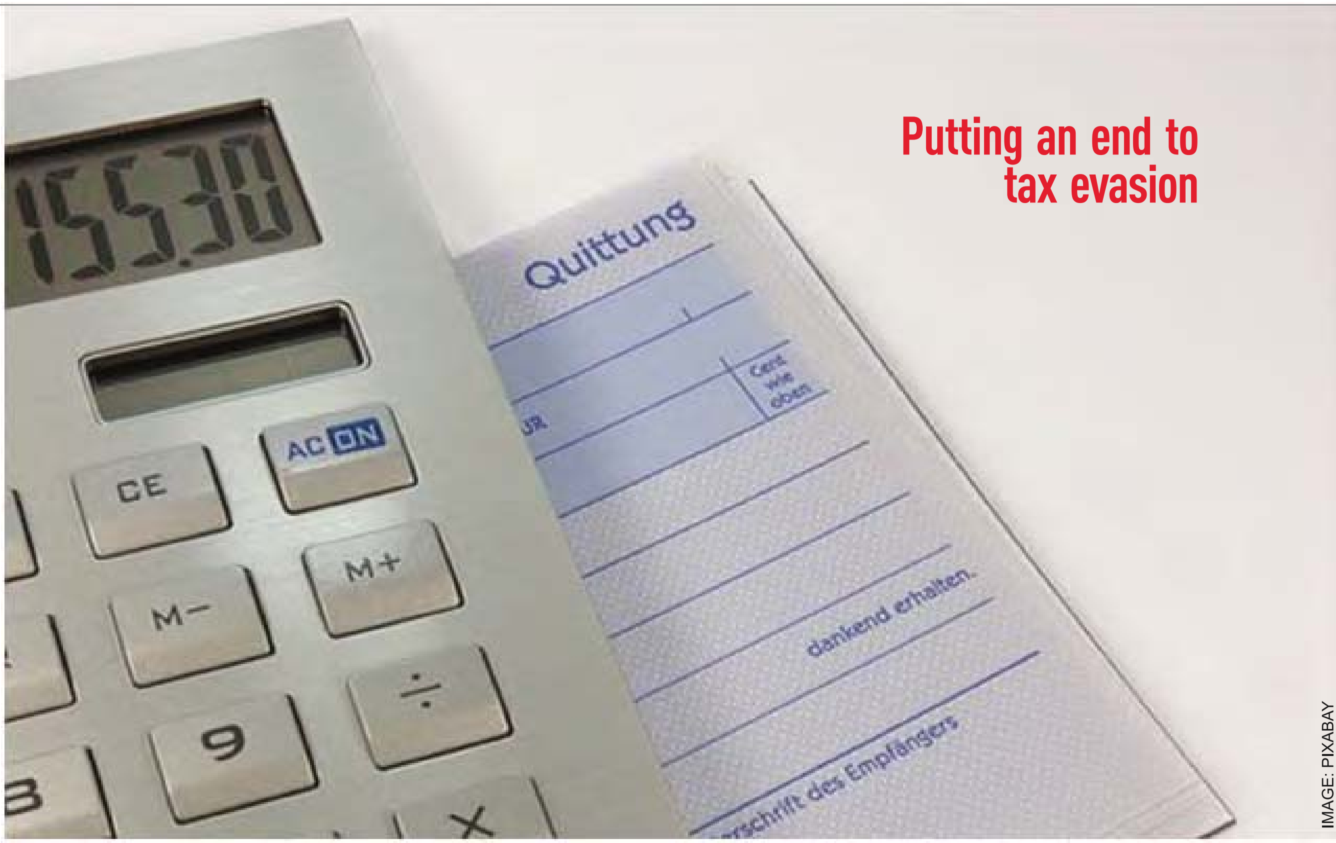


IMAGE: PIXABAY

Putting an end to tax evasion

IRP will send the authenticated payload to GST portal for GST returns. Additionally, details will be forwarded to the e-way bill portal, if applicable. ANX-1 of seller and ANX-2 of the buyer gets auto-filled for the relevant tax period. In turn, it determines the tax liability.

