

GST: Simplifying Taxes and Amplifying Progress



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GST: Simplifying Taxes, Amplifying Progress is a phrase that underscores the goals and benefits associated with the Goods and Services Tax (GST) system, which has been successfully implemented in India. Government of India ushered the biggest-ever tax reform by converging more than two dozen indirect taxes into the Goods and Services Tax (GST). The task was daunting as the country was beset with multiple legacy taxes, some of which were imposed by the Central and some were imposed by the States legislations and their compliances by the taxpayers made running a business was difficult.

The introduction of GST was intended to create a more efficient and transparent tax system, reduce tax evasion, and promote economic development which has been successfully done in our country with the participation of the Central and State authorities. It is a positive step towards modernising and rationalising the tax.

GST Council is the constitutional body that makes recommendations to the Union and States on various aspects related to GST like tax rates, exemptions, procedures etc. which includes representatives from both the Central and State Governments. The GST Council continues to meet regularly to address challenges and make necessary reforms. Discussions are being taken place on a regular basis about further simplification of tax rates and a possible single tax rate for some items.

Simplifying Taxes

Key benefits brought about by GST in India

One Nation, One Market, One Tax: GST unified the tax system by creating a single tax that applies uniformly across the country. Under the previous tax regime, on number of occasions taxes were calculated and levied on other taxes, creating a cascading effect. It eliminated the cascading effect of taxes making the tax system more transparent and efficient.

Uniform Procedures: Uniform tax laws and procedures have been adopted by both Central and State Governments with a facility of single compliance mechanism, simplifying the entire taxation process. This simplifies the entire taxation process and ensures consistent application of tax laws across the country.

Input Tax Credit (ITC): Businesses can claim input tax credit, which allows them to set off the GST paid on purchases against the GST collected on sales. This encourages transparency and reduces the overall tax liability for businesses. This further reduces the

working capital requirements and facilitates the expansion of production capacity or the launch of new product lines.

For example, if a manufacturer purchases raw materials and pays GST on them, they can claim an ITC when selling their finished products, resulting in lower taxes.

Simplified Rate Structure:

GST has a tiered rate structure with four primary tax rates (5%, 12%, 18%, and 28%) apart from Nil rate, making it easier for businesses and consumers to understand and comply with. The uniform tax rates for similar goods and services across India simplify pricing and taxation.

For Example, under the previous tax regime, a manufacturer would pay various taxes such as excise duty, VAT, entry tax and central sales tax on the production and sale of goods. With GST, these are replaced by a single tax, making it easier to calculate and remit taxes.

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Streamlined Supply Chain:

Uniform tax system across the country and introduction of single e-way bill system with removal of check posts under GST has made it easier for businesses to move goods across State borders. This streamlined supply chain has led to reduced transportation time and costs, ultimately benefiting businesses with effective logistics and distribution industries. It has also eliminated the need for multiple State-specific permits. This has led to faster and cheaper transportation.

For instance, a logistics company can now make deliveries across States without encountering multiple check posts, saving time and fuel costs resulting in more competitive shipping rates and better services.

Simplified Compliance: GST introduced a common online platform known as GST Portal through a single agency named Goods and Services Tax Network (GSTN) for tax compliance and filing. This reduced the need for businesses to deal with multiple tax compliances with different tax authorities and a lot of paperwork. Now, all GST-related tasks like registration, filing of returns, and payment of taxes can be completed online with the help of GSTN. As tax compliance improves, Government revenues increase, enabling more public spending on infrastructure and social welfare programs.

Reduction in Tax Evasion: The GST system is technology-driven and has reduced the scope for

tax evasion up to a great extent. Recording of transactions on the GSTN portal allows easy tracking of the same, making it harder for tax evaders to hide or misreport their transactions. The digital trail created by GSTN and the integration of business processes with Government systems make it difficult to evade taxes. GST's implementation has led to a notable increase in tax compliance. According to the study and Government's data, GST has brought more business transactions into the formal tax net, which can be witnessed by the increase in the number of registered taxpayers resulting in huge reduction in tax evasions.

For example, a tax evader that used to misreport its sales to avoid paying correct taxes, is now monitored through electronic invoices and e-way bills, is less likely to engage in tax evasion.

