PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

MINT, Delhi
Saturday, 1st July 2017; Page: 19
Width: 45.01 cms; Height: 16.54 cms; a3r; ID: 24.2017-07-01.43

10 ways in which GST will change the lives of individuals and businesses

BY GIREESH CHANDRA PRASAD
gireesh.p@livemint.com

NEW DELHI

Collapsing 17 federal and state indirect taxes into a single goods and services tax (GST) applicable across the country from midnight on 30 June will affect individuals and businesses in many ways, some of them disruptive. Here's a list of 10 ways in which the new tax regime will change things:

1. Transparency

For the first time, consumers will know the actual amount of tax they are paying on goods and services in the form of a single GST rate to be split between central and state governments. At present, an invoice shows the state-level value-added tax (VAT) and in certain cases, the service tax levied by the central government. It does not reflect taxes paid by various intermediaries on raw materials and services used in production, which are added to the final price. Also, the efficiency of GST is expected to lower the tax burden on the consumer and improve transparency.

2. Shift in tax burden

While the effort has been to keep GST rates as close as possible to the current tax burden on goods and services, and make the transition revenue neutral, the effective tax on individual items is likely to move up or down. Tax on services such as telecom is likely to go up. Actual changes will depend on the pricing strategies businesses adopt.

3. Turning point for unorganized sector

Businesses with annual sales of less than Rs20 lakh are exempt from registering for GST and filing returns. But this exemption poses a real and immediate risk of bigger businesses turning away from the unorganized sector for sourcing materials and services to larger suppliers that are within the GST system, so that taxes paid by their suppliers are available as credit. Small businesses have to voluntarily sign up for GST to not lose their customers. Big procurers wanting to keep ties with the unorganized sector, however, have the option of paying taxes on their behalf under a system called "reverse charge". If small firms become a part of the GST system, it could improve tax compliance not only in indirect taxes, but also income tax.

4. Small and medium enterprises (SMEs) take a hit

The tax burden on SMEs is set to go up. So far, this segment of the economy with annual sales of up to Rs1.5 crore enjoyed exemption from central excise duty and paid only state-level taxes such as VAT. With the threshold for GST registration for businesses being much lower at Rs20 lakh annual sales, SMEs will come under GST and will have to pay taxes at the federal level too—the central GST. This could mean doubling of the tax rate for them, although the actual increase in tax burden may not be equally high because of the tax credits passed on to them from their material and service suppliers. GST is designed to have a larger taxpayer base with the idea of lowering the overall tax rate.

With the Rs20 lakh annual sales threshold for GST registration, small and medium enterprises will have to pay taxes at the federal level too. SAISEN/MINT

5. Vanishing tax breaks

Excise duty exemption for setting up production units in the North-East or hill states is being withdrawn. Businesses will now have to make investment decisions based on sound economics rather than tax arbitrage. "This gives a reason for businesses to set up new production units closer to their market or closer to ports rather than expanding existing facilities in places that enjoy area based exemption," explained R. Muralidharan, senior director at Deloitte India. Units that have already come up on the promise of excise exemption for a specified period will have to pay tax first and then claim refunds in the remaining period. Several drug makers, cement companies and automobile producers have units in hill states.

6. Revamping supply chain

GST will make businesses take another look at the location of their warehouses and movement of goods from state to state until they reach the final consumer. Since GST is applicable on transfer of stock within a group company's warehouses in different states, businesses may try to optimize their supply chain, said Bipin Sapra, partner at EY India.

7. Keeping on the right side of law

Companies and traders have to think hard about their pricing strategy during the transition period to avoid getting caught for not passing on any reduction in the effective tax burden to the consumer. An anti-profiteering body is being set up to keep a watch on how businesses recalibrate the tax inclusive price charged from consumers.

8. Training vendors, workforce

Businesses have to not only update their business, accounting and tax payment software, but also train their workforce. Training vendors and business partners is also important as the invoices they file are relevant for the taxes to be paid by a business. "People in the entire business ecosystem of a company need to be trained," said Prashant Deshpande, partner at Deloitte India.

9. Return filing

While suppliers have to upload details of transactions and invoices, tax returns of buyers of goods and services will be auto-generated based on suppliers' data, minimizing human discretion. Buyers can either accept auto-generated returns or modify it.

10. Liquor and fuel

Liquor and five hydrocarbons—crude oil, petrol, diesel, jet fuel and natural gas—may see some increase in tax burden as they will remain in the existing tax system, while GST paid on all equipment and services used in their production will become an added cost.