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MINT, Delhi
Monday, 26th June 2017; Page: 8
Width: 44.82 cms; Height: 66.12 cms; a3; ID: 28.2017-06-26.44

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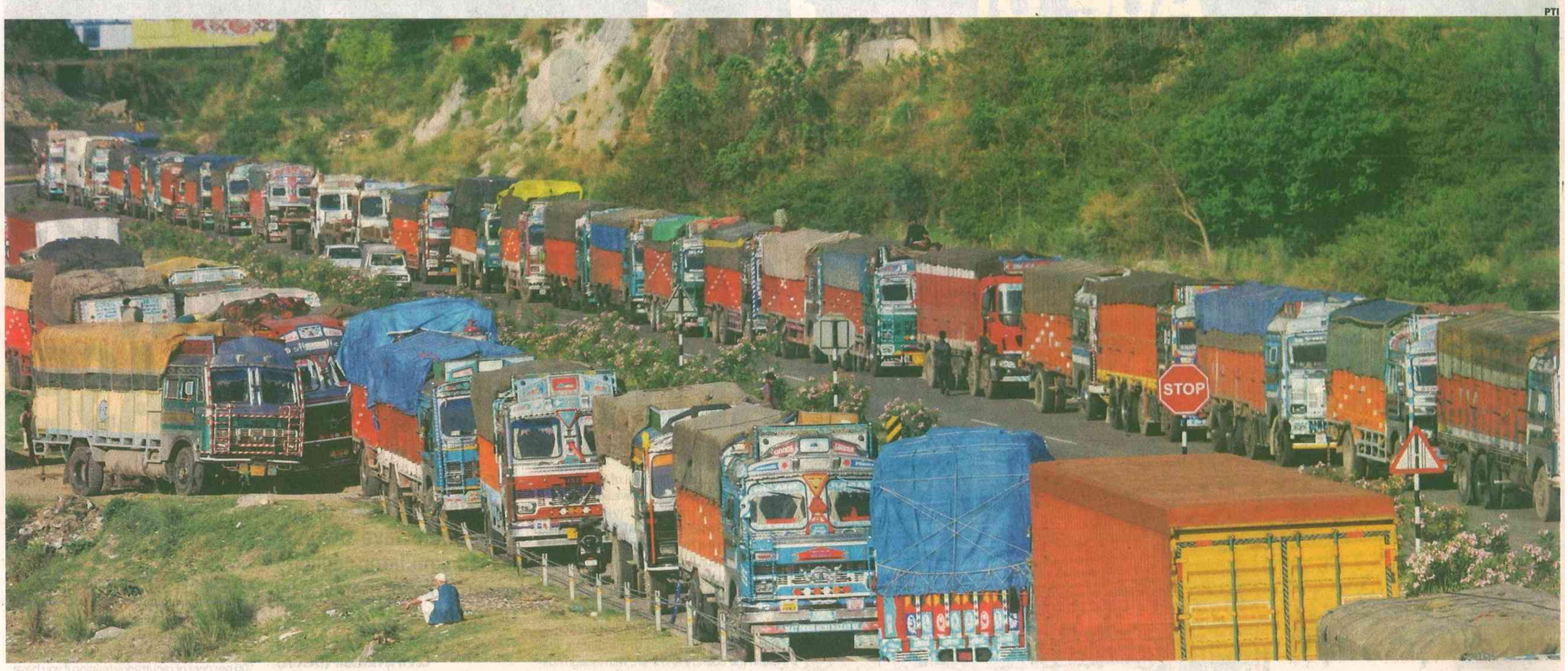

GST AND THE MARCH TOWARDS A SINGLE MARKET

The tax reform is expected to give a strong boost to a host of economic, development goals

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NEW DELHI

In about a week, the country is set to embrace a new indirect tax system, the goods and services tax (GST) that will dismantle state barriers to create a single national market, creating history, and giving a strong boost to a host of economic and development goals.

