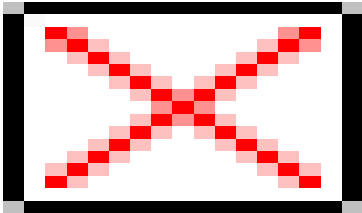


Three years of GST: The Hits and the Misses

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AFTER

deliberation and debate of more than a decade, GST finally became a reality in 2017. There were numerous predictions and forecasting done by the taxgurus and the economists. While some did turn out to be true, many were addressed by the Government beforehand and did not cause much havoc in the country. Rise in inflation, wide criticism of multi rate GST were some focal points which created fear in the minds of the taxpayers. However, the Reserve Bank of India ruled out any significant inflationary impact due to GST rollout. This article discusses the hits and misses of the 'Good and Simple tax' as now is the right time for reflection.

Hits of GST

- Insignificant Inflation:

When the multi rate GST was announced, it was highly criticised for the reason that different GST rates may increase complexity of classification. India has one of the highest number of different GST rates globally. As a global trend, GST rollout is mostly followed by inflation. This is due to the fact that most countries have single rate GST. Fitment of all products under a single rate umbrella could be one of the reasons behind the inflation. The GST council took this learning and came out with 4 varied rates which essentially ensured that products are put under the GST rate closest to the rate where it was earlier taxed. What is to be lauded here is that the highest bracket of 28% comprised of 226 items in July 2017. This number has been brought down to approx. 28 items only. Similarly rate rationalisation has been done across the tiers for the benefit of consumers.

- One Nation, One tax:

The publicity of GST was done with the tagline 'one nation, one tax'. The tagline meant that unlike the VAT and entry tax regime where each state had its play, GST would unify the country and markets. The GST council has been successful in doing so with the removal of check posts and the hardships associated with it. The conversion of way bills to e-way bills has made life simple for the transporters and businesses. Supply chain efficiencies have become a reality as countless depots and warehouses have been done away with.

- Boon for MSME:

With a simplified composition scheme, quarterly returns, annual declarations, much is sorted in the MSME sector. The hassle of manual return filing has been replaced by simple online returns.

- Seamless credit flow:

Barring certain items, the ITC flow has become smooth and seamless leading to a drop in the tax component in cost of production. This has entailed in lower prices and enhanced production.

- Formalised economy:

The enhanced tax base due to lowered threshold limit has ensured that micro and small business also become a part of the tax net. Even after the low threshold limit, India has one of the highest registration thresholds globally ¹

. The fake invoice scams and tax evasion have seen an all-time low as was envisaged by the legislators.

Misses of GST

- Sloppy portal

: What proved to be an actual dampener was the technology platform GSTN - sloppy, disordered and ill-functional. In a country with 6.3 crore MSME units ²

, GSTN proved to be a monster for micro traders and businesses who do not even own a computer, let alone filing online returns. Even for those, who are technologically sufficient, the constantly changing forms and formats of returns, multiple postponements of due dates and declarations were a hard-hitting. Even as of today, one cannot rely on the functionality of the portal.

- Delayed refunds to exporters:

The refund processing is not as swift it was promised. This has caused working capital leak in the exporter's pockets. Though the situation is getting better, the perfect refund mechanism is yet to be seen.

- Dispute resolution:

The divergent Advance Authority Rulings (AAR); sometimes within the same state also, are a nightmare. It has also been alleged several times that the panels are biased against the taxpayers and mostly reply in the negative.

- Anti-profiteering:

A borrowed concept from the Australian GST, implemented in an Indian way. There is still no clarity on methodology followed by the anti-profiteering authority. To make matters worse, a new lease of life has been granted to the authority which shall expire in 2021.

- Employee recoveries:

One of the most discussed topics is the applicability of GST on employee recoveries. There has been a lot of fuss around this and still no conclusion. The companies have started levying GST on all sorts of employee recoveries making it a burden in the chain.

- Tran-1 credits:

It is hard to say whether this spectacle is over or there is more behind the curtains. The incessant deferment of due date to file Tran-1 followed by a sudden surge of Advance rulings on the subject has forced the Apex Court to step in. The finale of this is largely awaited.

- Credit Matching:

Once claimed to be the foundation of GST regime, the credit matching methodology is still at a very nascent stage. The honest taxpayers are suffering at the hands of the mischievous ones or the ignorant ones. The e-invoicing system which is underway is claimed to solve this problem.

The times ahead!

Despite the initial teething problems, GST is undoubtedly a successful implementation. What is to be kept in mind is that rolling out a reform as massive as GST which overhauls the entire Indirect tax regime in one of the largest democracies of the world is a daunting task which had its own set of hurdles. The Government needs to be appreciated for the hard work and persistence with which the GST council is moving ahead taking one stride at a time.

Though Covid-19 has paused the e-invoicing system and the implementation of new returns, the Council has made an impressive progress in both the areas. The next step for the Government should be to bring the petroleum products under the GST umbrella. This will complete the loop and ensure that there is no cascading effect.

While there are countless small and interpretational issues which demand attention, the regime has more or less settled. Any tax reform is a work in progress and the horizon to judge its success can never be as short as three years. Introducing GST is set to take India much higher in the ranks for paying taxes (currently, the rank being 115th). It is quite easy to point out the flaws but the regime as historic and colossal as GST certainly will take some time to be called a success or a failure. Till then, as the Late former Fina

nce Minister Arun Jaitley said- "Nayi duniya hai, naya daur hai, nayi hai umang; kuch the pehle ke tarike to kuch hai aaj ke rang dhang", let's keep our spirits high and raise a toast to the third anniversary of GST in India.

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1<http://documents1.worldbank.org/curated/en/918831542619297197/pdf/GST-final-IDU.pdf>

2<https://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwwisYH+5EnGjyGXO9hLEcVTuNuXK6QP3tp4gPGuPr/xpT2f>

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