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ROLE OF INFORMATION TECHNOLOGY IN IMPLEMENTATION OF GST

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INTRODUCTION

After a long wait for the implementation of this transformative tax reform, GST will be a reality on 1 July 2017. The Government and the GST Council deserve to be complimented for forging consensus on complex issues such as laws, rules and rates within a short period of time for this reform to be implemented.

OBJECTIVES OF THE STUDY

- To find out difference between present indirect taxes and GST.
- To identify benefits and challenges of GST after implementation

Research Methodology

- This paper is prepared through illustrative research which is based on secondary data of journals, research articles, newspapers and magazines.

India is the hub of taxes where people pay many taxes which create confusion for them. Presently we pay two types of taxes i.e. Direct and Indirect in various sectors. Direct Tax paid directly to the government by the taxpayer i.e. Income Tax, Wealth Tax, and Corporation Tax. Indirect Tax is a tax levied on goods and services rather than on income or profits. It is not directly paid to government but collected from intermediaries (such as retail stores) from the person who bears the ultimate economic burden of the tax (such as consumers). The intermediary later files a tax return and forwards the tax proceeds to government with the return for example Sales Tax, VAT, Excise Duty, and Custom Duty and so on. GST is a blanket of Indirect Tax that will subsume several indirect state and federal taxes such as Value Added Tax (VAT) and Excise Duty and different State Taxes, Central Surcharges, Entertainment Tax, Luxury Tax and many more.

The GST is expected to change the whole scenario of current Indirect Tax. GST will merge all Indirect Taxes under an umbrella and will help in creation of smooth market. GST (Goods & Services Tax) is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST has been envisaged as a more efficient tax system, neutral in its application and distributional attractive.

At the Central level, the following taxes will be subsumed:

a. Central Excise Duty, b. Additional Excise Duty, c. Service Tax, d. Additional Customs Duty commonly known as Countervailing Duty, and e. Special Additional Duty of Customs.

At the State level, the following taxes will be subsumed:

a. State Value Added Tax/Sales Tax, b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), c. Octroi and Entry tax, d. Purchase Tax, e. Luxury tax, and f. Taxes on lottery, betting and gambling. Keeping in mind the federal structure of India, there will be two components of GST _ Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted. For transaction within a State, there will be two components of GST Central GST (CGST) and State GST (SGST) being levied on the value of goods and services. Both the Centre and States will simultaneously levy GST across the value chain. In case of inter-state transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST). The IGST would roughly be equal to CGST plus SGST.

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. There would be no manual filing of returns. All taxes can also be paid online. All mismatched returns would be auto generated, and there would be no need for manual interventions. Most returns would be self-assessed.

Benefits of implementing the GST

For business and industry

Easy compliance: A robust and comprehensive IT system is to be the foundation of the GST regime in India. Therefore, all services such as registrations, returns, and payments would be available to the tax payers online, making compliance easy and transparent.

Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax-neutral, irrespective of the choice of place of doing business.

Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services, and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For the consumer

Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

The IT sector

The IT sector with services such as software development, mobile app development, website design and more, is one of the major sectors that is likely to be impacted. With the intention of safeguarding the financial independence of the States and the Centre, the government has proposed a dual GST structure, under which State GST as well as Central GST will be applicable for every supply of good. Though at an elementary level this might appear to be basic, the IT sector may have some formidable changes that need to be tuned in to. A list of the five ways GST implementation will impact the IT sector:

Tax Rate

The prevailing service tax rate on IT services is 15%. However, the recommended revenue neutral rate is at 15–15.5% 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.

Under our current tax structure, the sale of packaged software is entitled to both VAT (approximately 5%) and service tax (15%). The VAT on sales is directed to the state government whereas the service tax on service follows the central government. There are also cases where along with the VAT and service tax, excise duty is also applied due to lack of clarity from the government. However, it is expected that once the GST is implemented, the current average tax rate of around 25–35% shall come down to around 18–25%.

Cascading Effect of Taxes

The cascading effect of taxes will be effectively addressed under the GST regime. Traders, under GST, will be eligible to avail the credit of services such as in the case of AMC (Annual Maintenance Service) contracts. Currently, IT service providers can't claim credits of quality including the assessment or deal charge spent on setting the IT infrastructure. Also, services charged by an IT service provider to a client who is a broker is an expense incurred for the IT service provider. 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.

Business Process Change

Under GST, which is a destination-based tax, tax is collected by the state where the goods or services will be consumed. Most IT companies are registered only with the Central Service Tax authorities and usually all billing and accounting tasks are carried out from a central location. Under the GST regime, 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.

E Commerce Sphere

For E Commerce traders, the GST is expected to increase administrative costs. Also, since e-tailers have hundreds of sellers on their platforms, it significantly increases compliance burden. Small sellers will face cash-flow issues and will claim for refunds on the tax paid on inputs, which the Ecommerce platform may not support. The tax collection at source (TCS) guideline under GST will increase the administration and documentation workload for E Commerce firms.

Compliance

The model GST law recognizes at least 111 points of taxation which means ITcompanies providing services all over India will have to seek registration in as many as 37 jurisdictions that will include 29 states, seven union territories and the Centre. This means that IT companies will have to register and file compliance reports at as many as 111 points.

CONCLUSION

The GST System is basically structured to simplify current Indirect Tax system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden.

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