Four years of GST - the hits and misses

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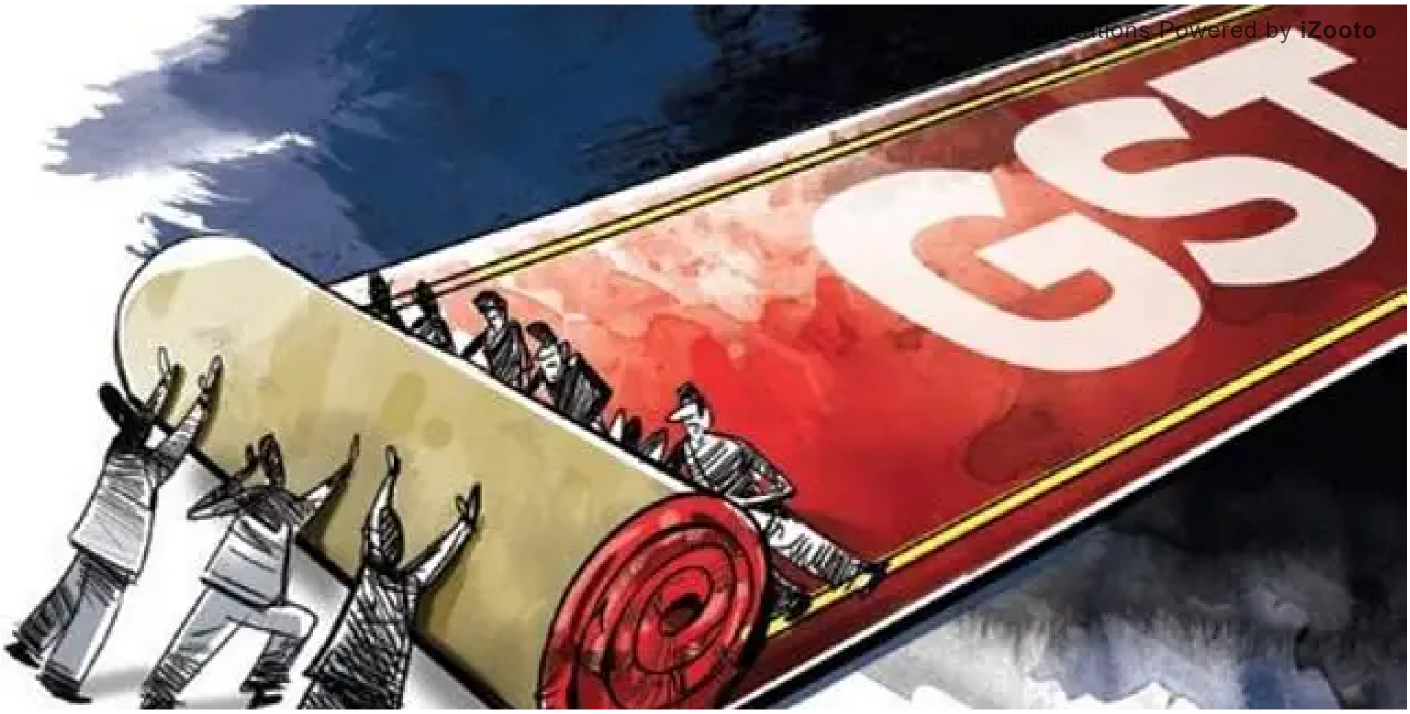

GST (Express Illustrations)

By Rajat Mohan

It has been four years since the introduction of Goods and Services Tax (GST) law, India's biggest tax reform, on July 1, 2017. The 4th anniversary is an excellent chance to examine whether Indian GST has been a success or not. The government and the tax department tend to respond that GST has been an unqualified success. In contrast, taxpayers have battled to keep up with the quick changes in the regulations and often respond that GST has been a catastrophe.

GST Statistics (As on June 20,2021)

Registered Taxpayer	1.28 Cr

Total Return Filed	67.71 Cr
Total Number of Payment Transactions	19.00 Cr
Total Invoice Upload	1269 Cr
Payment through the portal (excluding IGST on imports)	34.66 Lakh Cr
E-way Bill	193.58 Cr
Highest Return Transactions in a day	23.86 Lakh
Highest Payment Transactions in a day	9.55 Lakh

(Source: GSTN https://gstn.org.in/)

Here's the summary of hits and misses of the GST Act in the past four years.

HITS

Ease of doing business: Since the GST rate is the same across the country for a particular supply, traders and manufacturers in the organized sectors have more freedom to choose the best vendors, suppliers, and other stakeholders with better pricing, regardless of their location.

Impact on logistical efficiency: More than 50% of logistics effort and time is saved as GST has ensured the removal of multiple checkpoints and permits at state border checkpoints. As a result, more road hours and faster delivery have been added, enhancing the business efficiency in India.

