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Two years of GST: Road ahead for one nation, one tax

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Abstract
GST, the most radical tax reform in India has completed two years. For industry as well as the Government, the first year was more about transitioning into the new regime and dealing with initial teething issues. For the Government, the second year has been about bringing stability and simplicity in laws, while augmenting its efforts to expand the tax base, primarily through more efficient use of technology
Industry, on the other hand, has started settling in the new environment while exploring the benefits GST has to offer. There is a general consensus that GST has reduced the overall tax incidence in most cases and also brought in efficiencies in supply chains.
As we move into the third year of GST, the Government is looking forward to increasing its revenues by using robust data analytics, a new compliance framework with inbuilt checks to reduce misuse of input credits and initiatives such as e-invoicing. Industry is looking forward to further simplification of laws, rationalization of the rate structure, strengthening of the dispute-resolution mechanism and implementation of definitive guidelines for audits and scrutiny.
This process has already begun. This paper has an attempt to capture the key changes in the second year of GST, the important issues that still need consideration and what we can reasonably expect over the next one year or so.

Keywords: nation, GST, radical tax, Government, chains

Introduction

The Goods and Services Tax (GST), the biggest and most transformational economic reform in Indian history, completed two years on 30 June 2019. Publicized as the ‘one nation one tax’, GST brought with it expectations of a simple, stable and transparent tax regime, which would result in an overall reduction in the prices of goods and services and facilitate barrier free movement of goods across India. The Government has walked a tight rope in terms of its meeting the expectations of end consumers and industry as well as ensuring buoyancy in revenue collections and tax administration.

Fig 1

The Government’s focus in the first year was aimed at resolving issues faced by businesses to ensure a smooth transition to the GST regime. Once industry was familiar with compliance-related requirements and the overall concept of GST, the Government shifted its focus to bringing in relevant legislative reforms on the basis of its learning in the first year of Implementation of the tax.
In the second year of GST, responding to representations from various industries, the Government gave an assurance that there would be significant rationalization of rates in goods and services. At the same time, it provided much needed clarity on issues relating to specific sectors such as real estate, hospitality and the solar industry, among others. Although still in its infancy, over the last two years, GST has proven to be a positive tax reform and has significantly boosted India’s industrial growth. The credit for stabilization of the GST regime in only two years is largely due to the Government’s pro-active measures and industry’s continuous participation to make it a ‘Good and simple tax’

Objectives of the Study

1. To capture the key changes in the second year of GST
2. To analyze the important issues of GST that are still need to consideration

Review of Literature

1. Narendra Modi (2019) [1], said that, **“**Today, the GST system has been established to a large extent and we are working towards a pposition where 99% of products and services will attract GST at the rate of 18% or less”.
2. Arun Jaitley (2019) [2], said that, "As revenue increases further, it will give an opportunity to policy makers to possibly merge the 12% and 18% slab into one rate, thus, effectively making the GST a two-rate tax"
3. Nirmala Sitharaman (2019) [3], said that, “the efforts will be made to further simplify Goods and Services Tax and expressed hope that it will help in further improving India's ranking in the World Bank's ease of doing business index
4. Pratik Nain (2019) [4], “For industry as well as the Government, the first year was more about transitioning into the new regime and dealing with initial teething

issues. For the Government, the second year has been about bringing stability and simplicity in laws, while augmenting its efforts to expand the tax base, primarily through more efficient use of technology. Industry, on the other hand started setting in the new environment while exploring the benefits GST to offer”

Scope of the Study

With the GST completing its second year, it is important to encapsulate the experience of two years of GST and the key related developments in Government’s focus issues.

Some of the Broad Highlights of the GST Journey So Far

Impact on GDP Growth

One of the focus areas of the Government is to assess the impact of GST on India’s economy. All the stakeholders in the taxpayer value chain have high hopes that GST will be instrumental in reducing economic distortion and give the necessary impetus to the country’s economic growth. Initially, the economy witnessed a slight dip in the GDP on implementation of GST. This was expected in view of the scale of changes it brought about in business and tax administration. However, GDP growth picked up gradually within the first year of implementation of GST.