A taxpayer can continue to print his invoice as being done presently with logo. e-invoicing system only mandates all taxpayers to report invoices on IRP in electronic format.

Will e-invoicing curb tax evasion?

Some simple rules will have to be remembered with e-invoicing. Each e-invoice must primarily adhere to the GST invoicing rules. Invoicing system or policies followed by each industry or sector in India must also be adhered to. For businesses, certain information is mandatory in e-invoice while the rest are optional. Many fields in e-invoice are optional and only relevant fields need to be filled up. A description for every field with sample inputs have been provided for users.

It is expected that e-invoicing will help curb tax evasion. Since e-invoice will have to be compulsorily generated through the GST portal, It will provide tax authorities access to transactions in real-time. This will curtail chances of manipulation of invoices as the invoice will get generated before a transaction is carried out. E-invoicing will also reduce the opportunity to generate fake GST invoices. Also, as all invoices need to be generated through the GST portal only genuine input tax credit can be claimed. E-invoicing will enable the matching of input credit with output tax details, hence it will become easier for GSTN to track fake tax credit claims.

Benefit to businesses

E-invoicing is expected to provide businesses various benefits. First, e-invoice will reduce mismatch errors by resolving and plugging major gaps in data reconciliation under GST. Secondly, with a standard format in operation, e-invoices created on one software can be read by another. This will allow interoperability and help reduce data entry errors. Third, invoices prepared by the supplier can be tracked in real time. Fourth, backward integration and automation of the tax return filing process will be possible – the relevant details of the invoices would be auto-populated in the various returns, especially for generating the part-A of e-way bills. Fifth, genuine input tax credit would be available at speed and lastly, audits/surveys by the tax authorities will be minimized as the information required by them will be available at a transaction level.

Conclusion

Electronic invoicing is being implemented by GSTN in a phased manner and will be available on a trial basis or voluntary compliance. However, new simplified returns would be implemented from April 1. The phased manner of implementation would allow for testing and adjustments to the system before it becomes mandatory.

Source: Secondary research & media reports

Too Early To Judge

GST is still a reform in the making and much more benefits can be expected from it in the future as it settles down

GST HELPED INDIA sign a free trade agreement with itself. It converted the country into a single economic unit, sans barriers, by promoting free flow of trade and commerce through its boundaries. This is borne out by a road ministry analysis. In the pre-GST era, a typical long-haul commercial truck could cover about 225 km a day on average prior and had to spend a fifth of its run time at inter-state border check posts. After these checkpoints were dismantles with the implementation of GST, the serpentine queues of cargo-laden trucks at checkposts and interstate entry points, vanished. The trucks now take just half the time and the logistics industry reaping the benefits of GST. Logistics cost has come down drastically from about 14% of the value of goods sold in the country to 10-12%. The distance covered in a day by a truck has also improved from about 225 km to 300-325 km.

Experts estimate that India's logistics sector which can be divided in four broad components — transportation (60%), warehousing (25%), freight forwarding (10%), and value-added services (5%) — constitutes about 14-15% of the country's GDP, which is around 8% in OECD economies.

In 2011-12, the Transport Corporation of India and IIM Calcutta had carried out a joint survey that revealed the economy was suffering an annual loss of about Rs 27,000 crore due the delays at checkposts and for documentation, physical checks of drivers and cargo by the concerned authorities, payment of highway toll and taxes, as well as harassment and corruption. It was

IMAGE: PIXABAY

In a huge country like India with its complex structure, a sweeping reform like GST which affects its entire population will take some time to show results

estimated that the stoppage expenses including illicit payments made to different parties en route amounted, on average, to 15% of total trip expenses. These stoppages also resulted in additional fuel consumption due to delays and slow speed of vehicles and led to an annual cost of Rs 60,000 crore.