India's transition to a country-wide value-added tax system across goods and services is remarkable for a nation where state governments and local self-governments exercise considerable sovereignty in taxation. Rolling out GST on 1 July is the result of more than a decade of discussions, tussle among states, and between states and the Union government, instances of give and take, lobbying and compromises. The highlight of the reform is the creation of a federal tax institution, the GST Council, which has state ministers as members and the Union finance minister as chairman, which gives every state a say in the country's indirect tax policy. A country like the US with similar strong taxation rights to individual states has so far not managed to have a GST despite all its benefits.

A seamless market of over a billion people and eight million registered indirect tax assessees paying a single tax for goods and services is likely to go a long way in achieving what the government has been trying to do through various measures—promoting the manufacturing sector, boosting exports, creating more jobs, improving the investment climate, cutting down tax evasion and lowering the compliance cost to businesses.

According to Ansh Bhargava, a senior consultant at *Taxmann.com*, a company that assists taxpayers, the single market concept is akin to signing a free trade agreement between different states of India. "The GST regime seeks to break the barriers that currently exist between states and make movement of goods between different states easier," said Bhargava. Elimination of the tax-on-tax effect by providing input tax credit will lead to lower costs and make Indian products competitive in the global market, he said.

Consumers on the other hand are expected to benefit from transparency as well as reduction in prices of goods and services. Besides softening inflation, lower indirect taxes will also address the regressive nature of this levy which affects the rich and the poor alike, unlike taxes on income which is based on an assessee's ability to pay.

For businesses, elimination of multiple levies and creation of a single market with fewer tax rates and fewer tax exemptions will improve the ease of doing business and reduce avoidable litigation. A large part of the tax litigation in India is around tax exemptions.

However, GST that is ready for implementation is far from ideal. The guiding principle for the government while trying to secure consensus amid competing interests of various stakeholders was that it is better to have a good GST instead of waiting endlessly for the best one. From the concept of an ideal GST of low tax rate with few exemptions initially considered, the final form has four rates—5%, 12%, 18% and 28% for goods and services—with some items in the highest slab attracting an additional cess. Most of the items fall in the 12% and 18% slabs depending on the current tax burden on them.

Five hydrocarbons—crude oil, petrol, diesel, natural gas and jet fuel—are temporarily kept out of GST, while liquor is constitutionally kept out of the new tax regime. That was a compromise the Union government had to accept as states wanted the items on which tax collection is the easiest to be out of the new tax regime which gives little liberty to individual states to revise rates on their own.

The powerful federal indirect tax body, the GST Council, chaired by Union finance minister Arun Jaitley will consider inclusion of the hydrocarbons into the new tax regime once state revenues stabilize after GST implementation. Nearly 40% of state revenues are estimated to be from petroleum products.

States with a manufacturing base such as Maharashtra and Gujarat had their own concerns. These states currently get proceeds of a 2% central sales tax (CST) levied and collected by the centre on interstate trade in goods. Their argument was that significant investment has been made to create infrastructure for manufacturers, who export products to other parts of the country. GST being a destination-based tax on consumption, proceeds of tax on interstate supply of goods and services will flow to the state that is home to the consumer. These states argued for retaining CST in some form even in the GST regime. Madhya Pradesh and Maharashtra argued that local bodies, which raise resources through entry taxes, will be deprived of revenue.

To gets states on board, Union finance minister Jaitley agreed to fully compensate states for any revenue loss from GST implementation for five years. The compensation, which is specified in the Goods and Services Tax (Compensation to States) Act, 2017, will be computed taking the annual growth in state indirect tax revenue to be 14%.

V.S. Krishnan, adviser (tax policy group) at EY India and a former member of Central Board of Excise and Customs, said that although consuming states will benefit in the GST regime by way of tax revenue from interstate supply of goods and services, the exporting states will not stand to lose either. Exporting states will benefit from getting to tax services under the new indirect tax system, he said. As of now, the centre taxes production of goods and supply of services, while states get to tax sale of goods but not supply of services. In GST, this barrier is removed and both the Union and state governments get to tax the entire value chain of goods and services, increasing compliance, explained Krishnan.

