

GST IN INDIA: A TOPSY-TURVY START TO UTOPIAN TAX ERA



Goods and Services Tax ('GST') is one of the biggest economic reforms that have taken place in the seventy years' history of independent India. Wading its way through a host of pre-implementation bottlenecks, including, lack of political consensus, constitutional constraints and over a decade of tumultuous debate, finally GST came into effect in India from July 1, 2017.

The federal structure of Indian economy has, evidently, been the root cause of the elongated process of migration of the country to this one-nation-one-tax concept. The long wait that India Inc had to go through seems worth it given the fact that GST has been able to achieve several marked improvements over the extant indirect tax laws applicable in India. The notable ones being: a) standardization of indirect tax laws across the national geography; b) removal of multiplicity of taxes and thereby their cascading impact in product / service pricing; c) uniformity in tax rates on goods throughout the country; d) uniform compliance procedures on pan-India basis; and e) better navigability of goods across various parts of the country. GST laws have also brought clarity on characterization and taxability of certain historically debated commercial transactions viz. hiring / leasing of goods, job-work / works contract transactions etc.

That said, like every massive economic reform,



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GST also set its initial footprints into the Indian economy with its own set of ambiguities and challenges. Understanding characterization / classification rules, new tax rate structures and taxation principles (viz valuation, place and point of taxation related principles) applicable on various goods and services; realigning the existing processes & IT systems to create a GST compliant eco-system; training & orienting internal as well as external stakeholders with the new laws; and, finally, undertaking new & scaled up compliances within the prescribed stiff timelines; have been amongst most

daunting tasks for the tax payers, thus far. This lead to significant investment of senior management time in practically every big corporate house, in order to ensure business continuity amidst the switch over to this new indirect tax landscape.

Holistically speaking, the theme, structure and design of the GST is far more business friendly as compared to the erstwhile indirect tax laws of India. Give this, the move to GST regime will undoubtedly be catalyst in achieving the government's stated agenda of bringing in ease of doing business in India. In realizing this over-arching goal, the collective efforts of the central and state government are also worth applaud who working relentlessly to address tax-payers' concerns. The recent substantial simplifications announced in the GST compliances & reporting requirements and rationalization of the tax rate structures on a wide range of products & services, corroborate the pro-business mindset of the Indian polity at this juncture.

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change, and legal issues surrounding anti-profiteering provisions," says partner L. Badri Narayanan.

TOO SOON TO TELL

Most lawyers feel it is difficult to judge the impact of the GST roll out for at least another few months, adding that the government is also taking steps to remedy the initial glitches.

"On the government's front, the two most crucial components of the GST infrastructure are the GSTN (goods and services tax network) system and the tax administration. The government has spent immense effort and resources on preparation of these, however, the experience since implementation shows that GST as a tax regime is still work-in-progress," adds Kapoor.

On the taxpayers side as well, most of the outreach efforts of the government to create GST awareness have been with the bigger industry players which anyways have the resources and teams to support them. Kapoor adds, "However, the government has not adequately anticipated the problems of the small and medium businesses that do not have the required infrastructure to be GST compliant and are currently struggling with the complexity of procedures."

But things are getting better. According to a report released by research firm Crisil, barring the small- and

"Overall, the manufacturing sector in general had a more or less neutral financial impact given the policy level endeavour to keep the effective tax rate structure close to cumulative impact of the extent indirect tax levies. The service sector, on the other hand was adversely impacted with effective tax rate increase on most services."

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mid-sized firms and certain investment linked sectors, most other companies are likely to see their balance sheets improve from now onwards. Further, the increased tax base should result into reduction of tax slabs and tax rates over a period of time.

By simplifying the tax system and eliminating the inefficiencies thereof, India should be able to better attract foreign investors, adds Kapoor. As projected by economic experts, the implementation of the GST is expected to increase the Indian GDP by 1 to 2 percent in the coming years. 