Another study by McKinsey, 'Building India: Transforming the Nation's Logistics Infrastructure', had further found that the country's logistics inefficiencies cost it to an equivalent of about 4% of its GDP.

GST brought about many benefits to the economy. One of the most important advantages accruing was the centralization of production and warehousing whereby centrallylocated states gained over the peripheral ones in attracting economic activity. There was also an agglomeration of production and warehousing activities in the more productive states. GST hence spurred change across the business spectrum—from shifting the location of production to logistics and supply chain. This geographical shift has the potential to transform the country's 'economic geography' itself.

A study by Crisil reveals that GST in the logistics industry would lead to a reduction of logistics costs up to 30% over 3-4 years. A survey conducted by the ministry of road transport and highways in the early days also found that the removal of checkposts and barricades from state borders would lead to a saving of 40-45 hours of travel time for the cargo carrying vehicles on highways that do a 2,000-km round trip in a week and lead to annual savings to the tune of Rs 30,000 crore.

GST as a major tax reform had been in planning for 17 years. It was refined after several rounds of stakeholder discussions to ensure that end consumer is not burdened by taxes. After many consultations and rounds of tax rate cuts, it was ensured that the taxes on common household goods, including white goods like washing machines, televisions, cameras etc., became cheaper and retail inflation remained under control. However, despite these measures, and reduced taxes on goods from the pre-GST era, only a few services such as restaurants and under-construction properties could benefit from rate reductions.

True, that, GST reform reduced the number of forms to be filed by businesses drastically, from 495 earlier to just 12. For businesses and traders GST led to the removal of the tax on tax effect and brought in uniformity of law across states. Further, with most of the indirect taxes under the authority of a single federal body, the GST Council, and out of the domains of central and state governments, GST brought removed arbitrariness and ambiguity.

Since GST is replacing 17 indirect taxes with single tax , it will lead to increase in product demand which will simultaneously lead to increase in revenue for the Central and the State Government.

In the initial months of GST implementation, businesses slowed down production as they were anticipating huge changes in the taxation structure, related reporting and the uncertainties around any reform of this magnitude and implication. Experts believe this led to a sharp slowdown in gross domestic product (GDP) growth to 6% in the June quarter of FY18, when there was a 7% expansion in the fourth quarter of FY17 ending March 2017. To boost growth, government introduced some ease for businesses around some of the toughest GST provisions such as invoice-matching and extended deadlines for filing returns. Growth recovered eventually in the following quarters as the government also extended handholding to businesses, especially small traders to help them navigate the new system. As a result, by the last quarter of FY18, growth bounced back to 8.1%. Thereafter, the economy began a downward growth trend which continues. Growth has been steadily slowing down to 4.5% in the second quarter of FY20. This is the slowest pace of growth that the Indian economy has witnessed since March 2013.

As economic slowdown deepens, assumptions around GST as a growth booster is being tested. Majorly, it is testing the assumption based on the experience in some other economies that GST could be step up economic growth rate by 1-2 percentage points. It was expected that GST as an efficient and tax system would support the growth of the Indian economy too.

However, as experts point out, we cannot judge GST by economic growth or revenue collection trends, as it is still in an initial phase. GST will take at least five years to realize its potential, say experts, as we are a large and diverse economy. Consumers and businesses have definitely benefited from GST, but it is just halfway towards its goal. It needs time to become smooth and only incremental changes should be made.

Despite optimism around the future course of GST, policymakers are concerned with the shortfall in revenue collections. This has hampered the central government to pay the states the promised compensation for their revenue losses brought on by GST implementation. The failure to meet obligations is exerting pressure on the government to raise GST rates. GST is a tax on transactions and hence it has a direct correlation with revenue collection and the growth rate. If the economic growth slowdown, revenue will also stagnate.

