Two Years Of GST [UPSC Notes for GS III]

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Context:

The milestone goods and services tax (GST), which was launched on 1st July, 2017, has completed 2 years. The one-nation, one-tax revolution has seen a few hiccups, but it's settling down and benefits should start to flow sooner rather than later.

What is GST?

- GST Law in India is a multi-stage, comprehensive, destination-based tax that is levied on every value addition.
- In layman's language, the Goods and Service Tax is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that existed earlier in the country.
- GST is one indirect tax for the whole of India.

Current Status of GST

- GST is currently levied on every product except petroleum, alcohol, tobacco and stamp duty on real estate in four slabs of 5, 12, 18 and 28 per cent. Most of the articles that are used daily have zero GST as per the latest revision of the tax rates last year.
- 97.5 per cent articles covered by 18 per cent or lower GST slab. Under the previous, value added tax (VAT) regime, standard taxation rate was much higher. Only luxury and sin goods are now taxed at highest 28 per cent GST rate.

Achievements in the last 2 years

- **Number of registered taxpayers:** The number of registered taxpayers at the time when the GST was rolled out was Rs 65 lakh, which today stands at Rs 1.2 crore, a jump of 84 per cent over the last two years. This shows a significant widening of the tax base and formalisation of the economy under the GST.
- **Monthly collection:** Monthly GST collections for July 2017, the first month for GST, was Rs 92,200 crore. Subsequently, it dropped to Rs 83,700 crore in November that year. Collections started rising from the 2nd year onwards with July 2018 collections at Rs 96,500 crore. In 2018-19, the average monthly collection was Rs 97,100 crore with collections breaching Rs 1 lakh crore on a regular basis.
- **Compliances:** After a slow start, the number of registered taxpayers who started complying with GST timelines, grew. For the first month (July 2017), only 38 lakh out of 68 lakh registered taxpayers had filed GSTR 3B returns by August 25. This amount has now almost become double to 72.5 lakh by April 2019. E-way bill, an anti-evasion mechanism, came into existence from April 1, 2018. The number of e-way bills doubled from 2.8 crore in April 2018 to 5.49 crore in March 2019.
- **Rate rationalisation:** In the beginning over 200 goods were kept in the 28 per cent rate bracket. The number of goods under 28 per cent slab has been cut down to eight. There are other goods and services whose tax rates have been reduced. For example, GST on restaurant services has been brought down from 18 per cent to 5 per cent. GST rates on affordable housing projects have been reduced from 8 per cent to 1 per cent and on non affordable housing projects from 12 per cent to 5 per cent.
- **Number of returns:** When the GST was rolled out, there was a provision for three monthly returns - for sales, for purchases and a composite return - and one annual return. When businesses complained

about huge compliance burden due to the requirement of 37 returns being filed in a year, the GST Council did away with the purchase return. Now businesses have to file two returns - GSTR1 for sales and GSTR 3B, a composite return.
- **Centre-State Relations:** It has proved to be a successful template for Centre-State Relations as most decisions in the GST council have been unanimous. Centre has taken the states along in ironing out issues and also Council has proactively addressed issues as they arose.
- **Refund:** The process of refund has been fairly streamlined. Exporters of goods have been receiving refund directly from the customs and exporters of service are getting 90 % of the refund immediately. The issue of working capital blockage due to refusal of GST refund in the initial period has now been fairly sorted.

Concerns and Expectations

The initial period was very stressful but over a period of time, it has stabilised to a large extent though many issues still remain unresolved.

- **Return filing:** Initially there were issues and problems in filing monthly GST Returns but it has now stabilised. However, the new return filing system should be introduced in phased manner and should not be implemented till the trade, professionals and the departmental authorities are fully conversant with the same. Change in the process in the middle of the year is cumbersome for all as accounting systems have to be amended for the same.
- **E-invoicing:** Introduction of e-invoicing is a welcome move. However, its introduction at this stage seems to be a difficult plan. Also, further clarity is needed for the process of generation in case of system breakdowns.
- **Introduction of cess:** Introduction of Kerala Calamity Cess has been a cause of concern for all. Other states may also do the same and introduce a cess for some of their welfare schemes.
- **Notices for reconciliation:** Periodic notices even before the year is complete for differences in Input Tax credit claimed by the traders and as appearing in the GSTN network are putting a strain on trade and industry. Business and professionals are further confused as figures appearing in their GST Return, GSTR 2A appearing on GSTN network and figures stated in the notice sent by the department is different. The authorities also don't have any break-up on the basis of which notice has been sent.
- **Requirement for centralised assessment:** Business with multiple locations are finding it difficult to appear for assessment or inquiries before authorities in various states. The entire tax and accounting is generally centralised in big organisations. Hence, a longstanding demand of the industry with locations in various states for assessment/audit in the main state would be a welcome move.
- **Frequent changes:** The trade and professionals are grappling with the frequent changes and notifications issued in the past two years. Though changes and amendments are required for clarity, but major amendments impact the decision-making capacity of the trade.
- **Input tax credit:** Eligibility of input tax credit has been a bone of contention between trade and authorities from pre-GST era. Some of the judgements were very clear about ITC being an indefeasible right of assessee, small procedural errors should not hamper them, provisions cannot be used to extract money from the assessee, etc. The condition for disallowability of ITC if vendors do not pay GST or file returns is a very harsh provision and needs to be revisited.

GST has managed to subsume many local, state and central taxes which should be appreciated. Hiccups were expected, but after two years there has to be a climate of certainty with smooth GSTN network and minimum changes in the law. The way GST is progressing it appears that the journey is still midway for the authorities and businesses and much has still to be achieved. It cannot be said that there are only negatives, there are substantial positives. The emphasis should be on expanding the tax base, checking of tax evasion, simplification of procedures and glitch-free GSTN system.