GST: Way Forward

A perfect GST has few differentiators where tax is paid on all (actually most) outputs at a uniform rate and tax credits allowed on all inputs used for legitimate business needs. However, a perfect GST can only be implemented in a perfect world where there is equality in terms of willingness and ability to pay tax. Where these assumptions are violated, a perfect GST is difficult to implement, and differentiations in terms of rates and exemptions are necessary.

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1. Owing to the fact that both the Centre and the States have pooled their fiscal sovereignty in a federal body (the GST Council), the concerns of both Central and State Government have to be given rightful weightage in the structure of GST. This is the reason behind certain exclusions from GST. Notwithstanding the above, these diversions need to be incrementally resolved so that we can move as close to a perfect GST as soon as possible.
2. GST was initially conceptualised as a construct where there would be little or no distinction between goods or services. However, several distinctions between treatment of goods and services have crept in. For example, threshold for registration, design of composition scheme, time of supply, tax on advances, etc. These distinctions generally arise from the difference in the nature of goods and services. Other differences, which are not intrinsic to the definition of goods or services, are expected to be eventually removed.
3. The concept of dual levy and dual administration, although taken in spirit of cooperative federalism, poses certain compliance challenges, the primary being the requirement of State-wise registration. This is particularly burdensome for large pan-India supplier of goods or services, who are required to take separate registrations and maintain separate books of accounts for each State from where they are making supplies. The valuation and taxation of the supplies made between distinct persons is also a challenge, especially in case of services. There is a need to study the international best practices in this regard and suitably adapt them to the Indian context.
4. A distinction has been maintained between the two routes of claiming refunds on account of zero-rated

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supplies, i.e., under payment of IGST and under LUT (without payment of tax). There are benefits and limitations of both modes of refund. Claimants are choosing one over the other depending on the requirements of the case. In the medium to long run, there appears to be a need for a convergence between these two routes of refund.

5. Certain differences in the GST and the SEZ laws need to be reconciled. This will go a long way in promoting India's export competitiveness. In the long term, the treatment of SEZ units/developers under GST deserves a relook.

6. Certain dependencies exist in the GST Law and various other laws like Insolvency and Bankruptcy Code (IBC), Income Tax Act, etc. The interplay between GST Law and such other Laws needs to be studied in detail and any inconsistencies need to be ironed out.

7. The new return system will be implemented from April, 2020. Challenges in transition from old regime to new regime will need to be anticipated and resolved in advance.

8. Currently, there is a gap of 1 to 3 months between date of generation of invoice and reporting of the same in GST returns. Moreover, GSTR-1 filing is between 60% to 70% only. This leads to a situation where there is no mechanism to find out how many invoices of how much value have been issued. At the same time, ITC can be taken by others in GSTR-3B (No linkage with GSTR-1 and GSTR-2A). Accordingly, the GST Council has recently decided to introduce electronic invoicing system in a phased manner for B2B transactions. E-invoicing is a rapidly expanding technology which would help taxpayers in backward integration and automation of tax relevant processes. It would also help tax authorities in combating the menace of tax evasion. The Phase 1 is proposed to be voluntary and it is slated to be rolled-out from January, 2020. E-invoicing will also complement the implementation of the new return model from April, 2020.

9. A mechnaism needs to be worked out for promoting digital payment where payment is made by BHIM or Rupay card or other type of cards using QR Code. This would be accompanied with suitable incentives to the buyer of goods or services with GST invoices. Section 31A has already been inserted in the CGST Act which gives the Government the power to prescribe a class of registered persons who shall be required to give facility of digital payment to the recipient of the supplies. However, the same has not yet been notified. The issue of giving incentives to final buyers of goods or services for making digital payments has also been considered by the GST Council.

10. Certain other legislatives changes like creation of Centralised Appellate Authority for Advance Rulings, Interest on tax liability, enabling transfer of funds from one tax head to other tax head, linkage of registration with Aadhaar, etc., were made in CGST Act vide Finance Act, 2019. These would be notified once the amendment to respective SGST Acts are made by the respective State Legislaures.

11. Coordination between Centre and State tax authorities has been exemplified at the level of Law/Fitment Committee, GST Implementation Committee and the GST Council. However, the same is still lacking at the level of the field formations. Since cross empowerment is the default mode of operation under GST, constitution of State level coordination committees with their functioning institutionalised can be a good idea.

12. The Government is continuously striving for a robust middle ground between the goals of revenue augmentation and taxpayer facilitation. This is precisely why the traditional 'brute force' approach towards tax enforcement, is being gradually replaced with a more nuanced and sophisticated approach that relies more on data analytics. For example, the 'red-flag' reports being generated by DG (Analytics and Risk Management) are being extensively used by field formations to make targeted interventions against fraudulent entities.

13. Certain pressing policy issues, like treatment of business support services (BSS), intermediaries, post-sale discounts, supply of services from head office to branches (cross-charge) are likely be resolved soon. This will bring consistency and uniformity to the varied practices which are currently prevalent in the field on these issues. ■