GST has unified taxation system across states and made doing business easier. Undeniably, there is scope to further simplify GST system, but even in its current form it is a much simpler tax regime than the previous fragmented and complicated indirect tax system.

It is expected that as internal trade barriers crumble further and tax efficiency increases, GST will give rich dividends to the economy. As a technology-driven taxation system, GST has made it easier for authorities to widen the tax base. Many sectors that were not in the tax ambit are now included in GST.

GST has brought many benefits to the nation, and going forward, it is expected to deliver even better advantages.

Source: Secondary research & media reports

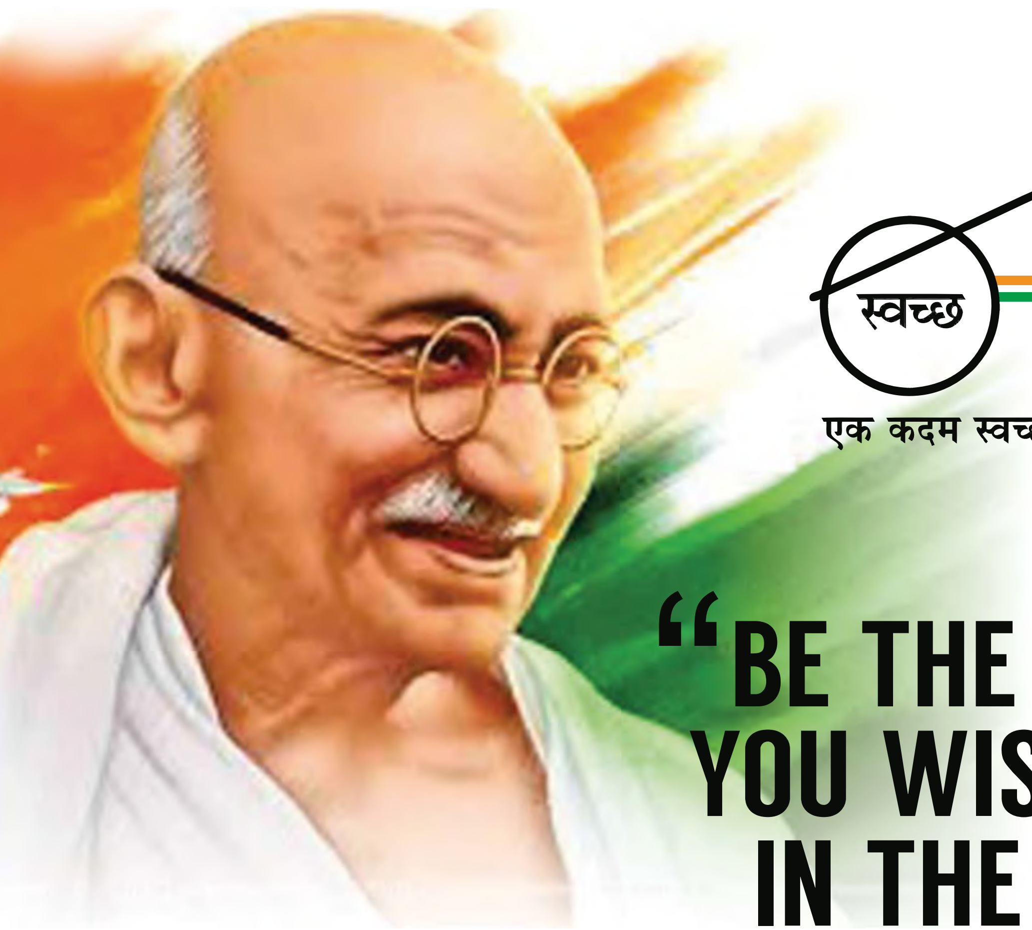
GST has a long way to go before we can pronounce a verdict on it

Consumer Conexion

Consumer Online Foundation

PATIENT SAFETY AND ACCESS INITIATIVE OF INDIA FOUNDATION
a Partnership for Safe Medicines India Initiative

Healthy You Foundation



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You May Have To Pay More GST Soon

The government is looking at GST rate hikes in a calibrated manner to reduce price pains for consumers while increasing revenues

GST rates revision could make prices climb up

IMAGE: PIXABAY

A PANEL OF officials looking at the option of small hikes in lower rates or moving up items in tranches

Brace up for some bad news. The government may be looking at increasing the goods and services tax (GST) rates and minimizing exemptions in order to increase tax revenue collections. However, to minimize sudden price shocks, the rate hike would be calibrated.