The GDP growth rate for FY 2018-19 was 6.8% as against the anticipated growth rate of 7%. While the growth rate in the first two quarters of FY 2018-19 crossed the estimate and recorded an average GDP growth rate of 7.5%, it had slumped to its record low at 5.8% in the last quarter (i.e. quarter January-March 2019).

The dip is however expected to be short lived, as the Government is likely to implement effective measures to revive economic growth and consumers’ demands. Reports from financial institutions also indicate that GDP growth is expected to recover to around 7-7.5% in 2019-20

Impact on Consumer Price Index

GST could have caused a spike in inflation by raising the tax rates on goods and services. However, a large number of products in the Consumer Price Index (CPI) basket being exempt from GST compensated for the rise in the tax rates on other items. Furthermore, Government has rationalized the GST rates on items of daily use by common people from time to time. While there is no evidence that GST has positively or negatively affected inflation, the CPI, which was at a low of 2.4% in July 2017 moved up in the early months of implementation of GST and gradually came down to 2.92% in April 2019.

Impact on Revenue Collections and Fiscal Deficit

Fig 2

The Government expected a sharp increase in revenue collections after the smooth rollout of GST. However, there was a substantial dip in collections in the first quarter of its implementation. This was largely due to processing of transitional credit claims and the reduction in tax rates for several mass consumption goods.

Fig 3

MONTH-WISE GROSS COLLECTION OF GST

MONTH	2017-18	2018-19	2019-20
April	-	1,03,459	1,13,865
May	-	94,016	1,00,289
June	-	95,610	99,939
July	21,572	96,483	-
August	95,633	93,960	-
September	94,064	94,442	-
October	93,333	1,00,710	-
November	83,780	97,637	-
December	84,314	94,726	-
January	89,825	1,02,503	-
February	85,962	97,247	-
March	92,167	1,06,577	-
Total	7,40,650	11,77,369	3,14,093
Average	89,885	98,114	1,04,698

Fig 4

The average monthly collections from GST for FY 2017-18 fell short of the expected INR Rs. 90,000 crore mark, making the Government’s Budget estimate for FY 2018-19 seem overly ambitious. However, average monthly collections of revenue from GST amounted to INR Rs.98, 114 crore in FY 2018-19. This was 9.2% higher than in FY 2017-18

The year 2018-19 witnessed a spurt in GST revenue collections in March 2019. This was the highest since the introduction of GST and marked a growth of 15.6% over revenue collected in March 2018

In 2019-20, the total collection in the first three months has been Rs 3, 14,093 crore, a monthly average of Rs 1, 04,698 crore. The average gross GST collection in 2018-19 was Rs 98,114 crore per month, which was higher than the previous year’s average of Rs 89,885 crore.

The financial year 2018-19 (FY19) ended on a happy note on the goods and services tax (GST) front. At Rs 1.06 trillion, the government has announced the highest monthly collection from GST in March since its roll-out 21 months ago.

This is the fourth time in FY 2019 that, the monthly GST collection has crossed the Rs 1-trillion mark, meeting the target. With this, the total GST collected during the year has touched Rs 11.77 trillion, still nearly Rs 75,000 crore short of the initial annual expectation.

Even so, the GST mop-up, together with the direct tax collection of Rs 11.5 trillion (against a Budget target of Rs 12 trillion), may somewhat ease the government's worry about a steep tax shortfall for now. Analysts said the latest numbers would help the government move closer to the fiscal deficit target of 3.4 per cent of the country's gross domestic product (GDP) set for FY 2019.

The monthly average of GST revenue during FY 2019 is Rs 98,114 crore, which is 9.2 per cent higher than 2017-18. These figures indicate that the revenue growth has been picking up in recent months, despite various rate rationalization measures.