Digitalization of tax collection and compliance process:

GST through GSTN has made it mandatory for businesses to register and file returns online, reducing paperwork and manual errors. This has made the registration process more efficient. Businesses are required to pay their GST liabilities electronically through various modes such as NEFT, RTGS, and other modes. This promotes digital transactions and minimises the use of cash. E-invoicing mandates businesses above certain turnover to generate Invoice Registration Number (IRN) for invoices and exchange them electronically. This helps in reducing the scope for fake invoices and streamlines the reconciliation process for both businesses and tax authorities.

Tax authorities use data analytics to identify potential tax evaders and discrepancies in tax returns. Automation helps

in real-time data matching and fraud detection, making the tax collection process more efficient and fair. Digitalisation has reduced the need for human intervention in routine tasks such as data entry and document verification. This not only saves time but also minimises errors.

The digitalisation of GST has improved transparency in tax collection and compliance. Businesses can track their GST transactions, and tax authorities can monitor compliance more effectively.

Benefits for Economy

Boost to Organised Sector:

The simplified tax structure encourages businesses to operate within the formal economy. This shift from the informal to the formal sector not only increases tax collections but also ensures better labour protection and social security for workers.

For example, the construction sector, which was largely informal, is now gradually formalising due to the need for GST compliance.

Reduction in Black Money:

With increased transparency and tax compliance, the use of black money (untaxed income) in the economy has been curtailed, reducing the shadow economy.

Increase in Foreign

Investments: The introduction of GST has made India's tax system more attractive to foreign investors. A simplified tax structure and improved ease of doing business is boosting foreign direct investment (FDI) and stimulating economic growth. Foreign Direct Investment (FDI) trends have shown positive growth, with foreign investors taking interest in various sectors, including manufacturing, infrastructure and technology.

Price Stability: GST has helped reduce price variations across regions. The removal of cascading taxes and a uniform tax rate on goods and services contribute to price stability, which benefits consumers.

For instance, a consumer buying a smartphone will pay the same GST rate regardless of the State they are in. Price variations across States have reduced significantly for various products, making it easier for businesses to set consistent prices across the country.

Market Expansion: The establishment of a single national market has enabled businesses to reach a broader customer base across State boundaries, leading to market expansion and increased economic activity. The economic integration brought by GST has enhanced economic cooperation among States and Regions.

Example: A textile manufacturer in Uttar Pradesh can now easily sell its products to customers in other States without bothering about different tax rates and entry tax facing the hassle of inter-State trade. This opens new markets and opportunities for expansion.

E-commerce Growth: The introduction of GST has provided a level playing field for e-commerce platforms and traditional retailers. E-commerce businesses now collect and remit GST, just like physical stores. This fair competition benefits consumers and fosters the growth of e-commerce in India. According to industry reports, e-commerce platforms have reported increased sales and a broader consumer base due to a more transparent and easier tax compliance system.

Favorable for Start-ups: GST provides uniform, clear and

specific tax structure across the boundaries of States for start-ups and eases the process of registering and filing tax returns. Reports suggest that the uniform and simplified tax structure and ease of registration under GST have been advantageous for start-ups. The number of start-ups in India has been on the rise, with many benefiting from reduced tax compliance complexities. They no longer have to worry about the different tax compliances and structures.

Better Record-Keeping: The digitisation of invoices and other records under GST has led to better financial record-keeping practices among businesses, improving financial transparency and accountability.

For Example, a medium-sized retailer can maintain its sales and purchase records electronically, which not only simplifies compliance but also provides better insights into business operations, allowing for more informed decisions and growth strategies. Even free of cost software are made available by the Government through GSTN to the small and medium sized retailers.

These indirect benefits of GST collectively contribute to a more transparent, efficient, and growth-oriented economy.

Benefits for export sector

Goods and Services Tax (GST) has indeed played a role in facilitating and increasing exports in India. Several factors and provisions within the GST framework have contributed to the growth of exports:

Zero Rating of Exports: Under the GST system, exports are treated as a “zero-rated supply.” This means that the GST rate on the export of goods and services is set at 0%, effectively exempting them from GST. This zero-rating ensures that no tax is payable on

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the export of goods or services, making Indian products and services more competitive in international markets.