According to media reports, the current GST rate structure is under the consideration of a panel of officials on revenue augmentation. The panel comprised of officials from the states and the Centre, is undertaking a thorough review of the current rate structure.

Experts believe that there is a need for a relook at the GST structure and rate increases can be carried out in a manner that does not hurt consumer sentiment. The rate increase may be carried out either through small increases in lower rates or by moving some items to a higher bracket in tranches.

According to reports, around 150 items currently exempt from GST may be considered to be included in the slab rates. More than 260 items are currently in the 5% slab. As regards processed items, sources say, they cannot be in the lowest slab or the exempt category as this leads to problems of input tax credits and erodes their competitiveness.

In the current financial year, GST collections have averaged Rs 1,00,646 crore, short of about Rs1.12 lakh crore a month needed to meet the budget target, say reports.

Once the panel forwards its suggestions to the GST Council, the latter would take it up at the next GST Council meet.

Notably, on November 27, the GST Council secretariat had sought suggestions from states on how to boost revenue, including rate rationalization and how to reduce exemptions. Some states like Punjab came up with slab suggestions of 10% and 20%, with a third rate of 25% for sin and luxury goods. However, states like West Bengal and Delhi did not want any major changes at this time, especially rate increases.

Currently, GST has seven rate categories – exempt, 0.25%, 3%, 5%, 12%, 18% and 28%. The panel is examining how exemptions can be minimized in both goods and services and how the revenue-neutral rate – that single rate of GST at which there is no loss of tax – can be raised. At the time of GST roll out, this rate was estimated at 15.5%.

In the last GST Council meet, the officials' panel had presented a paper the issue but was asked to examine the issues in more minutely and return with a more comprehensive report.

A calibrated increase in the offing to spare consumers sudden price shocks

The paper had suggested restructuring slabs, increasing rates on some goods to correct inverted duty structures, including on mobile phones, and revisiting rates on items that had seen a reduction to 18% from 28%. Some businesses wanted to be moved from the exempt category or 5% tax bracket without input tax credit to the higher 12% rate where they can adjust tax paid on inputs against final liability. In the meeting, the panel had also highlighted an over Rs 63,000 crore shortfall in compensation cess in the current financial year, which, with moderate revenue growth, is a key challenge.

However, experts say given in the current economic scenario any large-scale changes may not be feasible. Yet, some feel that government may want to explore merging the 5% and 12% slabs into a single rate of say, 8 or 9%. Alternatively, the 12% and 18% slabs may be merged into a merge single rate of 15% or 16%.

What is clear though is that there is an urgent need to develop a long-term plan on GST rates and begin working towards it. Changing rates frequently cannot be a long term solution. Further, evidence does not suggest that rate increases would result in revenue augmentation.

GST Rates in 2019-2020

At the time of GST implementation, the government had expressed its intention to keep the GST rates close to the original rates. However, down the line due to the changes in the economy as well as customer preferences, GST rates have undergone some changes. Some commodities that had been initially kept in the high tax bracket (18-28%), were found to be necessities and not luxuries upon further scrutiny by experts and the GST rates were consequently revised. For example, items like notebooks, exercise books, etc.

