GTRI Brief

17-02- 2023

GST-Agenda for next phase of transformational growth

In eight years of its existence since September 2016, the GST council has demonstrated that states and parties with ideological differences can come together and make big decisions in the national interest. The GST network with enrolment of over 1.4 crores taxpayer has emerged as the largest Global platform for indirect taxes.

The GST council now needs to consolidate gains by making compliance easy. GTRI recommends seven reforms for next phase of transformational growth.

One, increase the GST exemption limit to 1.5 Crores for Goods and Services. This will be game changer for India's MSME sector and set them on the path to job creation and growth. Firms with less than Rs 1.5 Crore annual turnover account for 84 percent of total registrations but contribute less than seven percent of the tax collected. Currently, registration for GST is optional for firms with an annual turnover of less than Rs 40 Lakhs for Goods and Rs 20 Lakhs for services. The yearly turnover of 1.5 Crores amounts to 12-13 Lakh monthly turnover, which at 10 percent of profit margin translates into just Rs 1.2 Lakh. Only a fraction of this money will remain with the business owner after payment of working capital and fixed expenses.

The new limit would reduce the load on the GST system, which will deal with less than 23 lakh taxpayers in contrast to 1.4 Crore now. The reduced load-on system will allow the GSTN to introduce an invoice-matching concept, resulting in 100 percent compliance and solving the problem of fake invoices and tax theft. The increased tax collection will adequately compensate for the 7 percent tax loss.

Two, set up the GST Appellate Tribunal (GSTAT) quickly and with the mandate for time-bound disposal of cases. This will require GSTAT to be set up quickly and in adequate numbers. The Government has issued a large number of notifications on rates, processes, functioning of input tax credits, and other aspects of GST. Many of these are subject to diverse interpretations. Today, in the absence of tribunals, if a firm is not happy with the decision of GST commissioners/appellate authorities, it has to approach High Courts, which are already overburdened. Any delay means locking up of business capital. Tribunals generally take years to settle cases. All processes at GSTAT must be automated and technology-enabled.

Three, do away with state-wise registrations. Today, if a firm does business in ten states, it must obtain ten GSTINs and maintain a separate account for each. The GST rules set a restriction on the use of available credit. For example, if a firm has an extra SGST credit in Maharashtra, it cannot use it to pay SGST dues in Karnataka or CGST dues to the central Government. This restriction results in capital blockage. Essentially, GST has converted one firm into ten independent entities. This defeats the one nation, one tax concept.

GSTN has precise location information for all transactions. It can calculate states' dues from this data. We can tweak the GSTN software to allow the credit transfer between two states or between the center and states. This flexibility of credit transfer will not impact the state's revenues. The GSTN will credit the due amounts in state accounts, keeping the principle of destination-based tax intact.

Four, simplify the GST rate list and make it compatible with machine processing. The GST uses Harmonized Structure (HS) codes for classifying most items. While most products are listed at HS 4 level, no specific HS codes are mentioned against many products creating hurdles in data processing operations like linking transactions. All GST rates should confirm to HS 6-digit standard description. The ideal way would be to take a standard HS6 digit table and insert the GST rate against each code. Such clean classification will remove confusion caused by the current complex classification and help match invoice-level details.

Five, mandate all firms the use the HS6 digit code. GST rules have exempted small firms from mentioning any HS code. The product description is sufficient. Others must mention the HS4-6-digit code; Exporters must mention the HS 8-digit code. Non-uniform criteria for mention of HS code ensures that the computer cannot match the invoices. The Government may mandate everyone the use of the HS6 digit code. This gives a sufficient product description. A call center may help firms in finding the correct codes.

Six, operationalize invoice matching and unify state portals with GSTN. The GST rules provide a system-driven invoice matching to enable quick tax credits and avoid the prevailing fake invoice problem. The GSTN must gear up to implement this.

Seven, use a central unified server for backend processing for all states to ensure uniformity. For the Users, GSTN is the portal for all transactions. But for backend processing by GST officers, each state has separate portals connected to GSTN. Different vendors develop these. For example, Karnataka Prime is considered good as it provides quality reporting tools, while many others do not. A central unified server with all states connected through uniform APIs would ensure uniformity.

The proposed reforms will prevent tax leakage and make the GST more efficient and inclusive.

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GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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Feedback

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