Impact on price-cost margins: GST has resulted in competitive pricing and large-scale economies due to more straightforward business procedures. GST has almost ended the era of multiplicity of taxes and its cascading effect. This has sufficiently reduced production costs, leading to better margins for the industry, which were passed on to the consumers in the form of better products or lower prices.

E-way bill - In April 2021, the e-way bill system completed three years since its implementation from April 2018 across India. It resulted in the national unification of permit bill systems, allowing logistics to experience fewer interruptions en route the delivery. Use of technology has resulted in smoother consignment movement and much less disputes with officials. This will also add to the bulk of big data analytics in the country, catching the tax evaders near to the event of tax evasion.

E-invoice: With widespread non-compliance and non-filing of GST returns by a considerable percentage of taxpayers, revenue collections in the first three years of GST were nowhere near envisaged. Non-compliance with the GST was on the rise, and more cases of fraudulent invoices claiming input tax credit (ITC) were being discovered. To put an end to this practice “E-Invoicing” was introduced in October 2020. This ensured that a trade invoice is identified by a unique identification number which is generated by automated government-backed online portals. Since the introduction of E-invoice, it's no surprise that GST collections have risen steadily since November 2020, surpassing the Rs 1 lakh crore barrier on several occasions. In fact even post the onslaught of the second wave of Covid leading to a Lockdown 2.0 in several parts of the country, tax collection stood strong at INR 1 Lacs crore mark in May 2021.

Impact on transaction costs: There has been a significant reduction in transaction costs. Earlier, all the interstate transactions were loaded with an additional cost of 2%(Central Sales Tax), which post GST has now been reduced to 0%. GST has been a huge breakthrough in the interstate movement of products, allowing to India boast of a single national unified market for businesses. The inconveniences of the previous administration have largely vanished after the introduction of e-way bills, leading to the convenience of doing business.

MISSES

Input Tax Credit (ITC) - GST Credit is not so seamless after all. GST law provides that credit becomes a vested right eligible to a registered person after the conditions prescribed under the said provision are met. These include the requirement to possess a valid tax invoice/debit note, actual receipt of goods/service by the recipient, and furnish the return. The most peculiar condition imposed is the requirement that the tax charged corresponding to a particular supply is actually paid into the government treasury. The taxpayer is ineligible to claim a credit against the tax paid on goods and services if the seller/service provider has failed to submit such tax due with the government treasury. Government utility in the form of GSTR -2, which never worked well, was kept in abeyance since July 2017 and later scrapped.

Frequent alterations to the law- The GST law has seen many amendments. Multiple and frequent revisions confuse the taxpayer and tax administrators, creating misunderstandings and misconceptions. Dates, modifications, and rates based on time periods need to be ascertained. CBIC /GST Council could have exercised some discipline over this. Till date, more than 1000 notifications/circulars/instructions/orders have been issued by the government machinery.

Transitional Credit Issues- Even though the GST is a four-year-old law, many assesses are still experiencing technical/legal issues as a result of the transition from the old to the new GST system. Despite the fact that more than 1400 days have passed, the GST Council /CBIC is not able to resolve the issue. Many of the taxpayers are still fighting a case in the High Court/Supreme Court. Important judgments like Brand Equity etc. has been stayed by the Supreme Court of India.

Conflict of interest and interference between State/UT and Central Tax administrations– There is always a conflict of interest and interference between governments. Even State Governments, especially those headed by different political parties, clash with the Central Government and issue their own circulars.

The office of the commissioner of state tax, Maharashtra had issued Trade Circular on January 12, 2021 regarding withdrawal of deemed adoption of GST circulars issued by CBIC. The state government of Maharashtra has clearly indicated that they will have parallel set clarifications on the same matters, which will supersede the clarifications issued by the Central government,

CONCLUSION

India has had a lot to learn in the last four years, but the most important lessons were only learned in the last year because of the coronavirus outbreak. The country's middle class suffered significant losses in the current situation, whereas tax evaders took this opportunity to loot the government while tax officers were confined to their homes. Digitalization of tax records and proceedings has been on the mind of government since 2020. The exchange of data between CBDT and CBIC will now be seamless, leading to synergies for government bodies.

India's net direct tax collections doubled to more than ₹1.85 lakh crore this fiscal year so far, Despite extremely challenging initial months of the new fiscal, Advance Tax collections for the first quarter of the FY22 against Advance Tax collections of the corresponding period of the immediately preceding Financial Year show a growth of approximately 146%. This indicates the maturity of Indian businesses and long-term planning of big companies.

Going forward, the government's efforts to further liberalize GST norms, simplify procedures, and lower tax slabs are expected to build a formidable business ecosystem.

The ease of doing business, growth in manufacturing, increased margins, and the creation of employment opportunities for the country's growing young population will have a positive impact on the tax collections also.

The author is senior partner in the Chartered Accountancy firm AMRG & Associates.

TAGS GST four years of gst Ease of Doing Business input tax credit tax law reforms Rajat Mohan