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Issues and Challenges of GST on Industries – An Analysis

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Abstract

GST has also had an impact on discount and reward programs as well. The product is being taxed at the rates pre-discount whereas the products were earlier taxed at post discount prices. Most of the companies have also suspended reward programs on temporary basis because of complexities of GST Mid-Year Launch – Government has chosen a mid-year launch for GST and this will lead to problems in taxation and reporting during the end of the financial year. Ideally, the government should have launched GST at end of financial year as this would have avoided a lot of confusion during taxation and reporting. Registration in the Many States Required–As per GST, the seller would require registering in all the states that it does business in and that would increase the complexity for the seller. The government should have created a provision for centralized registration of State GST as this would have helped many sellers during the rollout. Petrol not Under GST– The Petrol doesn't come under GST and that is one of the major controversial issues. The petrol is taxed at a much higher rate and if the government is rolling out a unified taxation system then each and everything should be taxed under GST. Online Taxation– Online taxation system is an advantage as well as disadvantage. Many people are not able to process their taxes and this forces them to reach out to a third party for tax filing purpose. This has increased the overall cost for such small businessman who needs to approach the third party for filing tax. so the implementation of GST has had an immense outcome. Micro Small and Medium Enterprises (MSMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today we have around 3 million SMEs in India contributing almost 50% of the industrial output and 42% of India's total export. For a developing country like India and its demographic diversity, SMEs have emerged as the leading employment-generating sector and has provided balanced development across sectors.

Key words: GST, Small & Medium Enterprises, development, compliance.

Introduction

"Historic experience shows that the implementation of GST could result in disruption for short period of time as businesses adjust to the new tax regime and results in an uptick in inflation," he said. The biggest beneficiary of the

GST implementation would be the sectors that have a high share of unorganised segment. It will bring about lower tax incidence, reduction in logistics costs, higher compliance etc. "We feel consumables like FMCG, dairy industry would largely benefit; logistics and warehousing sector would benefit both qualitatively and quantitatively as the time spent on the state borders drops thus saving both fuel and time to reach the destination," Arun Thukral, MD & CEO, Axis Securities told Moneycontrol. "Small cars will get slightly costlier, while SUVs will attract an additional cess. The power sector will gain as the rate for thermal coal has been categorized under 5 percent vs 11.7 percent earlier,"

Objective:

This paper intends to explore impact of GST on MSME and existing enterprises how they have simplified / affected the tax structure and challenges experienced by MSME Entrepreneur

Compliance procedures under GST

Registration, Payments, Refunds and Returns will now be carried out through online portals only and thus SMEs need not worry about interacting with department officers for carrying out these compliances, which are considered as a headache in the current tax regime. Thus, in short-run, the common man will encounter 3% rise in service prices, but also benefit from GST in the following ways: It is expected that the consumer would also reap the benefits of the new tax regime, once the corporate have transitioned complete. Restaurant Bills I have visited a restaurant and purchased a food for Rs. 2000 in Delhi, So Under GST, A food at an AC restaurant shall draw 18%.I have pay Rs. 360 as tax and post GST but post GST VAT @12.5% and services tax @ 6% charged. I have paid 370 as tax. Air Travel I have traveled in domestic economy class on a ticket of 2,000 So Under GST; A air travel class is 5% taxable. In case of business class travelled GST rates is bigger to 12% from 9% under service tax. Post GST travels in domestic economy class on a ticket of 2, 000, services tax at 6%. Holidays I have stayed in hotels which has tariff amount of Rs.10,000 a night. In pre GST the gross indirect tax rates ranged from 19% to 25%,In PostGST,sinces tariffs between 1,000 and 2,500 would have GST of 12 %, and between Rs.2,500 and 7,500 would have GST of 18% . Car Expenses In Pre GST , I have taken an Ola or Uber and the ride costs Rs.100, Post GST marginal saving sinces cab facilities would attract at 5% as compared to 6% serviecs. Banking and Insurance In Post GST rates is services will be more expensiive and Pre GST services is services will be less. Let's examine what would be the impact of GST on Small & Medium Enterprises.

Below we have provided a high level impact analysis of GST on small and medium businesses in India.

Filing GST Return

Maintaining separate invoices is uncalled for uphill task. Filing GST Returns Remains Error Prone The tax return filing procedure under GST is also becoming a major cause of a headache for small businesses. No one seems to be sure about the appropriate process for filing GST return. For now, people have to file only one return every month and an annual tax return. For this, you will have to fill GSTR-1 to GSTR-11 forms on GST online portal. If you are not sure about this, it would be wise to take the help of a CA. GST on Local (GST Exempted) Goods Clothing and footwear that cost below Rs. 500 are exempted from GST. But many shopkeepers, especially retail chains are still charging GST rate of 5% in their bills for such items.

