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Impacts of GST on IT

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Abstract

The launch of the Goods and Services Tax (GST) is the first step towards a new India that is working along with the uniform taxation for a more stable economy tomorrow. All sectors will get impacted with a mix of both positive and negative impact. It is important that we understand this massive economic change that our country has witnessed with the introduction of Goods & Services Tax (GST). The earlier VAT/service tax regime in India was complicated due to multiple taxes, innumerable compliance obligations, and tax cascading. Under the GST regime, it is a simpler tax system, especially for the IT sector.

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, from various websites.

GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and Does Goods and Services Tax (GST) Leads To Indian Economic Development.

The paper aims to know the impacts of GST in IT sector in Indian scenario.

Keywords: Goods & Services Tax (GST), VAT, Service Tax Information Technology, regime, innumerable

Introduction

GST stands for Goods, services, and tax. It is an indirect tax that will replace the different state and centre taxes. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lokshabha on 6th May 2015. The main purpose of GST is to rationalize the current indirect tax regime, which will provide a stable economic environment favorable for growth and development.

The new integrated and consumption-based tax levied on manufacture, sale and consumption of goods and services has removed the cascading effect of tax-on-tax and has completely replaced the old and complex tax structure. It not only makes the tax system less complicated, but also helps in increasing compliance, boosting revenue and in reducing the tax outflow for consumers.

Objectives of the Study

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth.

Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections.

GST on IT sector will attract 18% on software services provided by software companies. For purely software services, the cost of such services will increase under GST.

1. To study the concept of Goods and Services Tax (GST) and its impact on IT Sector in Indian Economy.
2. To understand how GST will impact on IT Sector work in India.
3. To know the advantages and challenges of GST in Indian context.

Research Methodology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Impact of GST on IT

The GST bill is unify and simplify the Indian tax structure, will be implemented from 1st April, 2017 and most industries are fall under the blanket of its impact. The IT sector with services such as software development, mobile app development, website design and more, is

one of the major sectors that impacted. GST on IT sector will attract 18% on software services provided by software companies. For purely software services, the cost of such services will increase under GST. On the export front, India is the biggest exporter of IT services. Introduction of GST means that exports are zero rated and input taxes paid will be allowed as refund.

The earlier VAT/service tax in India was complicated due to multiple taxes, innumerable compliance obligations, and tax cascading. Under the GST regime, it is a simpler tax system, especially for the IT sector. Under the old tax regime, the sale of packaged software attracted both VAT and service tax. VAT rate was around 5% in most states and service tax rate was at 15%. Excise duty was also applicable in the case of manufacturing of IT products.

Example: If a software came on a CD, DVD or hard disk, then 3 taxes were applicable: Excise duty for manufacturing of product, VAT for sale and

Service tax for providing service, as software can be downloadable for multiple times. All such complications and double taxation have been removed with GST.

Small and Medium Enterprises (SMEs) have been considered as the primary growth drivers of the Indian economy. Today, approximately 3 Million SMEs in India are contributing 42% of India's total export. GST will now impact every business in India, however, it is expected to have a tremendous positive impact on the SME / MSME industry.

GST is going to catalyze greater IT adoption. We can see the business going digital in future and a Digital India emerging. Apart from receiving GST as a catalyst for Software product industry growth, we also need to get prepared for adopting GST our selves.

GST Impact on Laptops and Desktops

Now that GST has been implemented, laptops and desktops will attract a tax rate of 18% which was earlier 14-15%. Hence, if you have plans of buying a laptop or desktop in recent times, you should be ready to pay a little more now!

GST Impact on Laptops

Laptops/Desktops	Laptop price before GST	Laptop price after GST tax
Dell Inspiron 15 Laptop	46,390	48,246 (approx.)
Dell Inspiron 5447 Notebook	38,790	40,341 (approx.)
Acer Aspire E1-570 Notebook	36,099	37,542 (approx.)

Laptops/Desktops	Laptop price before GST	Laptop price after GST tax
HP Pavilion 15-N209TX Notebook	47,489	49,388 (approx.)
Toshiba Satellite C665-I5011 Laptop	60,000	62,400 (approx.)
Dell inspiron 5000 APU Quad Core A8	38,000	39,520 (approx.)
HCL AE1V2892-X Laptop	40,019	41,619 (approx.)
Sony VAIO VPCEH15EN Laptop	29,990	31,189 (approx.)
Toshiba Satellite P750-X5310 Laptop	70,000	72,800 (approx.)

