

## GST means Ease of Doing Business

**Danish A Hashim  
Varsha Kumari**



*Effective implementation of GST will result in redressal of all these issues, and many more, by way of simplifying tax compliance, reducing the restrictions in inter-state movement of goods, mitigating the tax burden, facilitating timely realization of tax refunds, and so on. This, in turn, will also help in sharply improving the country's global ranking in 'Paying Taxes' in the World Bank's Doing Business Report*

**A**fter 17 years of a marathon journey of the most crucial tax reform in the country, entailing rounds of debates, discussions, meetings, consultations and disagreements, the Goods and Services Tax (GST) came into effect in India on July 1, 2017. The journey started in 2000 during the Atal Bihari Vajpayee government with the setting up of a committee to suggest a GST model, followed by the formation of a task force under the chairmanship of Vijay Kelkar in 2003. There has been no looking back since then and the Central government has been working consistently along with the state governments to ensure its earliest implementation.

With the implementation of GST, India joins the league of over 160 odd countries, including Germany, Italy, UK, South Korea, Japan, Canada, Australia, Russia, China, Singapore and Malaysia, which have introduced a GST / VAT regime. France was the first country to implement a GST regime way back in 1954 to address the problem of tax evasion. The introduction of GST in India is a big step in the direction of improving the country's ranking in the ease of doing business. Currently, India is placed at a lowly 130<sup>th</sup> position out of 190

countries in the World Bank's *Doing Business* report 2017.

### Understanding the GST

GST is a destination-based single tax on the supply of goods and services from the manufacturer to the consumer, which has replaced multiple indirect taxes levied by the Central and state governments, thereby converting the country into a unified market (Table 1). Among other benefits, GST is expected to improve the ease of doing business in tax compliance, reduce the tax burden by eliminating tax-on-tax, improve tax administration, mitigate tax evasion, broaden the organized segment of the economy and boost tax revenues for the exchequer. It has also lowered the taxes paid for industrial products from an earlier average rate of 25-28 per cent to 18 per cent now.

GST seeks to replace 17 indirect taxes (8 Central + 9 state levels) and 23 Cesses of the Centre and states, eliminating the need for filing multiple returns and assessments and rationalizing the tax treatment of goods and services along the supply chain from producers to consumers. GST comprises of Central GST (CGST) and the State GST (SGST), subsuming levies previously charged by the Centre and state governments respectively.

Danish A. Hashim is Head, Ease of Doing Business & Economic Affairs, Confederation of Indian Industry (CII), New Delhi. Economist by training, he has contributed papers in several areas, including Civil aviation, Trade, Regional integration, Employment, Productivity growth, Futures market, and Ease of Doing Business, among others.

Ms. Varsha Kumari is a Consultant in the Department of Ease of Doing Business & Economic Affairs, CII, New Delhi.

GST (CGST + SGST) is charged at each stage of value addition and the supplier off-sets the levy on inputs in the previous stages of value chain through the tax credit mechanism. The last dealer in the supply chain passes on the added GST to the consumer, making the GST a destination-based consumption tax. The provision of availing input credit at each stage of value chain helps in avoiding the cascading effect (tax on tax) under GST, which is expected to reduce prices of commodities and benefit the consumers. In the earlier regime, tax on tax was a major issue, raising the cost of production. For instance, a manufacturer would pay a Central Excise duty of Rupees 12 on a shirt of Rupees 100. At the next level, the state government would charge a VAT of 15 per cent not on Rupees 100 but on Rupees 112, making a case of tax on tax.

Facilitating seamless movement of goods and services across state borders, GST has removed the tax barrier on inter-state transaction by introducing



an integrated GST (IGST) levied by the Centre and doing away with the need of paying taxes at two places in case of inter-state transfers. Besides simplifying the compliance burden, this is expected to help reduction in transaction costs by saving time taken by trucks to negotiate check posts at state borders, which, according to an estimate, consumed around 60 per cent of the truck transit time.

