PRESENT CHALLENGES OF GST OVERVIEW

RAMESH M N
Asst. Professor,
Department of Economics,
Government First Grade College,
Honnali – 577 217.

Abstract:

GST is a huge reform for indirect taxation in India, the likes of which the country has not seen post Independence. GST will simplify indirect taxation, reduce complexities, and remove the cascading effect. Experts believe that it will have a huge impact on businesses both big and small, and change the way the economy functions.

To understand GST, it is important that we understand the current indirect taxation system. Direct taxes such as income tax are borne by the person liable to pay the tax; this means that the tax burden cannot be shifted to anyone else. The liability of an indirect taxes on the other hand, can be shifted to another person. So, the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden.

GST Overview

The GST tax falls in this category. The current indirect tax structure, which comprises of so many different taxes, can be classified as: Central taxes: levied by the Central govt (includes Central Sales Tax, Excise Duty etc.) State taxes: levied by the various state govts (VAT, Service Tax, Octroi) 1.GST VS CURRENT INDIRECT TAX STRUCTURE The current indirect tax has one major problem - the casacading effect. When you buysomething, you pay a tax on tax itself. Let's understand this with a hypothetical numerical.

GST is a comprehensive, multi-stage, destination-based consumption tax on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail: Comprehensive: GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates. Multi-stage: GST is levied each stage in the supply chain, where a transaction takes place. Value-addition:

This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. This is done through Destination-based consumption: Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax For example: Let's say that cotton garments are being shipped from Karnataka to Maharashtra. Karnataka is the producer state and Maharashtra is the consumer state.

Tax revenue under GST Let's understand how this will impact imports and exports. Exports are not taxable, because the place of consumption is outside India. Imports are taxable, because the place of consumption is in India. The tax on imported goods will therefore be just the same as domestically-produced goods. Imports would be costlier because of additional custom duties. Thus, the export industry will become more competitive. Also, domestic goods will be protected by making imports at par with domestic goods.

A taxable event such as manufacture, sale and provision of a good has to occur for tax to be collected. Under the current system, each taxable event is subject to multiple taxes such as excise, VAT/ CST and service tax. But under GST, products will no longer have multiple taxes, and will not incur excise duty as well as VAT at different points of time.

There will no longer be any difference between goods and services in terms of taxation. An example of this is when we go out to eat at a restaurant. Earlier, the customer paid both VAT and service tax on a single bill, but after GST is implemented there will be a single tax charge on the bill amount. This leads us to an important concept in GST - Time, Place, and Value of Supply of goods and services. Let us look at these provisions in detail in the next chapter.

Positive

In spite of composition levy, many small organizations are planning to voluntarily register themselves under GST. This is because composition levy has certain drawbacks. Voluntary registration will mitigate such drawbacks and give the following advantages: Provide input tax credit to customers: Since your business is legally recognized, you can issue taxable invoices. Buyers, in turn, can take input credit on their purchases.

This will help expand the customer base and make it more competitive. Take input credit: Voluntarily registered persons can take input credit on their own purchases and input services like legal fees, consultation fees etc. This will eventually increase their business margin and profitability.

Make inter-state sales without many restrictions: Businesses registered under GST can make inter-state sales without many restrictions. Thus, it widens the potential market for SMEs. These SMEs can also opt for selling their goods online through the e-commerce platform. Be compliant and have good rating: Registration for GST will ensure that the business is compliant and scalable without any barrier of future registration. Also under GST, compliance rating will be maintained and if this is done correctly, it can attract additional business.

Negative

We discussed the benefit of getting registered under the Goods and Services Tax, however, there is a flip-side to it. Businesses registering voluntarily under GST may have to face extra compliance and working capital liquidity. Some of these consequences are: Multiple return filing: Businesses registered under Goods and Services Taxes are required to file three returns every month.

These returns are GSTR-1, GSTR-2, and GSTR-3 and include the details of all purchases, sales, and final tax liability after setting off Input Tax Credit. Failure to file these returns will not only deny the input credit to our buyer but also attract penalty. Further Compliance rating will get affected negatively. Payment of tax liability: Once registered under GST, the supplier will have the additional responsibility of collecting and depositing taxes with the authorities. This will not only inflate the cost for the buyer but also leverage similar sellers who are not registered under GST.