Refund of ITC: Exporters can claim refunds on the GST paid on inputs, input services, and capital goods used in the production and export of goods or services even on the goods or services which are not taxable under GST. This provision ensures that businesses do not face a financial burden due to GST, making it easier for them to price their products competitively in global markets.

Simplified Compliance: The GST framework simplifies compliance requirements for exporters. All GST-related processes, including registration, filing, and claiming refunds, can be completed online through the GSTN portal. The digital nature of GST compliance and record-keeping adds transparency and accountability to export-related transactions. This transparency can be attractive to international buyers who seek reliable and traceable supply chains.

Enhanced Export

Competitiveness: With zero-rated exports, refund of input tax credit, and simplified compliance, Indian exporters can offer more competitive prices for their products and services in the global market. This enhanced competitiveness has led to increased demand for Indian exports.

In summary, GST in India has played a crucial role in increasing

exports by making Indian products and services more competitive in the international market. The growth in exports is essential for the Indian economy, as it generates foreign exchange, provides employment, and contributes to economic development.

Amplifying Progress

Growing Taxpayers - GST represents a people-centric reform, with taxpayers and consumers at its core. Various administrative and policy measures have led to improved compliance among taxpayers. The success of this effort is evident in the significant increase in the total number of registered taxpayers within a short six-year period since the introduction of GST in 2017. The continuous rise in the number of new taxpayers over the past six years serves as strong evidence of the advantages that GST offers to registered entities. The Economic Survey 2023, tabled before the Parliament by the Hon'ble Financial Minister Nirmala Sitaraman reviews the performance of the Indian economy and lays the road ahead for the next fiscal year. In the survey, it was observed that the Goods and Services Tax (GST) taxpayers have increased in number from 70 lakh in 2017 to 140 lakh in June 2023.

Growing GST- Revenue - The gross GST revenue collected in the month of September, 2023 is ₹1,62,712 crore out of which CGST is ₹29,818 crore, SGST is ₹37,657 crore, IGST is ₹83,623 crore (including ₹41,145 crore collected on import of goods) and cess is ₹11,613 crore (including ₹881 crore collected on import of goods).

The revenues for the month of September 2023 are 10% higher than the GST revenues in the same month last year. During

the month, the revenues from domestic transactions (including import of services) are 14% higher than the revenues from these sources during the same month last year. It is for the fourth time that the gross GST collection has crossed ₹1.60 lakh crore mark in FY 2023-24.

The GST revenue collection has been increasing and in the current year it has shown a rising graph by approximately 12% as compared to last year.

GST Returns trend - The GST law had prescribed returns and forms and broadly every taxpayer is required to upload their 'sales statement' in Form GSTR-1 based on which a monthly return in Form GSTR-3B is also required to be filed containing details of outward supplies, details of Input Tax Credit (ITC) availed on the input supplies and the tax payments. To enhance the taxpayers experience in return filing various technological and procedural initiatives have been taken during the last six years. Return filing percentage for both GSTR-1 and GSTR-3B is now more than 90% which earlier used to be much less. It may also be seen that a good number of taxpayers are filing their returns even after the last date of filing. 93.2% of statement of invoices (in GSTR-1) and 91.4% of returns (in GSTR-3B) of February were filed till March 2023 as compared to 83.1% and 84.7%, respectively same month last year.

Growing E- Invoices - E-Invoicing is a rapidly expanding technology which helps taxpayers in backward integration and automation of tax related processes. It also helps tax authorities in combating the menace of tax evasion. This helps in seamless flow of credit and invoice matching as envisaged in the GST regime. Further, it helps in real-time

update of data on the GSTN system and thereby, drastically reducing the time taken in filing the returns. The number of e-Invoices generated per month has progressively increased from 595 lakh in October, 2020 to an all-time high of 1260 lakh in April, 2022. Around 42 lakh e-Invoices were generated per day on the portal in the month of April, 2022.