In India, GST is a four-tier tax structure of 5, 12, 18 and 28 per cent, with lower rates for essential items and the highest for luxury and de-merit goods that also attracts an additional cess to compensate states for any loss in indirect tax revenue. Around 30-35 per cent items of the Consumer Price Index (CPI) basket are under exempt category, which should help in keeping prices of essential items under control. The export of goods or services is considered as a zero-rated supply with no GST to be levied. An attempt has also been made to ensure that revenue collection by the Centre and the states is not hit adversely. Nearly 60 per cent of all goods under GST are taxed at either 18 per cent or 28 per cent and nearly 20 per cent are taxed at 28 per cent, which, besides luxury and negative items, also includes products such as chocolates, chewing gum, shampoo, deodorant, paint etc<sup>1</sup>. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products (like crude, natural gas, petrol and diesel) are outside the ambit of GST for the time being. Businesses dealing only in exempted goods or with a turnover of below Rupees 20 lakh annually but not engaged in interstate supplies are also exempted from filing the returns for GST.

GST, by and large, would have only marginal impact on the prices / cost of major sectors (such as consumer

**Table 1: Indirect Taxes Subsumed by GST**

Sr. No.	Central Government	State Governments
1	Central Excise Duty	State VAT
2	Duties of Excise (Medicinal and Toilet Preparation)	Central Sales Tax
3	Additional Duties of Excise (Goods of Special Importance)	Luxury Tax
4	Additional Duties of Excise (Textiles and Textiles Products)	Entry Tax (all forms)
5	Additional Duties of Customs (CVD)	Entertainment and Amusement tax (except when levied by local bodies)
6	Special Additional Duty of Customs (SAD)	Taxes on Advertisements
7	Service Tax	Purchase Tax
8	Central Surcharges and Cesses so far as they relate to supply of goods & services	Taxes on Lotteries, betting and gambling
9		State surcharges and Cesses so far as they relate to supply of goods & services

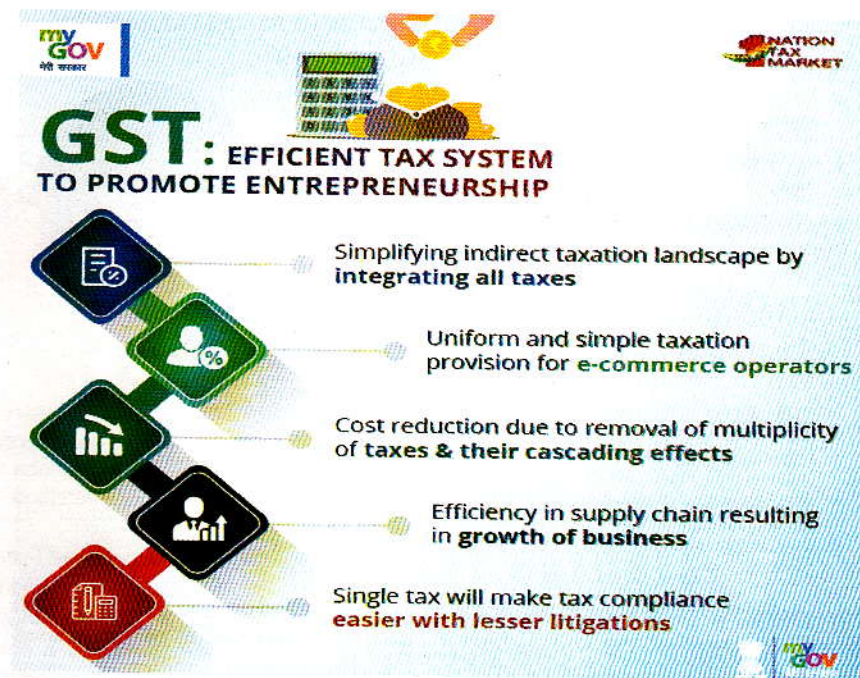
Source: CBEC

durables, construction material and FMCG) in the short run as tax rates on them are mostly in line with the earlier effective tax incidence. Impact on FMCG would vary from state to state, owing to variation in VAT rates across states earlier. Businesses with higher incidence of CST earlier (owing to inter-state movement of goods) would benefit to the extent of around 2 per cent. Tax saving is relatively higher for the automobiles sector as the tax incidence has reduced from over 50 per cent earlier to 43 per cent (28 per cent GST + 15 per cent Cess) now. Overall, automobile and FMCG sectors have witnessed lower prices post GST.

