

Industry, consumer & govt ushering in GST

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Traditionally, the GST system was designed has worked well for countries with a federal or central tax administration mechanism where the levy and collection of tax was by the Union government. When applied as a single federal levy to a large tax base at a low and uniform rate, GST emerged as a highly successful mechanism of indirect taxation. Subsequently, such a federal levy was found to be impractical in countries that had their fiscal powers apportioned between the federal and provincial governments. Countries like Canada and Brazil grappled with the situation and addressed the same by suitably modifying GST model. Thereby evolved the ingenious system of a dual GST.

In the Indian context, present indications are that a dual GST structure has been finalised whereby the Central and state governments would concurrently levy the tax. It is expected that the proposed concurrent dual GST system would preserve and protect the fiscal powers and at the same time rationalise the indirect tax structure by subsuming a plethora of central and local taxes into a consolidated levy.

Worldwide experience shows that if structured and implemented uniformly, on a pan national basis, GST is likely to emerge as an efficient system of taxation that works to the benefit of the industry, consumer as well the government. It would therefore be imperative for all stakeholders to deliberate and arrive at some conclusion on the issues highlighted below with a view to smoothen India's transition into the GST regime.

One of the key challenges that needs to be addressed by the government includes determining the tax base of GST, and fixation of the tax rate. Pertinently these two aspects are interrelated inasmuch as the revenue neutral rate of GST is inversely proportional to the tax base ie a smaller tax base results in a higher tax rate and vice versa.

Another key aspect to be addressed is the determination of the manner of application of GST on interstate or cross border transactions. Traditional thinking, and the most popular thinking, has been that the levy should be a consumption-based destination levy. However, experience has shown that this model works well only for the organised sector, ie, B2B transactions, since monitoring and collecting GST on such transactions is relatively easy. Administrative inconvenience in collecting tax from a large base of unregistered customers usually thwarts the efficiency of a destination or consumption based levy in respect of supplies made to unregistered dealers or end customers, popularly referred to as B2C supplies. This will be a significant challenge for the law makers to address.

Also, there is a strong need to maintain consistency in the legislation across states and reduce/automate compliances. Government would have to design a robust mechanism to ensure credit flows across states. Coupled with this is the challenge of administering GST credits in interstate transactions.

While the government is actively preparing for the new law & procedures, businesses would also need to gear up to be able manage this change effectively.

Some of the key steps would be relook at the supply chain to ensure its tax efficiency viz., whether 'stock transfer and sell' model would continue to be relevant, or would GST pave way to consolidation of warehouses; would local sourcing continue to be the best option even after the elimination of CST, etc. Some businesses may have to re-work their pricing strategies with the changed tax regime - higher credits coupled with possible change in rate of tax on output. For credits, each item of expenditure could yield credits, changing the approach towards capturing,

recording, and documentation. Preparedness would also be required in terms of training personnel as well as understating documentation to be generated/ maintained including updating of ERP packages.

Notwithstanding the inherent challenges of GST and the further difficulties of introducing it in India, the GST has emerged as the preferred indirect tax administration and collection mechanism in the world. It would therefore be prudent for India to adopt GST with its own requisite alterations. For the successful implementation collaboration between the government and business is important, and both sides need to be ready with their part of the homework.