There is still some work to be completed. One among them is to clear rules regarding e-way bills, an electronic permit for movement of goods. According to Prashant Deshpande, partner at Deloitte Haskins & Sells Llp, the e-way bill rules need to be very practical and minimize compliance burden. Also, states need to ensure that border check posts are eliminated.

GST in the current form is a diluted one in comparison to the original concept, but experts welcome its roll-out. "Introduction of GST is a very good start. Reforms, however, do not end here. Certain features can be further streamlined," said Deshpande.

How GST affects you

The guiding principle for the GST Council in deciding tax rates was that the GST rate should be close to the current effective tax burden on various items so that the transition to the new indirect tax system is revenue-neutral. Although there are four different slabs—5%, 12%, 18% and 28%—most of the commodities fall in the 12% and 18% slabs.

Products on which tax burden comes down

(in %)

Product	Current effective tax rate*	GST rate
Mobile phone	20.02	12
Footwear (below Rs500)	14.41	5
Ready-made garments	18.16	12
Cars for the handicapped	20-22	18
Medicines	11	5
Renewable energy devices	17-18	5
Iron ore	17-18	5
Music instruments (handmade)	0-12.5	0
Contact lenses	18	12
Processed food	14	12

Products on which tax burden goes up

(in %)

Product	Current effective tax rate*	GST rate
Butter	5.66	12
Television	24.39	28
Footwear (above Rs500)	14.41	18
Biscuits (Above Rs100/kg)	16.09	18
Corn flakes	9.86	18
Wristwatch	20.64	28
Jam	5.66	18
Baby food (sold in unit containers)	7.06	18
Small cars (<4m <1200cc petrol)	25-27	28+1**
Small cars (<4m <1500cc diesel)	25-27	28+3**
Mid segment (<1500cc)	36-40	28+15**

*Current effective tax rate includes central excise duty, value-added tax (VAT) and various local levies.

**GST compensation cess

GST impact on services

Although the proposed GST rate on many services is higher than the current applicable service tax—15% on specified fraction of the service value—GST eases the tax burden on them. That is because in addition to service tax, these services currently also bear VAT levied by states which make the combined tax burden higher than the GST rate proposed. Examples include supply of food/drinks in outside catering and services of non-AC restaurants without liquor licence.

Services on which tax burden goes up

(in %)

Services	Effective service tax rate*	GST rate
Renting of motor cab (when fuel cost borne by customer)	6	18
Tour operators' services	1.5	5
Supply of food/drinks in AC restaurants in 5-star or above rated hotel	6	18
Hotel stay where room tariff is between Rs1,000-Rs2,500	9	12
Hotel stay where room tariff is between Rs2,500-Rs7,500	9	18
Hotel stay where room tariff is above Rs7,500	9	28

*Takes into account the portion of service value on which tax is applicable

The comparison of rates are only approximations

Products at zero GST rate

- Meat other than frozen and in unit containers
- Fish, fresh or chilled
- Milk and dairy products
- Eggs and salt
- Human blood and components
- Contraceptives
- Fresh fruits and vegetables
- Non-branded cereals, flour, and jaggery
- Unbranded organic manure
- Judicial, non-judicial stamp papers; inland letters, post cards
- Non-precious metal bangles, agriculture implements and hand tools

Source: EY, GST Council

GRAPHIC: NAVEEN KUMAR SAINI/MINT

'80% of existing taxpayers have activated their GSTN accounts'

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NEW DELHI

RAMESH PATHANIA/MINT

GSTN chairman Navin Kumar.

mint INTERVIEW

Goods and Services Tax Network (GSTN), the IT infrastructure firm that will manage millions of invoices filed by about 8 million indirect taxpayers, has a key role to play in making the rollout of goods and services tax (GST) a success. GSTN chairman Navin Kumar, an experienced bureaucrat who has steered many e-governance missions of the Bihar government, including the one on the state's value-added tax (VAT) system, says GSTN's information technology system is designed to be convenient for even the smallest taxpayer in the remotest part of the country. Edited excerpts:

How does introduction of GST change the way indirect taxes are paid and returns are filed by businesses and traders?