### Impact of GST on Ease of Doing Business

Highlighting the specific areas of difficulty in indirect tax compliance, which adversely affects the ease of doing business in India, a study by CII-KPMG (2014)<sup>2</sup> found that companies faced major issues with respect to registration of VAT, excise, customs and service tax; movement of goods; dealing with tax authorities; settling tax disputes; availing tax incentives; and obtaining timely tax refund. In the previous regime, states were imposing different tax rates, resulting in disadvantage for businesses working in states with higher tax rates. Transfer of goods across state borders involved payment of taxes in both states, besides resulting in compliance cost. Non-uniformity in taxes across states created uncertainty and confusion in business decisions. Taxes levied on goods and services had no clear mechanism for rebates on taxes paid in the previous stages of the value chain, and hence, led to a cascading effect (tax-on-tax).

Effective implementation of GST will result in redressal of all these issues, and many more, by way of simplifying tax compliance, reducing the restrictions in inter-state movement of goods, mitigating the tax burden, facilitating timely realization of tax refunds, and so on. This, in turn, will



also help in sharply improving the country's global ranking in 'Paying Taxes' in the World Bank's Doing Business Report, where it ranks poorly at 172 out of 190 economies.

Some of the major benefits of GST on ease of doing business can be enumerated as the following:

#### *Easier Compliance*

In the previous tax regime, businesses had to file several returns for multiple taxes, face multiple authorities and suffer long bureaucratic delays for assessment of different indirect taxes. GST, by merging all indirect taxes into one single tax, has made the compliance much easier for businesses. Using the IT platform of GST Network (GSTN), which is a shared IT infrastructure between the Centre and States, providing reliable and efficient IT backbone for the smooth functioning of the GST, taxpayers can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax officials. This makes the compliance process easier, transparent, faster and paperless and sets the stage for enhanced productivity and efficiency of businesses going forward.

#### *Easier Inter-State Movement of Goods*

Transport vehicles would earlier get inordinately delayed during inter-state movement of goods for paying taxes at check posts in different states. GST has done away with this requirement by amalgamating several indirect taxes including Entry tax and Octroi duty. This would bring down the logistics costs (in money as well as time terms) for businesses and prices for consumers. Check posts have been abolished across all state borders, and there is evidence that travel time of trucks has significantly reduced.

#### *Single Interface for All*

The GSTN provides a single interface of tax-payers with tax authorities and a single platform for resolving differences. With suppliers, buyers and tax authorities having access to all the relevant information, it will be easier to collate and match invoices. Besides, the input tax credit requires all invoices to be matched in order to avail credit, which automatically places the onus on buyers to ensure that suppliers file returns and pay taxes on time.

#### *Reduction in Tax Burden*

Unlike the previous regime, GST allows availing credit on taxes on

## RELIEF TO SMALL TRADERS/MANUFACTURERS/RESTAURANTS

- ◆ Tax exemption for Manufacturer/Service Provider/Trader with an aggregate annual turnover upto ₹20 lakh\*
- ◆ GST registration is not required for Manufacturer/Service Provider/Trader with an annual turnover of below ₹20 lakh\*
- ◆ If the annual turnover is upto ₹75 lakh, one can opt for composition scheme where the tax rate will be: \*\*



- ◆ In service sector, composition scheme is available only for Restaurants
- ◆ Small tax payers are not required to give HSN code in their returns
- ◆ Special dispensation for job-work to help workers in GST regime



raw materials and inputs levied in the previous stages of the value chain, which mitigates the cascading effect (tax on tax). Since a manufacturer now pays tax only on the value added in a given stage of the process, rather on the total cost of products, the tax burden will be reduced.

### Creates Common Market

Manufacturers will be able to take more rational decisions regarding sourcing of raw materials, location of manufacturing and warehousing facilities and sale of output, as India becomes one big common market post implementation of GST. Uniformity in

the process and centralized registration will make expansion of businesses across states much simpler.

### Enhancing Export Competitiveness

In the previous tax regime, we exported a portion of taxes owing to double taxation, which, combined with higher transaction cost related to tax compliance, lowered India's competitiveness in the global market. GST, by avoiding cascading taxes and reducing the burden of tax compliance, should help in boosting exports, as happened in several economies including New Zealand and Australia. New Zealand, for instance, saw its

export jumping up by over 22 per cent in the very next year after it implemented GST in 1986.

### Reducing Bias

Businesses have tendency to allocate resources in a state and sector offering favorable tax compliances and rates, disregarding other indirect factors /advantages. This leads to distortions in allocation of resources as well as supply chain, eroding the overall competitiveness of a firm. GST, by helping doing business in the country tax neutral, irrespective of the location of the business, addresses this issue by minimizing the sector and state variation in compliances as well as rates.

