

## Eye Share: How GST is changing India's Business Space

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In 2017, India made the most talked about economic reform of the country in the history of independent India which is now about to mark its third anniversary. With the introduction of GST, there was not only a hope of a better taxation future but also an anxiety as to how this sudden change in statute proves beneficial. Post its introduction, the tax structures were modified multiple times so as to cope with the public interest.

The author, **Mr. Rajat Mohan (Senior Partner, AMRG Associates)**, pens down about the contribution that GST made in changing the Indian business spaces. The author begins with discussing how the competitiveness of Indian business has increased globally with the removal of cascading effects of tax paid. Author then touches upon the anti-profiteering provisions highlighting that "This step has put the business landscape in the constant sight of anti-profiteering authorities, pushing them towards the reasonable pricing benefiting the public at large". Outlining the facilitation through E-Way bill mechanism and ease of transportation the author remarks that it has given a boost to various industries.

### Article



When GST was implemented it had the potential to change the country's fortunes and to reshape India Inc. In the context of India, which is the world's fastest growing economy, paradigm shifts were needed for the sake of global perception and attention. Operations and growth of businesses in any economy depend's directly on the tax laws followed. The complexities of the system impact's efficiency of the business environment. India since ages had one of the most complex tax structures of the world. In 2017 India made the most talked about economic reform of the country since independence and now we are nearing its third anniversary. Let us have a look at the contribution it made in changing the Indian business spaces.

With the removal of cascading effects of tax paid, the competitiveness of Indian business has increased globally. Numerous foreign companies are setting up their plants in India due to the combined effect of global competitiveness and central government policies through which Ease of doing business is improved.

Anti-profiteering provisions were kept in the law to curb the unethical price inflationary practices. The government has decisively held the wheels of the inflation rates after GST implementation. This is an exception to the global experience of price rise after GST levy. This step has put the business landscape in the constant sight of anti-profiteering authorities, pushing them towards the reasonable pricing benefiting the public at large.

Next on the charts is a comprehensive national E-Way Bill mechanism which is mandatory for the movement of goods to be generated on the E-Way Bill Portal. Further, Eway bills have increased efficiency and speed of transportation. One of the top media houses reported in December 2017 that the average distance covered by a truck in the country has increased by up to 100-150 kilometers a day as compared to what vehicles were covered in the pre- GST era.

Earlier, due to various hiccups like checkpoints, barricading at various levels, trucks were traveling 10-12 hours and were able to move about 300-350 kilometers in a day's time. Now with the removal of checkpoints ease of transportation has given boost numerous industries. A truck in India covered an annual average distance of 85,000 km as compared to 1,50,000 to 2,50,000 km in developed countries which pose a clear indication that our transportation systems needed some reforms. The E-way bill helped to reform the industry. Further No waiting time at the check-post and faster movement of goods, thereby optimum use of vehicle/resources. Taking a step forward the GST Council approval for the integration of E-way bill and FASTag which are mechanisms to identify the movement of vehicles on the road which aimed at curbing misuse of E-way bill mechanism.

GST law states that payment to creditors should be made within 180 days from the invoice date. If payment is not made within 180 days then ITC availed has to be reversed by the buyer along with interest, from the date when credit was claimed in books. This has two arguments to look into. First being that due to these payments are being made timely to the vendors, a heavy amount of their working capital is recovered timely resulting in savings in notional interest costs to them and ultimately helping the business for smooth functioning. Second is that terms of business should and only be decided by the parties concerned. The government should not involve into the business terms and through this, the government is indirectly getting

involved into the business payment terms, irrespective of the fact that it is for the benefits of the vendor only. This provision is one of the black provisions of GST law.

Since the introduction of GST, the government has made numerous changes in GST tax rates, which is not a positive move for any economy, as this tosses the economy in a state of reboot to find a new equilibrium price. Frequent changes in tax rates signify that lawmakers lack a long term policy and vision. The government has stated that these changes are done to rationalize GST and to provide relief to industry and consumers. However truth be told, these frequent changes have been a setback and haven't let the lawto settle down.

HSN stands for 'Harmonized System Nomenclature.' The WCO (World Customs Organization) developed it in 1988 with the vision of facilitating the classification of goods all over the World in a systematic manner. While the primary purpose of the HSN code is the systematic classification of goods, it can also be used to gather data and solve problems that would otherwise be difficult to obtain. Under GST registered person having turnover upto the INR 1.5cr are exempted from HSN requirements. Registered persons having turnover above 1.5cr are required to mention HSN codes. By this, almost all the companies have been covered by this requirement. This clause is new for traders and service providers of the erstwhile regime, and it took them some time to accustom them to this new requirement.

Under GST law only thing which is certain is a levy of interest even if payment is made through non-monetary measures. There may be a case where a registered person claimed ITC wrongly in books, However, he didn't use such ITC for the payment of the outward liability. Now, that registered person after finding on his own that he has reversed the wrongly availed ITC. This reversal will be done along with the interest irrespective of the fact that such ITC was not used for payment of the outward liability. In a recent GST council meeting, this matter was taken up and it was decided that this interest liability will be taken away, as it has nowhere affected the government's revenue. However, this has not come on record by way of a notification/ circular.

The filing of GST returns has been a major dampener since the implementation of GST from the historic date of 1<sup>st</sup> July 2017. This has been caused due to increase in the number of details/returns required to be filed under GST Law, issues in the matching of credits and non-functioning/crash of the common portal, i.e., GSTN website. Due to the above position, the GST Council was coerced to extend the dates of filing of GSTR-1 and also to dispense with the requirement of filing of GSTR-2 and GSTR-3. Further, GSTR-3B was introduced in lieu of GSTR-3 which was required to be filed along with payment of tax.

Since the inception of GST, cases of fake invoicing and tax evasions are reportedly increasing year after year. Soon the detection of fraud tax credit reaches INR 50,000 crores from July 2017. In the meanwhile, the GST Council in its approved of the new return formats and associated changes in the law along with the introduction of e-invoice to counter the fake invoicing. These changes are likely to be rolled out from April 2020 but the government has decided to defer to October 2020. These changes are not likely to reduce the compliance burden.

Ease of doing business removes cascading effect (double taxation), reduces the tax burden on new businesses, improved logistics and faster delivery of services are some of the positive points of the newly implemented of Goods and Services Tax (GST). GST promises to remove the barriers around investment and entrepreneurship, where decisions can be made purely on economic concerns, independent of tax considerations and process hassles. Reduction in the tax burden, logistics, and inventory costs have a positive with a lasting impact on the sales and profitability of companies operating in diverse industries. By bringing businesses of varied sizes under a uniform tax structure, which in turn would facilitate the reduction in price gaps, GST is leading to a level-playing field for both the organized and unorganized sectors where growth opportunities will be ample and fair.