One basic difference between GST and existing value-added tax (VAT) systems such as central excise, state VAT and service tax is that GST payers have to submit invoice-level data on business-to-business transactions. This is not required in the existing system. We noted that a business may file an average of 137 invoices a month. For designing our system, we took three times that number as a benchmark, that is roughly 400 invoices per month by a business. That means 80 lakh taxpayers may file about 320 crore invoices per month under GST. Data of so many invoices cannot be uploaded in the conventional manner. Our software has to enable every class of taxpayer to upload data. The system allows entering data in the GSTN website itself, which may be convenient for small businesses, but manual data entry may not be feasible for large businesses that may need to upload say, 50,000 invoices a month. For them, we have an offline tool which could be downloaded from our website. It draws data from the excel sheet in the taxpayer's system and uploads to the GSTN system. It can handle 19,000 invoices in less than 30 secs.

In the current system, businesses file both sale and purchase data. But in GST, only sellers need to upload sales data while our system automatically fills the buyer's purchase register. All that buyers need to do is accept the auto-generated return or modify it if there is a mistake. This makes compliance easy.

How confident are you about the preparedness of small and medium scale industry and of small traders for the 1 July rollout of GST?

The offline tool I mentioned was developed keeping in mind the requirement of the large number of small businesses and traders, especially those in remote areas, where internet connectivity may not be good. They can use the offline tool; whenever they have connectivity, can upload the data. The enrolment of existing indirect taxpayers into GSTN went on from November 2016 to April. We again opened the enrolment window in the first fortnight of this month. About 66 lakh indirect taxpayers of the 80 lakh have activated their account at the GSTN portal.

Data shows that many of these taxpayers are from far flung areas, including the North East. That shows that in spite of connectivity issues, they have been able to access the GSTN portal. This was made possible due to the mission mode project taken up by the centre for computerization of commercial taxes. With the centre's financial assistance, all states have computerized their commercial tax systems.

Over the past decade, taxpayers have got used to e-filing and electronic compliance.

How about GSTN's readiness?

Yes, we are ready. For GST rollout, there are two pre-requisites. One, all existing indirect taxpayers have to migrate to GST. Second, there should be facility for registration of new taxpayers. Eighty percent of existing taxpayers have activated their GSTN accounts. The registration window will remain open again from 25 June for three months. The module for registering new taxpayers is ready and will remain open from 25 June. We will also have a help desk to assist new taxpayers.

How do changes in tax administration arising from GST help in improving the ease of doing business?

The multiplicity of taxes at present which require taxpayers to report to different authorities will give way to reporting to a single authority under GST. It will unite the country into a common market. We are hoping all check posts at state borders will go away. Many states have already removed; others have said they will do so. The economy will benefit from this.

GSTN is expected to generate a lot of valuable data about supply of goods and services. How will this data help both direct and indirect tax administrations in widening the tax base?

That is one of our declared objectives. We will be carrying out business analytics once we have enough data in our system. When we have data of transactions for a year, we will collaborate with the income tax department and the others so that we can use their data and they can use ours.

Will GSTN be a self-sufficient entity? What are your revenue streams?

Our revenue stream is based on user charges collected from the government for the services rendered to tax officers and taxpayers. Taxpayers will not be charged. Central and state governments will pay on their behalf.

Your message to taxpayers?

I would like to urge taxpayers to use the help materials such as videos and illustrations we have posted in our website. That will make working on GSTN portal very easy. They should also read about the system requirements for their computers. We are going to release some "dos and don'ts" to guide taxpayers.