Increasing E-way Bill - With a view to remove trade barriers from the State borders and making India one Market, e-Way bill system was introduced for the inter-State movement from 1st April, 2018 for the entire country and from 16th June, 2018 for intra-State movement in a staggered manner in different States. The introduction of e-Way (electronic way) bill is a monumental shift from the earlier "Departmental Policing Model" to a "Self-Declaration Model". Subsequent to introduction of e-Way bill system, border check-posts have been removed by various State authorities that has provided a common market and hassle-free movement of goods throughout the country, thus realising the goal of "One Nation, One Market". It has been reported that resultantly, average distance travelled by a vehicle/truck, per day, has considerably increased. In August 2023, there was a record-breaking number of 9.34 crore e-way bills generated, as per data from GSTN, the IT system for indirect taxes. This surpassed the previous high of 9.09 crore e-way bills in March of the same year.

Economic Growth - India added a total of 120,966 companies and LLPs between April and September 2023, marking an 11.4% increase from the previous year when the figure stood at 108,583, according to data from the Government.

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The surge in company incorporation aligns with multiple indicators of strong economic growth, including healthy goods and services tax collections, high PMI for both services and manufacturing, and increased credit demand. The services Purchasing Manager's Index (PMI) reached a 13-year high in September 2023, while the manufacturing PMI, though experiencing a recent dip, remained well above historical averages.

According to the Reserve Bank of India's consumer sentiment survey released on October 6, 2023, expectations for the general economic outlook, employment, income, and spending are set to improve over the next year, with the future expectations index reaching a four-year high.

Furthermore, the International Monetary Fund (IMF) predicts that India will remain the world's fastest-growing large economy in the current fiscal year and the next, with expected growth rates of 6.1% and 6.3%, respectively—more than double the global average.

ICAI: Knowledge Partner in GST Journey

The Institute of Chartered Accountants of India (ICAI) plays a significant role in the implementation and operation of GST system in India. The members of Institute of Chartered Accountants of India

(ICAI) i.e., Chartered Accountants help businesses and individuals comply with the GST regime and leverage its benefits while adhering to ethical and legal standards. They help clients understand and navigate the complexities of GST laws and thus, act as a catalyst in smooth implementation of GST law. Further, the ICAI through its GST & Indirect Taxes Committee contributes in various ways to the GST regime:

Education and Training: ICAI provides education, training, and professional development for its members to ensure they are well-versed in GST laws, regulations, and procedures. This includes offering specialized GST certification courses to ensure that Chartered Accountants have the necessary skills and knowledge to handle GST matters effectively.

Advisory Services: Chartered Accountants from ICAI provide advisory services to businesses and individuals on GST compliance, tax planning, and related matters. They help clients understand and navigate the complexities of GST laws.

Representation and Advocacy: ICAI represents the interests of its members and the business community to Government bodies, including the GST Council. They provide feedback and suggestions to the Government regarding GST laws and procedures. ICAI actively supports the Government in GST policy making and implementation.

Capacity building for Government: ICAI conducts capacity building programmes on GST for officers of Central tax, State tax, PSUs and other Government departments. The training programmes focus on strengthening the skills and abilities of the officers.

Research and Publications:

ICAI conducts research on GST-related topics and develops publications and guidance materials to help businesses and professionals better understand and comply with GST regulations.

Seminars and Workshops: ICAI organizes seminars, workshops, and training programs related to GST for its members and the business community. These events serve as platforms for knowledge sharing and capacity building.

Ethical and Professional Standards:

ICAI emphasizes the importance of ethical and professional standards among Chartered Accountants, especially in the context of GST compliance and taxation.

Hon'ble Primer Minister of India, Shri Narendra Modi, has acknowledged the ICAI's contribution in GST Knowledge dissemination in his letter to the President, ICAI on the CA Day in 2018.

Conclusion

In conclusion, GST has emerged as a transformative force in the world of taxation, simplifying the complex tax landscape and amplifying progress for both Governments and businesses. With its implementation, India has transitioned to a more unified, transparent, and efficient indirect tax regime, which in turn has facilitated economic growth and development. As India continues to refine and adapt its GST law and procedures, the potential for long-term economic growth and stability remains promising, demonstrating that good taxation can indeed be a catalyst for national development and prosperity. ■■■

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