Based on the idea that while basic food items should be available for everyone but instant food be kept out of this category, edible items like sugar, tea and coffee are included in the 5% slab, but milk is excluded. GST rates have hence been fixed keeping in mind the daily requirements of the common people:

The goods on which GST has been lowered to 18 per cent from 28 per cent at present include pulleys, transmission shafts and cranks, gear boxes, retreaded or used tyres, power banks of lithium ion batteries, digital cameras, video camera recorders and video game consoles.

Source: Secondary research & mediareports

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ANTI-PROFITEERING BODY TIGHTENS THE NOOSE TO ENSURE GST BENEFITS REACH CONSUMERS

Businesses indulging in profiteering being investigated and ordered to deposit penalty

Government steps up heat on businesses indulging in profiteering

GONE ARE THE days when retailers and service providers could shortchange consumers on benefits meant for them. The government has stepped up the heat on unscrupulous businesses that have been pocketing the benefits under GST meant for the end users.

According to media reports, the National Anti-profiteering Authority (NAA) is expected to pass a clutch of orders in the next few three months businesses found flouting the rules on anti-profiteering, as the central government steps up the heat on GST compliance drive.

It is expected that NAA will shortly issue around 40 orders on the basis of complaints received against companies in various industries including real estate, consumer goods, and cinema.

The companies facing investigation for alleged profiteering include some leading ayurvedic products suppliers, manufacturers of electronics and television, luggage and travel accessories, two of India's top multiplex chains, and hygiene and home products firms.

This investigations come on the heels of concerns being raised by policy makers about businesses that have pocketed part of the ₹1 trillion worth of GST rate cuts that was meant to benefit consumers and help stimulate demand in the economy.

Reports say that about 60% of the cases investigated by the Directorate General of Anti-Profiteering (DGAP) in the past had confirmed businesses were indulging in profiteering. The NAA that came into force in November 2017 has so far issued orders on more than 100 cases of confirmed profiteering. This led the defaulting businesses to deposit about ₹600 crore in profiteered amount to a consumer welfare fund. This fund is managed by the consumer affairs ministry.

The authorities are contemplating more measures aimed at sensitizing consumers about their rights and the remedies they can avail in cases of profiteering. Reports state that to achieve this outreach program, the government will be directing erring companies to deposit the profiteered amounts in a separate fund to be used for GST-related purposes.

A recent survey by LocalCircles, an online community of consumers, had found that most consumers feel they are being denied the benefits of the tax cuts that were implemented from 1 January 2019. Reports suggest that this is largely true as though some large brands have begun passing on the GST rate reduction benefits to consumers, many others, especially the mid-sized companies, have yet not revised maximum retail price downwards.

Johnson & Johnson asked to cough up Rs 230 crore for overcharging GST

Was found to have raised the base price of some products when tax rate was cut

In December last, the National Anti-profiteering Authority (NAA) had accused the local unit of Johnson & Johnson of profiteering to the tune of Rs 230.4 crore. NAA had held that the company had failed to pass on the benefit of GST cut on some products to the consumers. It had ordered the Johnson & Johnson unit to deposit the amount with interest in a consumer welfare fund.

The order was signed by NAA chairman B.N. Sharma. The company was given a time till three months to deposit the amount along with 18% interest in the national consumer welfare fund and in similar funds set up at state levels.

The order had further stated that in case the company defaults on the payment, central and state GST officials could recover the money from it, the order said. NAA authority had stated that the company was "apparently liable" for penalty and directed officials to issue a notice on why penalty should not be imposed.

According to media reports, the probe into the company spanned about one and a half months from 15 November 2017 till end of December 2018.

The anti-profiteering provision in the CGST Act clearly states that companies must pass on the benefits of tax rate cuts or tax rebates to consumers by reducing prices commensurately.

Companies must pass on GST rate cut benefits to consumers.

Notably, companies are free to raise prices of goods not regulated under the Essential Commodities Act. According to reports, after complying with the requirement to immediately pass on the GST tax cut benefit to consumers, companies can raise prices depending on market dynamics.