Impacts on Import

Basic custom duty (BCD) is not covered under GST and it will remain same. There will be two components on each import to be paid i.e. Basic Duty + IGST. IGST will subsume currently applicable countervailing duty (CVD) and additional duty of customs (SAD). Integrated Goods and Services Tax (**IGST**) means tax levied under this Act on the supply of any goods/services in the course of inter State trade or commerce. IGST has two components SGST and CGST. A supply of goods/services in the course of Import into the territory of India shall also be **deemed to be** a supply of goods/services in the course of inter-state trade or commerce. The levy of IGST will be payable for each transaction, as against the monthly payment in case of IGST payable on domestic interstate transactions.

Impacts on Export

Export of information technology is an important source of foreign exchange, with India being the biggest exporter of IT services. Exports are zero-rated and input taxes paid will be allowed as a refund. The default rule for place of supply (export of service) is the location of the service recipient if the address of the recipient is available. So, exporters must ensure that the address of service recipient can be presented before the authorities on request. The typical IT/ITES services which come under the default rule will be software development, BPO operations, software consultancy, etc. Apart from these, this rule will also apply to other services like software support/ maintenance and intermediary services as there are no exceptions under GST.

Present and GST TAX Rates on Software

VAT (in Most of the states, as right differs across states) Customized Software	12.5%
VAT (in Most of the states, as right differs across states) Packaged Software	5%
Service Tax	14%
Excise Duty/CVD	12.5%
Customs Duty	12%
SAD (Levied in place of VAT in case of imports paid')	4%
Present Combined Average tax rate is	25%-35%
Proposed Combined GST	18%-25%

GST implementation will impact the IT sector in following ways:

1. Tax Rate – The previous service tax rate on IT services is 15%. The revenue rate is at 15% and the standard rate is expected to be around 17–18%. Therefore, the cost of IT services will elevate, especially for end customers who do not usually claim the tax input credit. GST is implemented the current average tax rate of around 25–35% shall come down to around 18–25%.

2. Cascading Effect of Taxes - The cascading effect of taxes will be effectively addressed under the GST regime. Under GST, both the IT service providers and their clients will be eligible to claim full credit of GST. This is expected to eliminate the cascading effects of the present tax structure.

3. Business Process Change- Under the GST, service providers are required to obtain registration for all the states that they are catering to, i.e. all states that they have customers in.

This is to be done so that the SGST (State Goods and Service Tax) component of IGST (Integrated Goods and Services Tax) is rendered for respective states. IT service providers will therefore have to bifurcate their services and bill their customers based on location of consumption.

Problems in Implementing GST to IT sector

1. Updating systems to be GST: It is difficult to update systems will go online, necessitating upgrading systems as well as staff's skills. They will have to difficult to train their staff not only to understand the tax implications of GST, but also on the procedural aspects like enrolling and uploading returns online.

2. Fear of high tax rates: One of the earlier expectations from GST was moderate tax rates on goods and services. However, with a peak rate at 28 per cent (which can go up to 40 per cent) and access of 15 per cent over and above the peak rate for demerit goods have dashed all the hopes of a moderate tax regime at least in the near future. The 15 per cent access would be levied at least for the first five years during which the central government would compensate the states for any revenue loss due to implementation of GST. The proposed higher rates have already made the industry a little jittery.

3. Infrastructure For The Collection Process: Proper infrastructure has to be designed to track the movement of goods and services between states, collection and monitoring revenue, identify defaulters etc.

4. Framework for Tax Disputes: There has to be a uniform legal procedure for tax disputes and litigations to avoid any confusion.

The suggestions which are being drawn are as follows:

1. In many cases, some of the ERP software that were provided by the IT majors have to be redesigned and updated with the new GST rules.
2. Companies are mainly upgrading their enterprise resource planning (ERP) and accounting software to accommodate the complexities of calculating GST.
3. Either they need to upgrade their existing software to the new version or use specific GST software
4. In the IT sector all tax payer need to be take Workshops, training and various seminars on GST must be conducted and give more informative guest lectures to all.
5. The all software and hardware companies in IT sectors have to analyze and deduce their revenue neutral rates, revenue implications as well as compensation packages.

6. Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems.

Conclusions

All the facts that the GST rate for services has been increased to 18%, IT industry will definitely benefit from GST so the enormous boost in the sale of the software. Other factors like availability of Input Tax Credit (ITC) will bring down the operating costs and thus, it will increase the overall profitability of the IT sector. It not only makes the tax regime less complicated, but also helps in increasing compliance, boosting revenue and in reducing the tax outflow for consumers. I believes, it is a best.

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