

● **FOUR YEARS OF GST**

MAKING ONGOING IMPROVEMENTS TO THE GST COMPLIANCE AND TAX PROCESSES BASED ON STAKEHOLDER CONSULTATIONS HAS BEEN THE HALLMARK OF THE GST REFORM IN INDIA

A continuing reform

THE COMPLETION OF four years of the Goods and Services Tax (GST) is a good time to look at the benefits it has provided and challenges it has led to, the latter amplified by the once-in-a-century pandemic. GST needs to be judged in the right context. Major reforms are an ongoing process, and a new legislation that has combined several complex central and state legislations cannot be expected to work seamlessly from the word go. It may take a few years to achieve all of its objectives and realise its entire potential.

There has been considerable debate in recent times on whether GST has achieved its revenue objectives and whether the states are getting their fair share of revenues. While the GST collections were certainly hit by the pandemic-led economic contraction, recent months have seen an encouraging turnaround in collections, providing some relief in the fiscal space.

Several states have been experiencing difficulties in managing their fiscal position and have been requesting the Centre to step in to assist them. The Centre has also been finding it difficult to manage the assured compensation to states from the Compensation Cess Fund (CCF) collected from certain products and has borrowed to fund the deficit in the CCF.

It is also likely that the period of five years which was originally envisaged for the CCF, would be extended to assist in funding the shortfall and repaying the borrowings during the current period. This would impose an additional burden on those businesses whose products are subjected to compensation cess, such as automobiles, as these businesses were under the impression that the compensation cess would come to an end in June

2022 and they would be subjected only to the applicable GST thereafter. Hence, the only long-term solution to the problems of the finances of the state and Centre appears to be a significant improvement in GST collections, driven by above-average economic growth and increased focus on improving GST compliance.

Several businesses have struggled to comply with GST and its increased requirements. While the focus of the GST authorities has been to expand the base of GST taxpayers and ensure that they pay the correct amount of taxes, this has unintentionally hit many organised and unorganised businesses. While larger businesses are able to handle some of these issues, smaller and mid-sized businesses have found it extremely difficult.

It is essential to note that GST is a business-transaction-driven tax and its

compliance is integrally linked to fundamental business processes such as sales, procurement, logistics, etc. Hence, any measures taken to improve the compliance also impacts core business processes that are primarily driven by customer requirements, marketplace practices and commercial necessities.

For instance, permitting businesses to avail input tax credit (ITC) only in those cases where the vendor has fulfilled their GST payment and compliance requirements creates an additional level of workflow that every business now has to monitor. Further, many businesses are genuinely not able to monitor their vendor behaviour and feel that they should not be penalised for the tax compliance deficiencies of their vendors once they have paid the GST amounts to their vendors. Additionally, the requirement to reverse the ITC availed if the vendor

is not paid within six months makes it difficult for business that operate in an elongated working capital cycle with agreed payments terms beyond six months that are linked to the final customer payments.

Service providers have been grappling with the increased compliance needs—registering and filing returns separately in each state where they have operations. They have not received any relief in the GST compliance framework as it does not make any distinction between suppliers of goods and providers of services. This has resulted in all service providers having to ramp up their internal teams handling GST, increase their interactions with tax consultants, expand usage of technology for tax compliance, etc, all of which has resulted in an increase in their costs of providing services to their customers.

Many of their customers are unwilling to absorb this, which results in service providers having to reduce their margins just to continue business. It has also been difficult for service providers engaged in exporting their services to obtain refunds of input taxes paid by them to their vendors because of the increased and automated scrutiny process that such refunds are now subjected to.

One solution could be to permit service providers to file consolidated returns for the states where they are registered together with aggregated tax payments, which can then be bifurcated amongst states by the backed IT processes.

Making ongoing improvements to the GST compliance and tax processes based on stakeholder consultations has been the hallmark of the GST reform in India, and this is expected to gather pace once the present situation improves.

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Views are personal