Unfortunately, there is no lock in period specified by the law to maintain the reduced price. It has been noted that some companies in the past responded to tax cuts by increasing the quantum of a product sold. This was done to avoid practically difficult price reductions.

In the NAA report the director general of anti-profiteering (DGAP), the investigating branch of the NAA, noted that J&J raised the base price of certain products when the tax rate was cut. The amount of net higher sales realization due to increase in the base prices of the impacted products despite the reduction of GST rate from 28% to 18% or in other words, the profiteered amount, came to ₹230.4 crore, the NAA order states.

What the NAA implies is that by raising the base price of products, the company denied consumers the benefit of tax rate cut.

It may be recalled that the GST Council had announced one of its biggest rounds of tax rate cuts in November 2017 and had moved 178 items from the 28% slab to 18% slab. The items that were moved to the lower slab included consumer products including shampoos, cosmetics, hair oil, goggles, and shaving creams, etc. Equipment like bulldozers and excavators were also brought into the lower slab rate.

Post the tax cut, the DGAP had investigated the complaints received on profiteering by consumer goods manufacturers and their dealers. Due to their long supply chains, consumer goods manufacturers find sudden price changes immediately after a tax cut make it hard for them to implement.

The NAA is working hard to ensure consumers benefit from the revenue the government sacrifices.

Government may consider zero rating of health care services and health care insurance premiums, which will not only ensure that the credit chain is intact but also ensure that the input taxes are not loaded into the cost of healthcare services.

Zero rating GST on healthcare services sought

Since GST is not payable on healthcare services, service providers are not eligible to avail credit on the input taxes paid by it

Media reports that the health industry is seeking a zero rate of goods and services tax (GST) for healthcare services and health insurance premiums. The net impact of revised tax rates on inputs (goods and services) consumed by hospitals has increased, since GST is not payable on healthcare services, and service providers are not eligible to avail credit on the input taxes paid by it. Experts say that since this incremental cost is in the final analysis borne by patients, it defeats the government's purpose of providing affordable healthcare services. The matter was raised by the Confederation of Indian Industry (CII), in a letter to the government.

CII suggests that the government should consider zero rating of healthcare services and healthcare insurance premiums. This will not only ensure that the credit chain is intact but also that the input taxes are not loaded into the cost of healthcare services. Further, with zero rating, input tax credit will also be available as a refund for the healthcare service providers. CII feels that this option will help ease the cost of healthcare for consumers. It is also aligned with the objective of ensuring affordable healthcare to all.

The CII further notes that this is a common practice in many developed countries. These countries are providing 'zero rating' benefit to healthcare. The zero rating option will go a long way in reducing the cost burden for healthcare providers. This will ease their burden and allow them to pass on the benefit directly to the consumers.

Further, the CII has recommended introducing a 5% GST rate for healthcare services delivery. The CII has said that the government can consider levying a concessional GST of 5% on healthcare services delivery and health insurance premiums, in case it is unable to normalize the rates of tax for the goods and services consumed by the healthcare service providers at 5%.

The CII feels that through such a measure, healthcare service providers could ensure a “pass through" of benefits and can then re-adjust the pricing for healthcare services to patients since credit could henceforth be availed in respect of all input taxes paid on goods and services consumed.

The CII feels that taking such a step could result in unlocking of the differential input credit, and this will ease costs for all healthcare providers including nursing homes, clinics and hospitals. The savings that they make will then be passed on to the end consumers. This will ultimately lower the cost of care.

According to media reports, a similar recommendation has been put forth by NATHEALTH, healthcare federation of India. Recommending a similar model of GST, the federation states that the government needs to provide tax incentives for both existing and new projects. It recommends the government consider a tax holiday period of 15 years for hospitals in order to spur investment in the health sector. It states that as new hospitals take at-least 5-7 years to start earning returns, after recovering interest and depreciation, the length of the period of exemption must be longer. It also recommends giving incentives for 10 years to existing projects. This will support re-investment in capacity and technology upgrades.

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