The total GST collections in March were up 16 per cent from the corresponding period last year. Of that, the central GST (CGST) stood at Rs 20,353 crore, while state GST (SGST), and integrated GST (IGST) were pegged at Rs 27,520 crore and Rs 50,418 crore, respectively.

GST TAX Structure

The initial proposal was to keep a single GST rate for goods and services in India. However, the GST rate structure that was finally implemented had multiple tiers of tax rates for goods and services, without there being an explicit roadmap for ventual unification of GST rates.

Goods and services are mainly classified under five rate brackets — 0%, 5%, 12%, 18% and 28%. The multiple rate structure has led to complications in the taxation system and disputes pertaining to classification during the initial period after implementation of GST. These issues are gradually being resolved admits various clarifications provided by the IT Department and advance rulings sought by businesses.

In the first year of implementation of GST, the Government reduced the tax rates on various commonly used items and kept most items of daily use in the 0% or 5% tax rate slab. The purpose of doing this was to ensure that the burden of increased tax rates would not affect consumers adversely in the form of increased prices. After the GST system was by and large settled and revenues had stabilized, the Government pruned GST rates to relieve the burden on people, especially for goods and services under the 28% tax bracket and for specific industry sectors.

Technology-Driven Compliance

Automation of compliance-related procedures is imperative for successful functioning of GST. The Government had endeavored to set up an automated and robotic compliance system, which enables ease of functioning and complete automation of various processes.

Statistical Information

In its two years' journey, the Government has taken several steps to make GST an effective and simple tax. On one hand, it has made proactive efforts to streamline the GST compliance portal. Compliance-related processes, including return filing, online tax payments, registrations and generation of E-Way Bills, have been automated and are now generally functioning smoothly. On the other hand, the Government has clarified ambiguities in legislative provisions via notifications, circulars and orders.

Findings

During the first year of its implementation, the Government's focus was on resolving issues faced by businesses to ensure a smooth transition to the GST regime. Once industry was familiar with compliance related requirements and the overall concept of GST, the Government shifted its focus to the legislative and judicial aspects of the regime over the past one year.

Having completed two years of a momentous journey, expectations from the regime are rather high. These include economic growth being given a boost, augmented revenue collections, significant increase in the tax base and inclusion of non-GST products such as petroleum goods, real estate and possibly alcohol under the GST net

Other Key Changes

In addition to rationalizing tax rates on goods and services, and legislative changes, the GST Council has taken several other measures to ease compliance-related requirements. Some of these are-

1. The threshold for requirement of GST registration in the case of a supplier dealing in goods has been increased from INR Rs.20 lakhs to INR RS.40 lakhs in a financial year and in the case of some North Eastern and other states, it has been raised from INR Rs.10 lakhs to INR Rs. 20 lakhs.
2. A concessional rate scheme (akin to the composition scheme) has been introduced for Suppliers of services with an aggregate turnover of INR Rs. 50 lakhs in the preceding financial year.
3. 3. In Union Budget 2019, the Government proposed an alternative composition scheme for suppliers of services or mixed suppliers (i.e. suppliers supplying both goods and services). This scheme will apply to taxpayers with an aggregate annual turnover of up to INR Rs.50 lakhs in the preceding financial year.
4. In this year's Union Budget, the Government proposed that the Central Government should be the nodal agency for disbursement of refunds pertaining to state taxes to expedite processing of refunds.
5. Furthermore, a group of ministers has recommended promotion of digital payments, and to allow cash back where payment is made through E-Wallets such as BHIM or the Rupay card. This proposal is currently being examined and work is in progress to build infrastructure for implementation of the scheme on a pilot basis.

Conclusion

Despite initial teething problems, the move towards the GST regime is seen as a 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 governments in learning from the international GST experience and putting this into practice deserve applause. Moreover, recent simplifications in GST compliance and reporting related requirements and rationalization of tax rate structures on a wide range of products and services corroborate the pro-business mind-set of the Indian polity at this juncture.

As the GST enters its third year, it is relevant to take stock of matters to determine whether its objectives have been fulfilled and what else needs to be done.

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