### Improves Ease of Doing Business for MSMEs

In the previous tax regime, MSMEs with an annual turnover of Rupees 5 lakh, were required to register for VAT. In case of multi state operations, businesses had to comply with varied tax rates, rules and procedures, across states. This not only had high compliance burden on MSMEs but also forced many of them to hire professionals to assist in tax compliance. GST brings a uniform, online, fast and transparent tax administration across states, making compliance much easier and saving money cost as well. MSMEs also stand to benefit from the provision of input credit on taxes under GST, which would help them become more competitive.

### Way Forward

GST promises to improve the ease of doing business, reduce the tax burden for both producers and consumers, and increase the governmental tax collection. This reform touches the lives of all three major stakeholders of the economy comprehensively – Consumers, Producers and the Government. It also involves all the state governments and Union Territories in an exemplary spirit of cooperative federalism.

There can hardly be any doubt about the positive impacts of the roll

## What are the GST Benefits for Small Tax Payers?



No tax up to aggregate annual turnover of ₹ 20 lakhs



The exemption threshold is Rs. 10 Lakhs for North East States, Sikkim, Uttarakhand & Himachal Pradesh



Those below threshold may opt for voluntary payment of tax with Input Tax Credit (ITC) benefits



No requirement of registration or filing returns if below threshold limit



out of GST on the ease of doing business. The direct benefits for businesses include reduced compliance cost, reduction in tax burden, and easier movement of goods across states, among several others. Having implemented such a comprehensive reform successfully, efforts should now be made to evolve the GST continually to the next level. We should now direct our efforts in ensuring that GST lives up to the credo of 'One Nation, One Tax' in the truest sense of the term, doing away with the existing situation of multiple rates and numerous avoidable exemptions. Creating a platform and mechanisms for regular feedback from industry and other stakeholders will also be helpful. Simultaneously, state governments and local bodies should be convinced to resist from levy of additional duties in the form of various indirect taxation in the interest of realizing greater benefits out of GST. Broadening the GST net and encouraging the unorganized sector to join the platform should continue to be another important goal.

Further, like Singapore and Malaysia, which have a single rate of GST at 7 per cent and 6 per cent, respectively, India should speedily move towards a single rate, which is also low, with minimum exemptions possible. It is also important that going forward, the model must do away with separate registrations and tax filings in all states of operation for businesses that work in different states. Measures such as these will be vital for further unshackling the potential for improvement in the ease of doing business in India and enhancing the overall competitiveness in the global arena, which is crucial for the success of 'Make In India' program of the government. Having completed the long journey of implementation of GST, we now need to start a quick journey to ensure its most effective implementation at par with the best in the world.

#### Endnotes

1. <https://thewire.in/152820/explained-short-medium-long-term-fallout-indias-gst/>
2. CII-KMPG (2014), 'Ease of Doing Business in India', A Report of CIIKPMG, New Delhi, May. □

(E-mail: [Danish\\_hashim@yahoo.com](mailto:Danish_hashim@yahoo.com)  
[varshak.kumari44@gmail.com](mailto:varshak.kumari44@gmail.com))

## Nationally-acclaimed courses of **McGraw-Hill** writer **RAMESH SINGH**

Best-selling writer & among the finest subject-experts!

## GS ECONOMY

from basics to currents in 45 days

### NEXT BATCHES:

EVENING: Aug 07 at 6pm (Single batch)

AFTERNOON: Sep 25 at 2.30pm

Writing Practice; Tests; Notes; Model Answers

## ESSAY

6 Tests + 7 Classes

INTRODUCTORY CLASS:

"Whats? Hows? Whys? of the Essay"

July 22 at 5pm

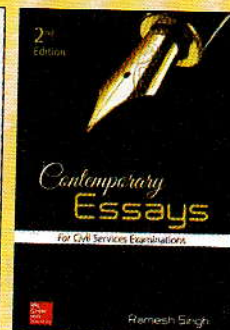
Test- 1 on July 17 at 5pm

Class-Results-Feedback: July 29, 5pm

(Tests+Classes every fortnight)

### Speciality:

Classes; Question-setting; Evaluation of answers & Development of the notes; etc. all are taken care of by RAMESH SINGH himself.



### RAMESH SINGH CLASSES

102-103 Old Rajinder Nagar, Above UCO Bank, N. Delhi-60  
 RAMESHSINGHCLASSES.COM | ph. 9818-244224

YE-674/2017