The fact that shopkeepers producing computerized bills and having an AC in the shop are allowed to charge GST on all their goods encourages such practices. Some Pertinent Issues for Small Traders GST implies additional operational costs for Small businesses. In a developing country like ours, not all SMEs will be able to afford the cost of computers and accountants required to implement GST (make bills and file tax returns). 28% GST rate on some products like plywood, automobile parts and electronic items forces potential buyers to opt for unregistered dealers. It is too difficult to assign MRP to handmade products like local shoes, Banarasi Sarees, etc. Most small artisans are illiterate and therefore unable to write MRP on their products and/or do any paperwork. Dealers are confused how to rates of such products. Small businesses that have a small turnover and need not pay GST face trust issues. Buyers demand bills from even those sellers who are exempted from GST. Without proof of certificate of GST exemption, small shop owners find themselves stranded and immobile. Issues for E-commerce Companies E-commerce giants like Flipkart, Amazon also have not escaped the aftereffects of GST rollout. TCS has to be collected by the e-commerce companies from the sellers at the time of payment. The capital blockage will hamper day to day operational cost due to TCS provisions. The GST council has fixed the 1 percent TCS over the deduction made while payment to the sellers. E-way Bill and Interstate Trade E-way bill had the potential to liberate interstate trade from all sorts of obstructions. The excitement could be felt among the slightly nervous business community. But on the day when the Finance Budget 2016 was being introduced to the Lower House, the lethargic GST network turned to be a major spoilsport and February 1 turned out to be a watershed moment for the upbeat government. The inability of the network to handle large volume e-way bill requests was at the forefront of public jokes and disappointment. Immediately e-way bill was rolled back. In the aftermath of the failure, goods carrying vehicles were left stranded and highways enjoyed pin drop silence for a few hours. The crumbling GST network has been in the spotlight from the very beginning and it continues to garner unwanted criticism and public grievances. The GST Council need to find permanent scalable solutions rather than interim ones like the GSTR-3B. The sloppy GSTN Network raises serious concerns over the Government's claim of a digital powered economy. GSTN is managed by Infosys, a premier IT services company. The eway bill network was managed by the venerated NIC. The GST E-way bill is a major concern for most of the companies which are regularly into the business of transporting goods and sending material over the locations, the transport company is also trying to figure out how it would deal with the GST E-way bill provisions. As soon the bill expires the transport company or the trucker himself has to generate the GST

E-way bill on his own. The GST Council must have taken all these concerns into strict consideration and ensured easy and simple e-way bill generation procedure which would be partially effective from April 1, 2016

Evaders Bonanza

The consistent policy rollbacks and amendments, powered by the glitchy GSTN Network, have enabled massive tax evasion. The benevolent composition scheme, as well as windows for filing quarterly returns, raises concerns about the intention and execution prowess of the government at the center. The increased pool of registered taxpayers has had little but no impact on Revenue generation. Only 70% taxpayers file returns regularly. A major headache is, however, the mismatch between initial and final returns filed by taxpayers. There is an estimated mismatch of Rs 34,000 crore tax liabilities reported in GSTR-1 and GSTR-3B. The present GST structure has no mechanism for checking discrepancies found between GST Returns for July-Dec and Final Returns. About 84 % of the taxpayers were unable to correctly report revenue statements. The discrepancies and e-way bill failure demand that the GST Council now needs to take rigorous measures to tackle the menace of tax evasion through under-invoicing. GST and Fiscal Fractures The GST revenue shortfall promises large dents in the Centre and states' fiscal applecart. The Center and State budgets will be pegged down by the gap in Tax revenue. The common man will find himself on the receiving end if such gap in revenue continues. To bring states on the same wavelength and approve GST, the government had offered state compensations to the tune of Rs 60,000 crore for July to March in FY18. In order to stay true to its pre-GST promises, it is estimated the Central Government will have to make payment to the tune of Rs 90,000 crore further in FY19. Understandably, the Budget 2016 unleashed record taxation of over Rs 90,000 crore in the form of capital gains tax, increase in customs duty, cess and surcharge. The fall in revenue has further made states apprehensive about bringing petroleum products and real estate under the GST ambit

GST on Local (GST Exempted) Goods by MSME

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Conclusion

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