GST – Challenges

Why in news?

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At its twelfth meeting on 17th March, 2017, the GST Council cleared all the requisite State and Central-level legislative measures to implement the indirect tax regime.

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What is GST?

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- GST is **one indirect tax for the whole nation,** which will make India one unified common market.
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- It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
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- The GST is administered & governed by **GST Council** and it's Chairman is Union Finance Minister of India.
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What are the major challenges?

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- Industry needs at least three months to prepare for the GST once it sees the fine print.
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- The fitment of thousands of commodities and services into the five GST rate slabs (zero, 5%, 12%, 18% and 28%) could be the trickiest for the GST Council.
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- **The rate fitment process is more susceptible to lobbying** not just from different sections of industry, but also States that would like a

favourable tax treatment for products and services they excel in.
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- For instance, beedis have been kept out of the cess net altogether in order to avoid friction with States.
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- Giving lakhs of enterprises just about two months to switch to the GST regime could lead to a messy start.
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What are the problems faced by SMEs?

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- Of the estimated 8 million registered businesses under the VAT regime, **around 90% are Small and medium enterprises.**
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- But, SMEs appear to be the weakest link in corporate India's efforts to be GST-compliant by the July 1, 2017.
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- While large companies have experts to help them transition to the GST regime, **SMEs are still struggling to assess the impact on their businesses**.
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- Less than 10% of SMEs are GST-ready. And, only 50% of SMEs have IT systems robust enough to comply with the requirements of the GST.
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- So, apart from the need to invest in IT systems, the challenge is that they **do not have the manpower to follow up with their vendors or suppliers** and the means to ensure payment of the tax by them.
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- To prepare for these technology-driven changes in the business environment, SMEs have to first automate their business processes and accounting systems.
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- Working capital requirements are likely to undergo a change too. For some cash-strapped SMEs, this could result in higher borrowing to ensure that the input credit chain is not disturbed.
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What is the problem of Input Tax Credit?

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- Input Tax Credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs.
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- Under the GST, **the buyer of a good or service is totally dependent on the seller** for any input tax credit.
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- The tax credit available to a buyer is dependent on the return furnished, tax collected and deposited by the seller in the course of a sale transaction.
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- There are provisions in the GST law that mandate input tax credit will be available to a buyer only if the supplier has paid tax within a given time-frame.
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- Each invoice for a business transaction is registered with the GST Network and matched for compliance against tax and input credit claims.
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- Businesses need to review their purchase and expense portfolios and ensure that their suppliers are compliant and capable of uploading their invoices so that they can avail the input credit.
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- **Any break in the tax chain** will mean non-availability of input tax credit for all the players involved.
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Source: Business Standard

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