Registration in every state of business activity: Further under the new law, obtain registration in each state of business activity. Return needs to be filed in the jurisdiction of the state where goods are supplied for consumption. In other words, if a small dealer is supplying in five states, he needs to register in all five states to fully take benefit of input tax credit. This can increase the cost of compliance to business.

'Place of Supply' under GST is an important factor as it defines whether the transaction will be counted as intra-state (i.e. within the same state) or inter-state (i.e. between two states) and accordingly the changeability of tax, i.e. levy of SGST, CGST & IGST will be determined. While determining the levy of taxes based on place of supply, two things are considered: Location of Supplier: It is the registered place of business of the supplier Place Of Supply: It is the registered place of business of the recipient.

Let us first understand why an accurate determination of place of supply is important for businesses. The reasons for this are listed below: Wrong classification of supply between interstate or intra-state and vice-versa may lead to hardship to the taxpayer as per section 19 of IGST Act and section 70 of CGST Act Where wrong taxes have been paid on the basis of the wrong classification.

Refund will have to be claimed by the taxpayer The taxpayer will have to pay the correct tax along with interest for delay on the basis of revised/correct classification Also, correct determination of place of supply will help us in knowing the incidence of tax. As if place of supply is determined as a place outside India, then tax will not have to be paid on that transaction.

Businesses operate in a dynamic model and we have witnessed innovative schemes wherein a buyer is required to pay the partial amount in cash and the rest in kind, such as when exchanging used goods for a new product. As a general principal, value of supply will be the amount of consideration received in money from the buyer. 22 www.cleartax.com/gst for Reckitt Benckinser GST Guidebook-ClearTax.

Here's an example to help you understand this better: Where a new TV is supplied for INR 20,000 along with the exchange of an old TV and if the price of the new TV without exchange is INR 24,000 the open market value of the new TV is INR 24,000. Where a laptop is supplied for INR 40,000 along with a barter of printer that is manufactured by the recipient and the value of the printer known at the time of supply is INR 4,000 but the open market value of the laptop is not known, the value of the supply of laptop is INR 44,000. This discount was not known at the time of supply.

So it cannot be claimed as a deduction from the transaction value for GST calculation. So the invoice will be same as above. Value of Supply of Goods or Services Between Related Person Under GST Many businesses have multiple branches across states. Under the new GST law, they are required to register separately in each state they are operable in.

Also, there can be multiple entities within a conglomerate which would also require multiple registrations under GST. For instance, TATA Steel and TATA Motors are both considered separate legal entities under TATA Sons, even though the former supplies inputs to the latter. Such business entities which may have separate legal existence while sharing a common control, fall under the definition of 'related person' under GST law.

According to the valuation rule, the expenditure or costs incurred by the supplier as a pure agent (contracted to the recipient of the supply of services) shall be excluded from the value of supply, if all of the following conditions are satisfied: the pure agent makes a payment to a third party, on behalf of the recipient, for procuring a supply when the contract for the supply of services procured is between the third party and the recipient.

For example, legal charges paid to Registrar of Companies (RoC) in above case. the recipient of the supply is the only user of the services procured by the pure agent from the third party; the recipient of the supply is liable to make payment to the third party; the recipient of the supply authorizes the pure agent to make payment on his behalf;

The recipient of the supply knows that the services (for which payment has been made by the pure agent) are provided by the third party; the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the agent; the pure agent recovers from the recipient only such amount as has been paid by him to the third party; and the services procured by the pure agent from the third party are in addition to the supply/service he provides on his own.

Life insurance business The value of supply of services in relation to life insurance business shall be: (a) the gross premium charged from a policyholder reduced by the amount allocated for investment, or savings on behalf of the policyholder, if such amount is intimated to the policyholder at the time of supply of service; Example:

If INR 50,000 is gross premium, of which INR 45,000 is invested in funds, then the value of supply shall be INR 5,000. (b) in the case of single premium annuity policies other than (a), ten percent of single premium charged from the policyholder; or (c) in all other cases, twenty-five percent of the premium charged from the policyholder in the first year and twelve and a half percent of the premium charged from policyholder in subsequent years This rule will not be applicable if the entire premium paid by the policyholder is only towards the risk cover in life insurance.